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Monitoring Your Portfolio at the Mid-Year

As we continue the discussion of important aspects of mid-year planning throughout July, this week's focus will be on strategies for monitoring your portfolio. There's a few ways to monitor your portfolio: very closely, hands off, or somewhere in between. The middle ground is a good way to stay in touch with the performance of your investments, but not too much where it might keep you up at night.

Especially right now, mid-year is a good time to look at your investment portfolios because of the ongoing market swings due to the COVID-19 pandemic. Monitoring your portfolio can help make sure that your investments are still working to help you achieve your goals or realize that maybe it needs a few changes. There are four main areas you should monitor: long-term performance, diversification, asset allocation, and rebalancing.

The first step

Checking in on the long-term performance of your investments is the first step when monitoring your portfolio. It can help you see if your investments are performing well enough to help you achieve your goals. After all, that's the reason you are investing in the first place!

Diversification: Spreading out risk

Diversification refers to the process of investing in a number of different securities to help manage risk. The theory is that if some investments in your portfolio decline in value, others may rise or hold steady.

For example, say you wanted to invest in stocks. Rather than investing in just domestic stocks, you could diversify your portfolio by investing in foreign stocks as well. Or you could choose to include the stocks of different size companies (small-cap, mid-cap, and/or large-cap stocks).

If your primary objective is to invest in bonds for income, you could choose both government and corporate bonds to potentially take advantage of their different

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risk/return profiles. You might also choose bonds of different maturities because long-term bonds tend to react more dramatically to changes in interest rates than short-term bonds. As interest rates rise, bond prices typically fall.

Asset allocation: Investing strategically

Asset allocation is a strategic approach to diversifying your portfolio among different asset classes that seeks to pursue the highest potential return within a certain level of risk. After carefully considering your investment goals, time horizon, and risk tolerance, you would then invest different percentages of your portfolio in targeted asset classes to pursue your goals. A careful analysis of these three personal factors can help you make strategic choices that are suitable for your needs.

Generally speaking, a large accumulation goal, a high tolerance for risk, and a long time horizon would typically translate into a more aggressive strategy and therefore a higher allocation to stock/growth investments.

The opposite is also true: A small accumulation goal (or one geared more toward generating income), a low tolerance for risk, and a shorter time horizon might require a more conservative approach.

Rebalance to stay on target

Over time, an asset allocation can shift simply due to changing market performance, as we have seen in the last few months. For example, in years when the stock market performs particularly well, a portfolio may become overweighted in stocks. Or in years when bonds outperform, they may end up comprising a larger-than-desired percentage of the portfolio. In these situations, a little rebalancing may be in order.

There are two ways to rebalance. The first is by simply selling securities in the overweighted asset class and directing the proceeds into the underweighted ones. The second method is by directing new investments into the underweighted asset class until the desired allocation is achieved.

Keep in mind that selling securities can result in a taxable event, unless they are held in a tax-advantaged account, such as an employer-sponsored retirement plan or an IRA.

Points to consider

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Keep an eye on how different types of assets react to market conditions. Part of fine-tuning your game plan might involve putting part of your money into investments that behave very differently from the ones you have now.

Diversification can have two benefits. Owning investments that go up when others go down might help to either lower the overall risk of your portfolio or improve your chances of achieving your target rate of return. Asset allocation and diversification don't guarantee a profit or insure against a possible loss, of course. But you owe it to your portfolio to see whether there are specialized investments that might help balance out the ones you have.

Be disciplined about sticking to whatever strategy you choose for monitoring your portfolio. If your game plan is to rebalance whenever your investments have been so successful that they alter your asset allocation, make sure you aren't tempted to simply coast and skip your review altogether. At a minimum, you should double-check with your financial advisor if you're thinking about deviating from your strategy for maintaining your portfolio. After all, you probably had good reasons for your original decision.

Some investments don't fit neatly into a stocks-bonds-cash asset allocation. You'll probably need help to figure out how hedge funds, real estate, private equity, and commodities might balance the risk and returns of the rest of your portfolio. And new investment products are being introduced all the time; you may need to see if any of them meet your needs better than what you have now.

Helping you Plan Well. Invest Well. Live Well.

At Weiss, Hale & Zahansky Strategic Wealth Advisors, our comprehensive Plan Well. Invest Well. Live Well. process is more than a tag line. It is a strategic approach to help our clients achieve their financial life goals, and every strategic investor needs to monitor their portfolios intermittently throughout the year. If you need assistance with your investment portfolio, or you are interested in getting started, email us at info@whzwealth.com or give us a call at 860-928-2341! You can also visit our website, www.whzwealth.com/resources for information about financial planning!

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