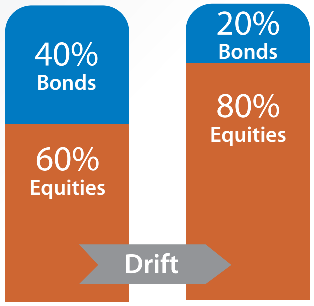
The Importance of Rebalancing

Two Reasons to Use a Rebalancing Strategy

ASSET MANAGEMENT

Portfolio Drift

Investors who don't use a rebalancing strategy can veer off course from the mix of assets they initially chose. This is called portfolio drift and can lead to a dramatically different balance of risk and return characteristics in your account. For example, stocks generally rise quicker than bonds. If your original allocation was 60% equities / 40% bonds, you could end up with 80% equities / 20% in bonds after some time passes. This ratio carries a different amount of risk than you originally selected to align with your goals. In addition to protecting your investments from drift, rebalancing helps to realign your risk level to your target allocations.



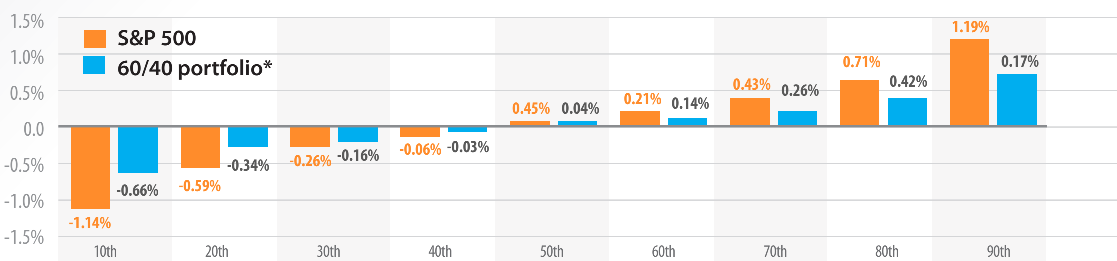
Portfolio drift can have unintended effects if left unchecked.

Investor Behavior

Investor behavior is another reason why average investors don't keep up – they don't stay invested. Rebalancing helps clients stay invested and works against our natural inclination of buying high and selling low. Emotional investing sometimes leads to buying and selling at the wrong times, leading to poor investment performance. As the chart below demonstrates, the average investor over a 30-year period doesn't come close to beating the U.S. Stocks, represented by the S&P 500, and slightly outperforms the rate of inflation.

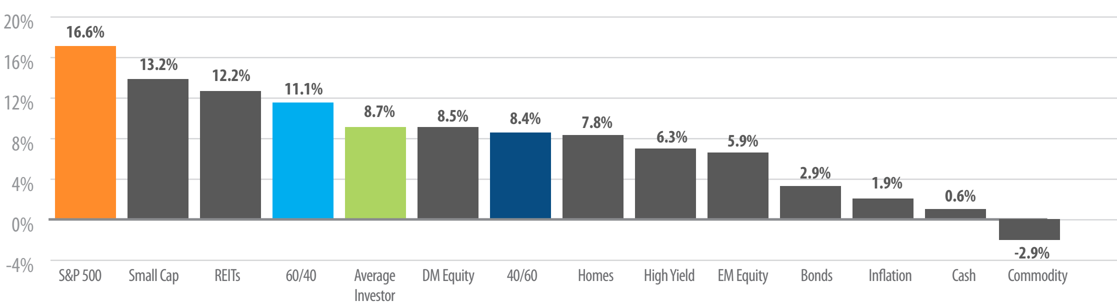
Diversification and the Average Investor

Equities vs. 60/40 portfolio: Last 20 year's daily market performance by decile



What has the Greatest Impact on Investment Results?

10-year annualized returns by asset class (2012 — 2021)



*Source: Bloomberg, FactSet, Standard & Poor's, J.P. Morgan Asset Management; (Bottom) Morningstar, MSCI, NAREIT, Russell. Indices used are as follows: REITs: NAREIT Equity REIT Index, Small Cap: Russell 2000, EM Equity: MSCI EM, DM Equity: MSCI EAFE, Commodity: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Bonds: Bloomberg U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Cash: Bloomberg 1-3m Treasury, Inflation: CPI. *60/40: A balanced portfolio with 60% invested in S&P 500 Index and 40% invested in high-quality U.S. fixed income, represented by the Bloomberg U.S. Aggregate Index. The portfolio is rebalanced annually. Average asset allocation investor return is based on an analysis from Morningstar. Guide to the Markets – U.S. Data are as of December 31, 2022. Past performance is no guarantee of future results. You cannot invest directly in an index.*