

Financial Issues

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CEFCU® Investment Services and Wealth Management

Rebalancing Your Portfolio

Most people naturally want to stick with successful investments. Everyone loves a winner, especially when the market is “up!” But, is that the best approach?

Balancing

When setting up a portfolio, investors allocate between different investments based on factors that can include:

- ◆ Time horizon
- ◆ Risk tolerance
- ◆ And specific goals.

Rebalancing

Rebalancing restores a portfolio to its original allocation and risk profile. You can do this in a couple ways. One is by investing new money to a portfolio and allocating the new funds to the assets that have decreased in value. The second way of rebalancing is to sell enough “winners” and buy underperformers. This type of rebalancing forces you to buy low and sell high.

Example: How variable rates impact investments

Your portfolio's returns can vary annually. But, the net return over time is almost the same. An analysis from BlackRock illustrates this.¹

An asset manager compared three scenarios. In each scenario, three investors started portfolios with lump sums of \$1 million, and each portfolio averaged a 7% annual return across 25 years. In two of the scenarios, annual returns varied from -7% to +22%. In the third scenario, the return was 7% every year. In all three situations, each investor accumulated \$5,434,372 after 25 years because the average annual return was 7% in each case.



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Key concepts to consider

Remember, asset allocation helps manage risk. It doesn't guarantee against loss. Second, rebalancing can generate more money — a good thing — but along with that could come taxable income, depending on your investment choices.

The bottom line? Keep saving and investing. Generally, over 20–30 years, market fluctuations tend to even out in a portfolio's value. But, periodically rebalancing your portfolio to match your personal goals and risk tolerance is a sound practice, especially as you're about to retire! Asset protection is key.

A CEFUCU Investment Advisor would be happy to meet with you to develop, discuss, and review your investment goals. You can schedule a NO-OBLIGATION appointment by phone, online, or in person at most Member Centers. Call 309.633.2571 or 1.800.356.7865, ext. 32571, or go to cefcu.com/invest.



Citation.

1-blackrock.com/pt/literature/investor-education/sequence-of-returns-one-pager-us.pdf [10/19]

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Kevin Barbier, Trust and Investment Officer, is part of the Members Trust Company and the CEFCU Wealth Management team.

Members Trust Company was one of the first trust companies in the United States to adopt the Exchange Traded Fund (ETF) strategy that offers clients lower investment management costs and tax efficiencies to buy stocks and bonds. Today, over \$4 trillion in assets are held in ETFs in the U.S.

What is an ETF, and why should I consider it?

Unlike a mutual fund, your CEFCU Wealth Management team can buy and sell ETFs at market prices on major exchanges throughout the day, just like individual stocks. With ETFs, our top priority is to reduce your short-term volatility and risk in down periods, which allows for a more opportunistic approach to help achieve your long-term goals.

Other advantages of ETFs include:



Lower costs: Professional investment management costs are generally much lower than the costs of mutual funds.



Tax efficient: Since ETFs are indexed funds, they experience fewer sales than actively managed mutual funds. Fewer sales means fewer capital gains.



Diversified: ETFs encompass a wide spectrum of market sectors and industries — much more cost effective than buying individual stocks.

How do I know ETFs are for me?

Together, with the Wealth Management team, you'll:



Discuss your investment objectives and goals.



Structure a well-diversified portfolio that ranges from income to growth focus — you have six models to choose from.



Monitor and track your ETF portfolio against a Performance Benchmark and Asset Allocation targets.



Continually rebalance your investments to keep your portfolio diversified and in line with your risk tolerance.



Meet quarterly or upon notice of a change in your circumstances to ensure your investments are compatible with your needs.

Consider adding the ETF Portfolio Advantage to your investment strategy. Contact Kevin Barbier, CERTIFIED FINANCIAL PLANNER™ professional at 309.633.3836 or 1.800.356.7865, ext. 33836, or go to cefcu.com/wealth.



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