The Benefits of Dynamically Rebalancing Portfolios During Times of Market Stress

Our Strategic Model portfolios, and the strategic portion of our All-Weather Model portfolios, are built around Asset Class risk and return forecasts for the coming decade. Inherent in the Strategic investment approach is maintaining constant exposure to a broadly diversified portfolio, to be the path towards a successful investing outcome. This contrasts with our Tactical models, which at times make considerable changes to the portfolios, even going all cash for highly defensive moments.

While long-term, strategic investing is generally a hands-off, buy-and-hold exercise in discipline, there are ongoing maintenance tasks needed to keep the portfolio on track. Annually, we re-evaluate our forecasts, and adjust the portfolio asset allocation as needed. At least semi-annually we again review these projections and may choose to make additional changes, typically minor, to capture short-term investment opportunities. Even if there are no alterations to the asset allocation of the portfolios, we implement a rebalancing of the portfolios at least semi-annually, bringing all investments back to their target weightings.

In addition to this regular, calendar-driven rebalancing, our models have built-in investment holding weighting tolerance bands. Investments that significantly drift away from their target weightings exceeding a pre-defined tolerance band are automatically flagged for rebalancing, which can occur at any time. We refer to this as dynamic rebalancing, and not all investment advisors deliver this added, important service.

In rare occasions, we may also elect to implement a discretionary portfolio rebalancing. After the severe market dislocation caused by the COVID-19 virus, we elected to “reset” the Strategic and All-Weather models. The rebalancing was executed on April 3rd, close to the recent market lows. Given the steep selloff in equities and some of the alternative positions such as Energy Master Limited Partnerships and Real Estate Investment Trusts, it made sense to bring these weights back up to their target weightings to ensure that our portfolios still accurately reflect their stated target risk. For investors in the more conservative models such as our All-Weather and Strategic Income models, weightings in high yield and investment grade corporate bonds were increased back to their target levels.

While only two weeks have elapsed since the rebalance, the move has already proven beneficial for most of our All-Weather and Strategic models. The below tables show the impact of the rebalance by model, with a positive net effect for the period of April 3, 2020-April 17, 2020 for all models other than the Growth allocations.

Allocation	All-Weather 4/3 - 4/17 Pre - Rebalance	All-Weather 4/3 - 4/17 Post - Rebalance	Rebalance Effect
Growth	9.71%	9.64%	-0.07%
Moderate Growth	8.78%	8.78%	0.00%
Balanced	6.38%	6.78%	0.40%
Moderate Income	3.92%	4.41%	0.49%
Income	2.85%	3.19%	0.34%

Allocation	Strategic 4/3 - 4/17 Pre - Rebalance	Strategic 4/3 - 4/17 Post - Rebalance	Rebalance Effect
Growth	12.61%	12.29%	-0.32%
Moderate Growth	10.92%	10.95%	0.03%
Balanced	8.80%	9.21%	0.41%
Moderate Income	6.43%	7.08%	0.65%
Income	4.22%	4.66%	0.44%

Model Returns are net of assumed annual fees of 1.25%, withdrawn quarterly.

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