

MODULE 6, LESSON 1.1 WORKSHEET



What Is Rebalancing & How Do You Do It?

Investing Essentials for Beginners

Key Concepts at a Glance

- **Rebalancing:** Adjusting your portfolio so it returns to your original target allocation.
- **Portfolio Drift:** When market movements slowly change your risk level over time.
- **Asset Allocation:** The mix of investments in your portfolio, such as equities and bonds.
- **Core Idea:** Rebalancing keeps your portfolio aligned with the risk level you originally chose.

A Simple Example

You begin investing with a portfolio allocation of:

80% equities, 20% bonds

After a strong year for equities, your portfolio might look like this:

90% equities, 10% bonds

Nothing changed in your plan. The market simply shifted your allocation.

Rebalancing means adjusting the portfolio so it returns to your original target of 80% equities and 20% bonds. This keeps your risk level consistent with your long-term plan.

Why Rebalancing Matters

- 1. Protects Your Risk Level:** Without rebalancing, your portfolio can slowly become more aggressive than you intended.
- 2. Encourages Buying Lower and Trimming High:** When one investment grows too large, rebalancing naturally trims it and adds to other areas.
- 3. Removes Emotion From Investing:** Rebalancing creates a simple process that replaces emotional reactions with disciplined action.

Common Rebalancing Approaches

- 1. Annual Rebalancing:** Choose a date once per year and review your portfolio.
- 2. Fixed Schedule:** Rebalance every 6 or 12 months regardless of market conditions.
- 3. Threshold Method:** Rebalance only when an asset moves more than about 5% away from your target allocation.

Take a Moment to Reflect

- What is my current portfolio allocation between equities and bonds?

- How often would I realistically review my portfolio for rebalancing?

- Would using new contributions be the simplest way for me to rebalance?

- How comfortable would I feel if my portfolio temporarily dropped by 20–30%?

- What long-term goal is this portfolio designed to support?

Key Takeaway

Rebalancing is not about predicting the market. It is about staying disciplined and keeping your portfolio aligned with the plan you made.

What Comes Next?

In the next lesson, we will explore how to perform an annual portfolio review, including what to check, what to adjust, and when your investment plan might need updating.

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