

Newsletter

December 2010



Andrew Tynan Financial Planning Pty Ltd

Rebalance and tone up your investments

Rebalancing may seem simple in theory, but it is good practice to seek the advice of a professional to assess the full implications – the strength and performance of your portfolio depend on it.

What is rebalancing?

Portfolio rebalancing is the process of bringing the different asset classes in your portfolio back into the shape set out in your financial plan. By rebalancing regularly – for example every 12 months or after a significant change in the market – you exercise essential financial disciplines by checking risk tolerance, time horizon and financial goals. And you keep your portfolio in good financial health. Rebalancing is important because the different asset classes in your portfolio such as shares, bonds, cash or property, are not synchronised. Over any period, some will move more strongly than others, even within the same asset class. Within Australian shares, for example, the performance of mining shares could outstrip retail or bank shares.

But if your portfolio is increasing in value, why does any of this matter?

The reasons may not be obvious at first, but they are important. Because asset classes tend to rise and fall in cycles, a big increase in the value of your mining shares, for example, could leave you exposed and in a loss-making position if there was a fall in mineral prices and a drop in the value of those same shares just months later. In fact, the loss could wipe out a year or more of gains. The major purpose of rebalancing is to manage risk – to correct any over or under exposure to one or more asset classes. At the same time you are also sticking to the basic rules of disciplined investing, and this in turn is likely to boost the long-term performance of your portfolio.

Why do portfolios need regular rebalancing?

Consider the following case history. Alice invests \$100,000 in a growth-oriented portfolio made up of Australian and international shares (\$65,000), bonds (\$30,000) and cash (\$5,000). The share market has a great year, and 12 months later Alice's portfolio looks quite different: shares \$81,600, bonds \$31,150 and cash \$5,250. Her portfolio has gone up by \$18,000 and she is very happy indeed, as she should be. At the same time, Alice's portfolio is now out of balance, leaving her more exposed than she wanted to be to the share market, with less of a buffer from the bonds and cash that provide stable returns. To rebalance, she has to sell some of her shares and reinvest the money in other asset classes to again reflect the original portfolio allocations of 65 per cent in shares, 30 per cent bonds and 5 per cent cash. She can either sell off some growth stocks and re-invest the proceeds in cash, or review the entire share portfolio and weed out underperformers – in practice, usually a combination of both.

Rebalancing for profit

The good news is that while she is bringing it back into balance, Alice's portfolio is getting stronger. She is locking in some profits when share prices have risen, and adding to her cash and bond holdings. She is putting into practice two important principles of successful investing:

1 Sell high, buy low. By selling off some of the top performers, you are taking your profit before that asset sector falls, and re-investing the profits in lower-priced asset sectors that have potential to become top performers in the future.

2 Discipline. By investing in a disciplined, balanced way, you resist the temptation to anticipate or guess which sector will come out on top next year. Figures show that taking that approach – chasing the market – usually ends in tears.

Positive money management

By rebalancing your portfolio you will experience fewer negative returns than if you left it alone, and when the market cycle changes you'll have more capital in higher performing asset classes to take advantage of the upswing. If your money is invested in a multi-asset-class managed fund, your fund manager will almost certainly rebalance to stay aligned with the fund's investment objective. And if you manage your own superannuation fund or have direct shares or other investments, following a regular rebalancing cycle is a simple discipline but one you should take seriously. However, remember that if you sell some of your shares you may bring forward tax liabilities, depending on your current and likely future tax rates.

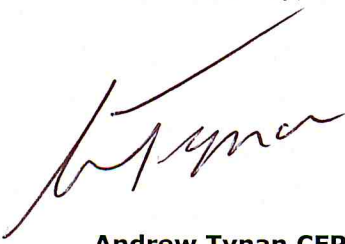
Enjoying your retirement

Retirement is time to reap the rewards of your working life. For some, it may be time to enjoy favourite hobbies or spend time with your grandchildren. For others, it may be time to explore the world, follow your passions or take on new challenges. Many people develop a financial plan at the time of retirement. But once they reduce or stop work, the plan soon becomes dated. You'll need to keep making choices about your income and investments, government benefits, your super, tax and estate planning strategy. The last thing most retired people want is to spend their time worrying about these issues, yet many do. The ongoing management of your financial strategy helps to keep you on track and make the most of your retirement. If you would like a no-cost no-obligation appointment to discuss your options, call me anytime on **(07) 3229 0023**.

Website...

We have updated our website. You can find us online at www.genesyswealth.com.au/tynan. You will be able to find various articles, a market update as well as the latest edition of *Aspirations* that you can download from the website.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Andrew Tynan", written over a white background.

Andrew Tynan CFP FCPA
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Genesys Wealth Advisers Limited



*May this Christmas be filled
With happiness in all that you do
And may this joy continue
The whole year through
Wishing you a Merry Christmas
And a Happy New Year*

From Andrew Tynan & Staff

Housekeeping

Our Office will be closed from close of business Friday 24th December and will re-open on Tuesday 4th January. If you require assistance on an urgent matter during this time then, please call Andrew Tynan on 0403 192 845.

If you no longer wish to receive this newsletter, please notify us on (07)3229 0023 or by email at michelle.weekes@genesyswealth.com.au.

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