Perspectives

First Quarter 2012

Rebalancing Your Portfolio – Cornerstone Behavior of Wealth Building

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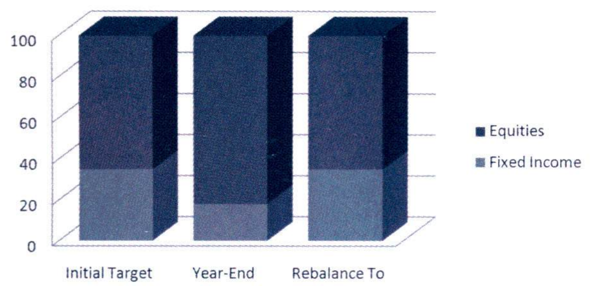
As a long-term investor, you have created a wealth plan with the guidance of your financial advisor. That initial blueprint represents your unique needs, both now and in the future. The financial capacity to send your kids to college, enjoy a sustainable retirement income, live your dreams and leave your legacy, all depends on your ability to be emotionally and financially disciplined. **An integral part of maintaining financial discipline is routine, systematic portfolio rebalancing.**

> "Clients often have many external influences that impact their resolve to invest prudently and stay the course of their plan, including their own emotions around market fluctuations. I provide my clients with the understanding that they need to help keep their portfolio healthy through ongoing maintenance and rebalancing."
>
> *- 1st Global Advisor*

What is Rebalancing?

Rebalancing allows you to take advantage of rising and falling markets. A systematic approach to buying when the markets are down and selling when the markets are up helps ensure your plan and the weightings in your portfolio maintain a healthy alignment with your needs and ability to accept risk. Other considerations, including transaction costs and taxes should be reviewed individually. Rebalancing your portfolio does not ensure a profit or protect against a loss in a declining market. Regular, systematic rebalancing helps eliminate emotional decision-making and market timing attempts that can be sources of increased risk.

The Importance of Rebalancing



The Lessons of Disciplined Investing

The importance of **not allowing the market to determine your asset allocation and risk exposure when asset class weightings have shifted,** supports the significant role of and need for ongoing maintenance and rebalancing as an invaluable risk management tool. When the weights of your portfolio components are automatically adjusted back to the target weights both simplicity and discipline are maintained.

However, for some investors, this process can seem counter-intuitive, particularly if they see rebalancing as buying what has not "done well" and selling what has. Although past performance is not indicative of future results, historically, investors learned hard lessons of **what can happen without rebalancing**.

During the "tech bubble" of the 1990s, technology stock prices soared. The euphoria of seeing investments sky rocket became investors' worst enemy. Disciplined investors trimmed positions that had done well and bought what hadn't, lessening exposure to technology and positioning their portfolio to help capitalize on a post-tech bubble market.

Important Steps for Investors

Rebalancing plays an important part of an investor's long-term plan and ability to keep a healthy portfolio designed to meet certain future objectives. Ensure you have the fundamentals of sound wealth planning in place. Contact your financial advisor who has the expertise to help:

1. Create a customized, disciplined approach and plan
2. Provide education and expectations on investments and their role
3. Establish systematic portfolio rebalancing to help manage emotions and risk
4. Stay diversified and most importantly, stay invested
5. Conduct regular reviews to help ensure your plan is working the way it was designed
6. Revisit risk tolerance, overall emotions and feelings about the market
7. Ensure there is appropriate monitoring/controls to keep the portfolio on target
8. Maintain peace of mind

See your financial advisor to discuss rebalancing options that are available to you.

Clearing the Hurdles as We Grow Older

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Since the Great Recession, there has been an increased emphasis toward educating our youth in money matters. In fact, Education Secretary Arne Duncan urged a special advisory council in November to dig deep as it crafted recommendations for improving Americans' financial literacy through education and training programs.*

That's definitely a step in the right direction for the younger generation. But, what about the older generation?

According to a study conducted by Michael Finke, an associate professor at Texas Tech University, and others, entitled "Old Age and the Decline in Financial Literacy" (August 24, 2011), knowledge about financial matters falls 2 percent each year after age 60, while, at the same time, confidence in being financially knowledgeable increases.

This data indicates the aging population is at risk in making critical financial mistakes just when they are asked to make important financial decisions concerning Social Security, Medicare and more. It also presents them as tempting targets for fraud.

Based on these findings, Finke suggests that older Americans complete three "tasks" as they begin to reach an age where their cognitive abilities begin to decline:

Task No. 1: Acknowledge that your ability to make financial decisions will decline after age 60. Don't think this won't happen to you.

Task No. 2: Set up a retirement income plan where you don't have to make complex decisions as you age. You could delegate those decisions to someone with expertise whom you trust. Or, better yet, a comprehensive financial services firm.

Task No. 3: Consider annuitizing your income, preferably in a straightforward annuity-type product or a mix of annuity and investment products. Consider also an investment portfolio that automatically rebalances at least once annually.

Let's assume that you are 50 years old. Stop and think for a moment about your parents and their ability to manage their day to day responsibilities. Chances are that you have had to help them in some way with things like setting up automatic electronic bill payments, getting the car repaired or installing wireless Internet in their home, things that you take for granted. When your parents were 20 years younger, they would have easily tackled these seemingly small hurdles. But, as the research above suggests, these hurdles become harder to clear as we grow older.

Let's assume you are now 70 years old. Considering Finke's findings regarding our cognitive ability and aging, do you think that you may have better success clearing the hurdles your parents are now trying to leap? Research suggests, probably not. Now, instead of Wi-Fi for the house, imagine trying to comprehend the potential impact on your retirement due to historically low interest rates, high market volatility, and taxes.

1st Global has developed a retirement planning approach called Sustainable Income Solutions™ to help clients identify their specific retirement income needs, identify potential risks to their plan and designate solutions to help reduce or eliminate these risks. To put it broadly, it is designed to help clients avoid outliving their money. Sustainable Income Solutions™ is most effective in assisting clients with Finke's Task No. 3 by, as much as possible, determining ways to guarantee sources of income to meet those "must have" needs for non-discretionary expenses such as mortgage, food, clothing, etc. Once these "must have" income needs have been secured, Sustainable Income Solutions™ will then look to secure more discretionary income, if possible.

Unless you are someone who is certain that you will not see your cognitive abilities decline as you age, now would be the time to discuss putting a plan in place. You may also want to persuade your parents to develop a plan as well if they have not done so already.

Consider the three tasks mentioned earlier. You must complete Task No. 1 on your own. Task No. 2 and Task No. 3 can be accomplished with the assistance of your trusted financial advisor; contact yours today.

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* "Education Secretary Appeals for Financial Literacy, Planning Instruction in Schools," by Kenneth Corbin. November 8, 2011. On Wall Street. *http://www.onwallstreet.com/news/education-secretary-duncan-financial-literacy-education-2675914-1.html.*

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