

When investing for long-term goals, keeping an eye on asset allocation is critical. Over time, investment gains or losses can cause a portfolio's allocation to become unbalanced. When this happens, the portfolio may become more aggressive — or more conservative — than originally intended.

Your Asset Allocation

If you are a long-term investor with a high tolerance for risk, you may be comfortable with a portfolio heavily weighted in stocks, with less of your total assets invested in bonds and cash equivalent investments. If you are more conservative, you might have a smaller portion of your portfolio in stocks and more in bonds and cash equivalents. The asset mix that is right for you should consider your risk tolerance, your investing time frame, and your financial goals.

Investments Acting Up

As time goes by, your asset allocation is likely to shift based on the relative performance of the different types of investments included in your portfolio. For example, suppose your stock investments increase in value significantly. Instead of representing 60% of your portfolio, stocks may represent 75% of your portfolio. Since stocks carry more risk than bonds or cash equivalent investments, your portfolio has become more aggressive than you originally intended.

Get in on the Act

If your portfolio has become unbalanced, it is relatively simple to rebalance. You can sell investments in the overweighted asset class and reinvest your funds in the underweighted classes. Before selling appreciated investments held outside of a tax-favored retirement account, however, consider the tax implications. Another approach is to invest additional money in the underweighted asset classes until you regain your desired allocation.

Rebalancing will help you stick with your investment strategy. Of course, it may be difficult to decrease your exposure to an asset class or market sector that is doing very well. But keep in mind that the investment markets have a history of ups and downs. What performs well today may face a rough patch in the not-too-distant future. Similarly, asset classes that are currently underperforming may be tomorrow's winners.

It's a good idea to review your asset allocation at least once a year. Your financial professional can help you determine if you need to rebalance your portfolio.

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