# Why rebalancing could be a huge mistake

Finance

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Questions According to the article, it makes a good sense to rebalance on a regular basis, maybe once a year, between stocks and bonds. The example is 60% stocks and 40% bonds during ups and downs. Hence, following this advice, what do we need to do during rising stock market and declining market, respectively?

As per the advice of the article, the author indicates that during a rising stock market, the individual investor should seek to sell stocks and by bonds; with the expectation that the rising stock market will ultimately result in a sudden or rapid reduction in stock price – thereby decreasing the overall amount of money that the individual could otherwise invest. Likewise, as a stock market rises, the commensurate rate at which bonds will be available will be reduced; furthering the investment potential of the individual investor. Conversely, the author also indicates that during a declining stock market, the investor should seek to purchase stocks; with the assumption that they will be available at a reduced rate. In order to facilitate this, bonds can of course be sold as they will necessarily command a higher premium during such a time.

2. From the article, has the author found any benefits of reducing risk from rebalancing among four different equity asset classes?

Essentially, the author found no indication that rebalancing reduced risk over the long term. Naturally, the broader question that deserves to be answered is whether or not rebalancing is capable of reducing risk over the short term; and to this the author indicates that it does indeed. However, for the investor that is interested in maintaining an appropriate ratio of stocks to bonds and maximizing their earnings over a period of time, specifically with an interest

in retirement savings, the act of rebalancing more than once per year is not backed by the research.

3. What are the three advices the author has provided here?

Essentially, the author provided three distinct levels of advice within the article in question. The first of these is with respect to rebalancing a maximum of once per year. Secondly, the author indicates that subsequent rebalance is of a portfolio present diminishing returns of the long run; however they are capable of providing short-term benefits that is in fact the approach that the investor wishes to take. Finally, the author indicates that the long-standing tradition of understanding long-term investments as paramount to short-term gains is something that should be recognized with respect to the issue of rebalancing and whether or not stocks and bonds should be purchased for reconsidered during a particular market trend. Naturally, the desire to seek to avail oneself available opportunity encourages the investor to make minute or continual changes to their portfolio at the nearly continual or aggressive pace. However, the information provided within the article indicate the fact that such an approach represents diminishing returns over the long term and is not, on the whole, beneficial to the investor.