

For 401(k) participants

“About 85 percent of participants make no asset allocation changes during the year. Inaction is the second biggest mistake participants make, while the biggest is not contributing enough to get the full employer match.”

- David Wray, past president of the Plan Sponsor Council of America



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The image shows the cover of a financial publication. The background is a blue-tinted photograph of a man with glasses, smiling. Overlaid on the image are various financial terms and numbers, such as "1/4", "133/15", "253/4 +", "281/4", and "1/5/16". The main title "Investment News You Can Use." is in a bold, black font. Below it, "Investor's Update" is written in a large, blue, sans-serif font. To the right of "Investor's", the date "May 2013" is printed in a smaller, black font.



## INVESTMENT NEWS YOU CAN USE

TIMELY INFORMATION PROVIDED BY YOUR INVESTMENT REPRESENTATIVE

# Time to Rebalance the Portfolio

Much like your car requires regular oil changes and tune-ups for maximum efficiency, your investment portfolio also needs ongoing maintenance to keep it in balance.

Rebalancing your portfolio is the process of periodically resetting your mix of investments to bring them back in line with your original asset allocation.

To rebalance, you sell off over performing assets that exceed the established proportion of your portfolio and use the proceeds to bring underperforming assets back up to match the percentage of your original allocation.

The net effect is to "force you to sell high and buy low," says David Wray, past president of the Plan Sponsor Council of America. "It increases the overall return of the portfolio over time."

### Why Should I Rebalance Now?

In some ways, what's happening in today's markets makes the act of rebalancing more challenging for investors.

Since January 2012, a basic stock investment tracking the Standard & Poors 500 index has soared 29 percent, while a typical bond portfolio has returned less than 5 percent.<sup>1</sup>

In 2013, the markets have seen their best streak since the bull market began in March 2009. The Dow closed above 15,000 for the first time in May, and the S&P 500 and Nasdaq have both hit record highs as well.<sup>2</sup>

Chances are, as equities have surged, your portfolio has made some substantial gains this year. So why rebalance? At this point, your portfolio may have become too stock-heavy, pushing you outside of your risk comfort zone.

For asset allocation to work, investors need to stay close to their targeted allocations.

### Benefits of Rebalancing<sup>3</sup>

- Rebalancing helps us follow through on an action that may seem counterintuitive - buying low and selling high.
- Returning our portfolio back to its original allocation helps to ensure we keep our risk level in check.
- Regular rebalancing helps investors take the emotion out of investing.



### Rebalancing Strategies<sup>3</sup>

- 1) Rebalance based on an indicator (one piece of your portfolio moves a certain percentage outside of range.
- 2) Pick a date and do it once or twice a year - possibly around your birth date.
- 3) Rebalance once or twice a year, *only if* portfolio drifts from goal by at least 5%.

### What events might trigger rebalancing?<sup>4</sup>

- **Big market movements** - as we are seeing now, swings in the market could shift your intended asset allocation.
- **Change in your company's plan choices** - If your employer adds or drops investments offered in your 401(k) plan, you may have to rebalance based on better or more limited choices, or look to rebalance outside of your 401(k).
- **Too much company stock** - your company stock should not comprise more than 20% of your overall portfolio. You already have a stake in your company through your job and benefits.
- **Life events** - if you marry, divorce, or you or your spouse get a new job, it makes sense to re-evaluate the choices available. Married couples can consider both plans as one unit and choose the best options from each.

- **Proximity to retirement** - when you are three to five years out from your goal retirement date, you may want to assume a little less risk in your portfolio.
- **Health issues** - if your health starts to decline, and you decide to retire sooner than originally planned, you may need a more aggressive portfolio to make that happen.

### Considerations

With a 401(k), rebalancing does not elicit any additional costs, nor does it have any tax implications.

With other investments or taxable accounts, you could incur transaction costs including sales charges, exchange fees and back-end loads.<sup>5</sup>

**Can I be of assistance?** Let's discuss a rebalancing strategy that adjusts to market conditions and maintains investment goals.

### For more information please call.

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Sources: 1) Paul J. Lim, "Rebalancing a Portfolio? Don't Break the Seesaw," NY Times, April 27, 2013. 2) "Dow ends above 15,000 for first time, S&P closes at record," Reuters, May 7, 2013. 3) Tara Siegel Bernard, "Time to Tune Up the Portfolio," NY Times, March 24, 2012. 4) Lisa Scherzer, "When to Rebalance your 401(k) Investments," SmartMoney.com, July 23, 2010. 5) "Managing your 401(k): Rebalancing your Portfolio," FINRA.org.

Standard & Poor's 500 is an unmanaged index representative of the 500 largest stocks by market capitalization and considered to be representative of the US stock market in general. | A market-capitalization weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks. | The Dow Jones Industrial Average is an index of 30 widely held securities. | An investor can not invest directly in an index. Past performance does not guarantee future results. | Diversification and asset allocation do not guarantee positive results. Loss, including loss of principal may result.

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