

# Learning to re-balance

PORTFOLIO re-balancing is one of the trickier aspects of investment management, as you will inevitably need to make

some hard and counterintuitive decisions to ensure that your portfolio's asset allocation continues to meet your investment goals and risk-tolerance level. But why, how and when should you re-balance your investment portfolio?



Finance

By Don Freeman

for you to at least break even again.

It's also important to remember that not only is the market and your

portfolio changing over time as asset classes or sectors move in and out of favor, but so are your investment goals and risk-tolerance levels in relation to the performance of the market and your portfolio. This means that even if your portfolio's asset allocation has managed to remain static, you may still need to re-balance your portfolio to ensure it continues to meet your changing risk profile and investment goals.

## KEY RE-BALANCING CONSIDERATIONS

Although portfolio re-balancing is critical for maintaining your investment strategy and for helping you to avoid unnecessary risk, it's not something you should follow slavishly (e.g. you don't need to re-balance a 60% / 40% equity / bond portfolio when the equity portion suddenly becomes 60.5%) nor should you automatically re-balance your portfolio's assets on a set date every year.

Instead, talk to your financial adviser about setting some basic thresholds. For instance, if your asset allocation shifts 5% or more, or some of your investments have made significant moves, then it might be time to set up a meeting to figure out how to re-balance things. In fact, you may need to re-balance your portfolio a couple of times a year in a very active market or you may not need to re-balance it at all.

There may also be times when you need to re-balance your portfolio in order to take advantage of so-called "tactical" opportunities which periodically present themselves. Allocating a portion of your portfolio to beaten down home-builder stocks, which started bouncing back in mid-to-late 2011,



Re-balancing a portfolio is more of a balancing act than an exact science. Photo: Quinn Dombrowski

## WHY YOU NEED TO TAKE WINNERS AND LOSERS OFF THE TABLE

Selling investments that have been big winners in the past in order to reinvest the proceeds in investments that have not performed as well (e.g. selling equities for bonds) will take a considerable amount of mental discipline on your part. After all, the "buy low, sell high" investment strategy works, but only if you have the emotional discipline to sell at the high point and not wait for the investment to go even higher.

Moreover, stock market plunges always provide a good reason for periodically re-balancing your portfolio because too many investors, especially retirees or near retirees, entered the dot com bust in year 2000 too heavily concentrated in tech stocks thanks to their run-up in value, while others entered the financial crisis with more than 90% of their portfolios concentrated in equities. These investors presumably failed to periodically re-balance their portfolios, which led to their asset allocations getting completely out of whack and, ultimately, to big and unnecessary losses.

Likewise, you need to periodically cut your losses on losing investments. For example, it may seem like you have nothing more to lose on an investment that's down 50% as it "could always go back up," but you need to remember that an investment down 50% will need to rise 100% in order

would have been a good tactical investment at the time, while now might be the time to take some or all of your profits off the table.

Finally, and before you over-re-balance your portfolio, remember that too much selling out of high performing assets in a bull market or too much buying and selling in general that racks up commissions or fees, can negatively impact your long-term investment returns. In other words, re-balancing an investment portfolio is more of a balancing act and an art form rather than an exact science.

If you have not re-balanced your investment portfolio in some time, call me and we can discuss how to do so.

Don Freeman is president of Freeman Capital Management, a Registered Investment Advisor with the US Securities Exchange Commission (SEC), based in Phuket, Thailand. He has over 15 years experience and provides personal financial planning and wealth management to expatriates. Specializing in UK and US pension transfers. Call 089-970-5795 or email: freemancapital@gmail.com.

## Strong dollar brings down Thailand's foreign debt

THAILAND'S foreign debt has eased thanks partly to the recent appreciation of the US dollar against other major currencies, according to the Bank of Thailand.

At the end of 2014, Thailand's foreign debt in dollar terms stood at US\$140 billion, a decrease by US\$1.2bn from the previous month.

Recently, the dollar has strengthened against major currencies such as the Japanese yen and the euro. After conversion to US dollars, loans denominated in non-dollar currencies are of lower value.

"The dollar appreciation

reduced foreign debt by US\$500 million. The foreign debt also dropped by another US\$700mn in the month mostly by importers' short-term trade payments," the central bank said.

In total, the outstanding foreign debt shouldered by the Thai public sector and the bank was valued at US\$22.1 billion and US\$3.2 billion, respectively.

In December, the bank's debt dropped by US\$100 million from the previous month, as investors continued the net-sell of short-term bonds. — *The Nation*

## Day of love spending expected to drop to record-breaking low

SPENDING on St. Valentine's Day is expected to fall 4.52 per cent from the previous year to 3.51 billion baht, the lowest in nine years, according to a survey by the University of the Thai Chamber of Commerce.

The survey showed that consumer spending is not back to normal, said Thanavath Phonvichai, director to the UTCC's Economic and Business Forecasting Centre.

Plus, the public perception that goods prices have gone up sharply remains strong, he added.

Spending is expected to fall, though 61.7 per cent of respondents said that the atmosphere would be as joyous as in the past year. Yet, 41.6 per cent said that goods prices have gone up.

The survey also showed that flowers would be the most popular gifts for the day, as 30.8 per cent of respondents plan to buy flowers for their loved ones. Thirty per cent plan on dining out and 19.7 per cent plan to give



Nearly 20 per cent of the survey's respondents indicated they would be buying chocolate for their loved ones. Photo: John Hritz

chocolate to loved ones.

The average spending is 1,901 baht, against 1,181 baht in 2014. About 20.7 per cent of the respon-

dents said they would cut spending from last year, while 55.1 per cent planned to maintain last year's sum. — *The Nation*

TOT fiber 2U

Above all communications support, TOT Fiber 2U, internet broadband service over optical fiber cable provided by TOT with speed up to 1000 Mbps.

Sales and Customer Relation Center 076-367399