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Keeping Your Portfolio Balanced

Now that holiday festivities have died down and life has returned to normal, many people are focused on realizing their New Year's resolutions. You may have resolved to take in a notch on your belt or to learn a new sport but, if you're like most people, improving your financial picture tops the list. Whether because it's RRSP season, or simply because it's the time to review yearly gains or losses, many people now turn their attention to their investment portfolios.

In my last column, I touched on the merits of proper asset allocation, and said that more than 90% of your returns can be attributed directly to the asset allocation of your portfolio. Each component of your portfolio is like a piece of a puzzle. If done correctly, all the pieces fit together and you see the complete picture. However, just like a puzzle, asset allocation is not always as simple as it seems.

Basically, there are four steps to putting together the pieces of your portfolio. *Step one* is to determine your unique goals and objectives. These are the building blocks of your portfolio and they require careful thought. By clearly defining your financial objectives, you determine your risk tolerance and time horizon – which ultimately determine the types of investments most suitable for you.

With these pieces in place, you can move to *step two* - creating your optimal asset allocation, which will be a reflection of your individual preferences. If you're a more conservative investor you will tend towards more secure products, such as guaranteed investments and blue-chip holdings. If you're a more aggressive investor you will seek investments with higher risk, but where the potential payoff is much higher. No matter what type of investor you are, you will be able to choose from a variety of investment vehicles ranging from stocks, bonds, mutual funds, all the way through to hedge funds and managed products.

The *third step* is implementation. Once you've determined your objectives and have laid out a financial blueprint, it is time to act. You must set your game plan in motion and ensure that you stick to it. I've found that it's a good idea to put your plan in writing. Investors often let emotion get in the way of their financial plans – usually to the detriment of their portfolios. In financial matters, you must think with your head, not your heart. Keeping a copy of your plan will help you stay on track and ensure you don't veer off course.

Step four is to monitor and re-balance your portfolio. This is something most people neglect. As the markets fluctuate and the investments in your portfolio change, your asset allocation can be thrown off kilter. Where a holding may have represented 5% of your portfolio originally, it may have risen and is now a 15% stake, causing you to be too heavily weighted in that area relative to your goals. Perhaps it's hard to assess because your real allocation is inside mutual funds.

Remember, the goal with any well managed portfolio is to achieve better returns with less risk. If your portfolio hasn't been performing to your expectations, perhaps it is time to ensure your current allocation is still in sync with your goals. The time invested in a close examination might be the best investment you can make.

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