

Information from **RCU Investment Services** and CFS* to help keep your financial life in balance

A Balancing Act

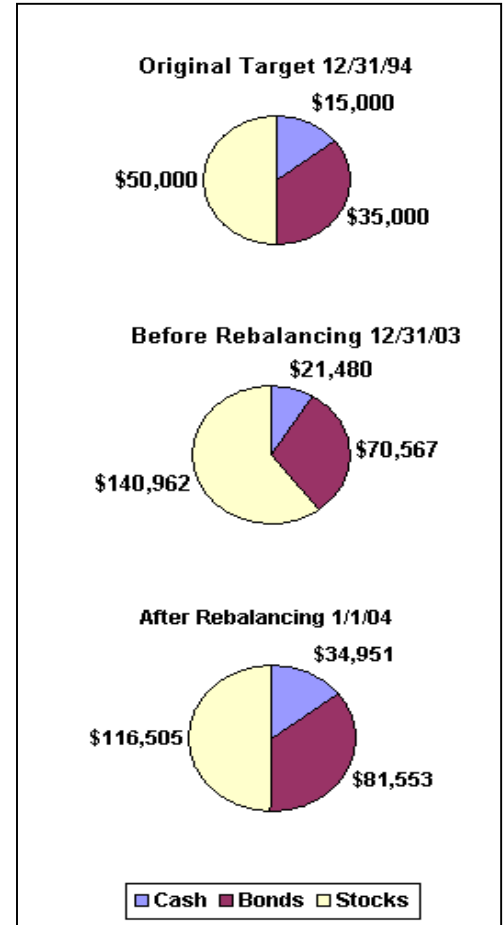
Rebalancing is an investment strategy that may help keep you on target!

The concept is simple. You and your financial professional determine an assets allocation—fixed percentages for various assets categories, suitable for your time horizon, risk profile and financial goals. Over time, the performance of the investment markets generally will cause this portfolio to deviate from the original allocation. Rebalancing simply involves selling and buying assets to bring the portfolio back to the desired allocation percentages.

Let's look at an example. Assume you had invested \$100,000 on Dec. 31, 1994, using the following asset allocation: 50% stock, 35% bonds, and 15% cash/cash equivalents. Over the next nine years, stocks had an average annual return of 12.2% bonds 8.10%, and cash 4.07%¹.

Under rebalancing strategy adjustments are needed to bring the portfolio back to the original allocation. In this example, you would sell \$24,458 from the stock category, buy \$10,986 in the bond category, and buy \$13,471 in cash/cash equivalents to regain the desired 50-35-15 split.

Of course, other factors affect a decision to rebalance. The original asset allocation may no longer be appropriate if your financial goals or circumstances have changed. Rebalancing is an ideal strategy for tax-deferred accounts such as IRA, 401(k) or 403(b) plans and variable annuity or variable life insurance contracts, because there are no tax consequences for transferring money within these accounts. If your money is not in a tax-deferred vehicle, however, there could be tax consequences to selling assets.



¹Past performance is no guarantee of future results. Investors must be willing to assume higher risks in search of potentially higher returns. This is a hypothetical illustration and is not intended to give investment advice. Individuals should consult an investment professional for advice specific to their particular circumstances. Stocks are represented by the S&P 500® Composite Stock Price Index with reinvested dividends, bonds by the Lehman Brothers Aggregate Bond Index, and cash by the yield on 3-month Treasury bills. Individuals cannot invest directly in an index. Rebalancing is a long-term investment strategy that does not assure a profit nor guard against a loss. Source data: Thomson Financial Company, 800.232.2285, 2004

Have You Read...

Asset Allocation: Balancing Financial Risk

by Roger C. Gibson; describes what the problem is when trying to invest well. He makes very good arguments on what you can expect and what you'll have to understand.

Intelligent Asset Allocator by William Bernstein provides a great description of fundamental investment principles for the "working stiff" who can't afford to lose their hard earned money.

Interested in Learning More?

For more information or to schedule a no-cost, no-obligation appointment, please call us today: **(800) 479-7928**.

