Portfolio investments

The benefits of regular rebalancing

Investing in a portfolio of funds can help deliver the returns you're looking for, relative to the level of risk you're prepared to take with your money. Over time, however, the funds will move up and down in value, as some asset classes outperform and others underperform, relative to each other. This could result in a portfolio that no longer reflects your risk profile and throw your investment goals off track.

Rebalancing could mean not benefiting or losing in the event falls and rises are sustained in the longer term, however according to BlackRock, a leading investment manager, rebalancing a portfolio back to its original asset allocation on a regular basis, can help generate improved returns and decrease risk over the medium to long term (generally considered to be at least five years). This is a principle of the **Openwork Graphene Model Portfolios**, which invest in ten funds covering different types of assets and rebalance back to their original asset allocations twice each year.

Regular rebalancing - how it works

Rebalancing effectively sells the part of your holding in funds which have risen in value to purchase more shares in funds which have gone down in value. This might seem counterintuitive but it enforces the discipline of what some investors refer to as 'buying low and selling high'. (If over a sustained period an asset goes up in value, as equities have been known to in the past, selling out early would means not benefiting from future growth.)

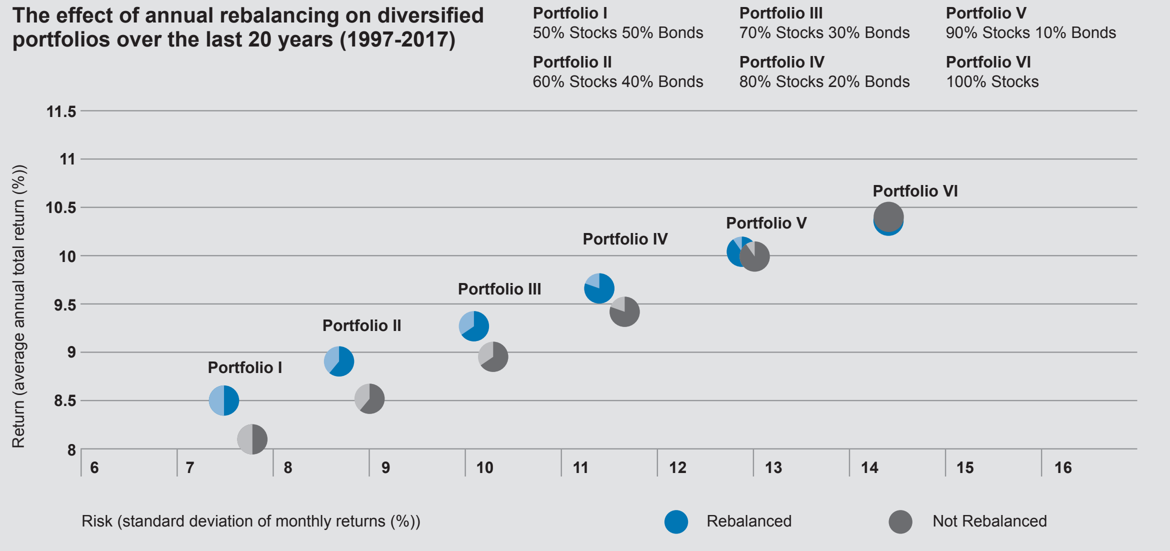
Using several hypothetical portfolios as examples, the graph opposite shows how annual rebalancing over the last 20 years would have changed each portfolio's risk and return characteristics. (The longer you can leave your investments in place, the more likely you are to cope with any short-term changes in market value.)

For example, annual rebalancing of Portfolio I (which holds 50 per cent in shares and 50 per cent in bonds) improved average annual return by almost 1 per cent each year while also reducing risk. Similar results can be seen for other portfolio allocations.

Positioning for the future

Regular portfolio rebalancing can potentially help improve long-term returns and reduce volatility.

The effect of annual rebalancing on diversified portfolios over the last 20 years (1997-2017)



Source: BlackRock; Thompson Reuters Datastream. Past performance is no guarantee of future results. The information shown does not reflect the past performance of actual accounts, but rather the past performance of portfolios of indices. The return on actual funds would be lower due to the effect of charges. The 'rebalanced' portfolios assume rebalancing of their component indices to their established percentages on January 1 of each year. Stocks are represented by an equal allocation to the FTSE 100, FTSE 250 and FTSE Small Cap indices. Bonds are represented by the CitiGroup World Government Bond Index Europe. The returns of the CitiGroup World Government Bond Index Europe are influenced by changes in exchange rates.

The graph shown demonstrates the concept of annual rebalancing in action, it does not relate to the performance of the Openwork Graphene Model Portfolios, which rebalance twice yearly. You should not use past performance as a suggestion of future performance. It should not be the main or sole reason for making an investment decision. The value of your investments and any income from them may fall as well as rise and is not guaranteed. You may get back less than you invest.

If you would like to discuss the potential benefits of the Openwork Graphene Model Portfolios and how rebalancing may help support your investment goals, please call 01635 253 302.

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OW1405 Exp. 18/05/19