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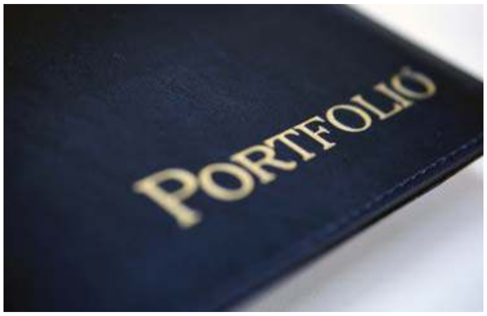
WHY YOU NEED A QUARTERLY PORTFOLIO REVIEW

Reviewing your investments regularly can help ensure that you're on track to meet your financial goals.



By: Rebecca Lake - March 10, 2017

When it comes to your portfolio, you can't just set it and forget it. Failing to regularly re-evaluate what you're investing in and how those investments are performing could send you skidding off the rails where your goals are concerned. That's especially true in the current stock market climate.

"The political scene and the transfer of power recently in the White House has been the cause of much excitement, as well as much anxiety in our country," says Steve Azoury, owner of Azoury Financial in Troy, Michigan. "These wild swings of emotion can have an incredible impact on your investment plan."

With the first quarter of 2017 winding down, it's a good time to check in with your investments to make sure you're still on track to meet the goals you set at the beginning of the year.

Don't rush to change your asset allocation. If you have investments whose performance hasn't matched the broader market, you may be contemplating an asset allocation shift, but not so fast, says Mike Falco, a certified fund specialist and investment advisor representative with Falco Wealth Management in Berwyn, Pennsylvania.

"Investors need to think long term when making major changes in asset allocation and I don't recommend making those changes based on performance in one quarter alone," Falco says.

Instead, Falco advises considering making larger asset allocation movements on a yearly basis, using your age as a guidepost for decision-making.

"If you haven't made an adjustment in your portfolio for more than a year, it's time to take a closer look and make sure it's lining up with your age," Falco says. "For example, your portfolio should look different and be much more conservative in your 60s than in your 40s."

James Speir, founder of Speir Financial Services in Southfield, Michigan, says investors need to consider their asset allocation and performance within the context of risks versus rewards.

"Investment performance is all about the results of your portfolio but the way you evaluate those results is equally important," Speir says.

Investors need to understand how the amount of return correlates to the amount of risk taken, Speir says. One way to measure risk and return volatility is by assessing the standard deviation, and the higher the standard, the higher the risk.

"An investor needs to measure how the standard deviation and return of their holdings compare to other investments similar to it," Speir says. "This is a tool you'll want to utilize when performing your quarterly portfolio review."

Do look at the bigger picture when making investment shifts. If you're considering changing some of your investments, it's important to consider all the relevant variables prior to making a move, says Jimmy Lee, CEO of Las Vegas-based Wealth Consulting Group.

"Overall investment goals, risk tolerance and time horizon are always a good foundation to start with," Lee says. He also cautions investors against focusing solely on an investment's most recent performance.

"Chasing performance can lead to buying asset classes or sectors near the highs of a cycle," Lee says. "It's natural to want to buy into the best-performing stock but an investor is wise to consider additional factors such as long-term performance and historical averages of an asset class."

It's also important to keep your overall investment objectives in sight before executing any significant adjustments within your portfolio.

"When considering changes, the primary focus should be on any changes to the goals of the investments," says Cameron Hinds, regional chief investment officer for Wells Fargo Private Bank in Lincoln, Nebraska.

"As life circumstances change, investment plans and asset allocation need to adjust. Long-term asset allocation should match your long-term goals and longer time horizon goals should typically be approached with a higher weight to growth-oriented investments," Hinds says.

Don't rebalance on a whim. Periodic rebalancing is important for ensuring that your investments aren't exposing you to more risk than you're comfortable with but you must be sure that the timing – and the price – are right.

"Some studies show that returns may be enhanced from quarterly rebalancing but one must take into consideration the costs of rebalancing," Lee says.

That includes trading costs and taxes on gains and Lee says it all comes down to what's practical for the investor. He says that for investors who are interested in rebalancing quarterly, scheduling it to occur automatically eliminates the hassle of trying to time it correctly.

Falco says that beyond the trading fees and potential tax implications, investors also need to pay attention to the liquidity of their current investments as well as any new investments they're considering.

"Be sure the investments you have are liquid and that you won't get hit with surrender charges or fees for getting out early," Falco says. "Depending on where the investment is held, you can get slammed with fees just by moving things around."

For Hinds, separating short-term cash needs from a long-term portfolio is of the highest importance when making changes from a liquidity perspective.

"Typically, the long-term assets in a portfolio should maintain a minimum amount of liquidity," Hinds says, which is usually 5 percent or less.

Do leave emotions out of the equation. If you're concerned about what the next quarter is going to bring investment-wise, the last thing you want to do is let emotions like fear take over your decision-making.

"The biggest mistakes investors make are emotional," Speir says. "They sell at market lows or buy at market highs and end up hurting the overall returns of their portfolios."

Azoury say the primary drivers of irrational behavior are overreaction, herd mentality and overconfidence. When investors respond in the extreme to the latest market noise, that can lead to erratic swings in their investment decisions.

He says that diversification, discipline and an understanding of your time horizon and risk tolerance are the most important factors to keep in mind as you complete your quarterly portfolio review.

"Tweaking your investment choices periodically can make a huge difference in returns by eliminating poorly performing investments," Azoury says but your goals and objectives should dictate what changes are necessary, not your emotions.

His final piece of advice is simple: "Don't just make changes to make changes," Azoury says.