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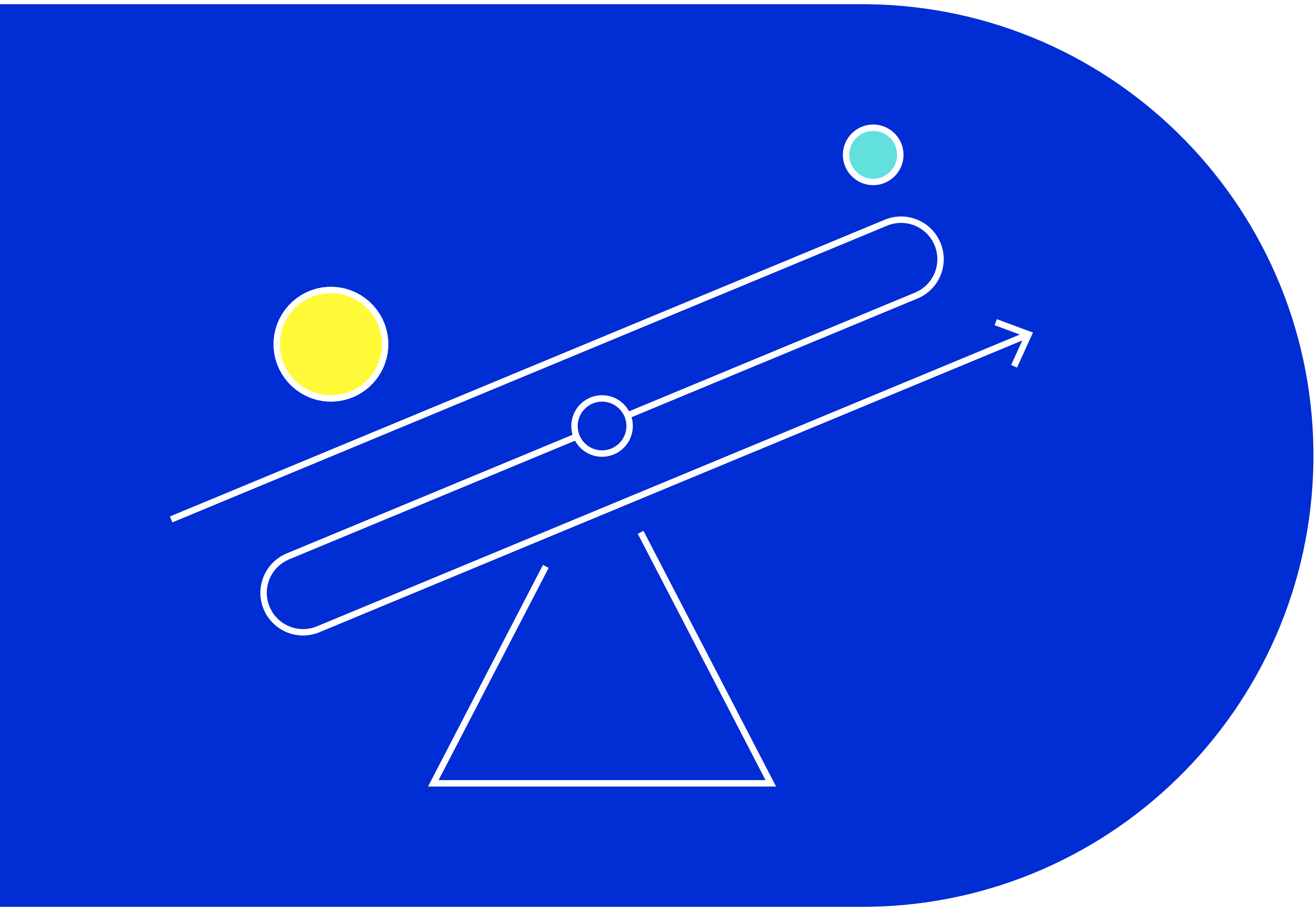


The potential benefits of an outsourced team to manage continuous portfolio rebalancing

⟶ Introduction

Maintaining a well-diversified wealth and investment management portfolio can be essential to helping clients achieve their long-term financial goals and mitigate risk. However, market fluctuations can quickly disrupt the optimal allocation of assets, leading to increased risk and reduced returns. This is where continuous or active portfolio rebalancing comes into play. Some drawbacks to this approach, however, are the time and resources financial advisors and wealth managers need to more frequently monitor and adjust the proportions of different investments within a portfolio.

Here, we explore different rebalancing strategies, the potential benefits of continuous rebalancing, and how technology and outsourcing can help advisors and wealth managers overcome the common challenges of regular rebalancing.

Continuous or active portfolio rebalancing, or rebalancing more frequently, such as monthly or quarterly, is emerging as the strategy of choice among many investors and financial experts. Many successful investors advocate for maintaining a disciplined approach to asset allocation, while numerous studies have shown that rebalanced portfolios tend to outperform those that are not.

A landmark study by Vanguard revealed that "rational" rebalancing helps improve risk-adjusted returns compared to non-rebalanced portfolios over various market cycles.[1] A Russell Investments study highlighted the value of "active" rebalancing in keeping the strategic asset allocation on track and reducing volatility.[2] And, a recent Oxford Academic paper hypothesized the optimal policy for the investor is to continuously rebalance to fixed portfolio weights, even for relatively small portfolios.[3]

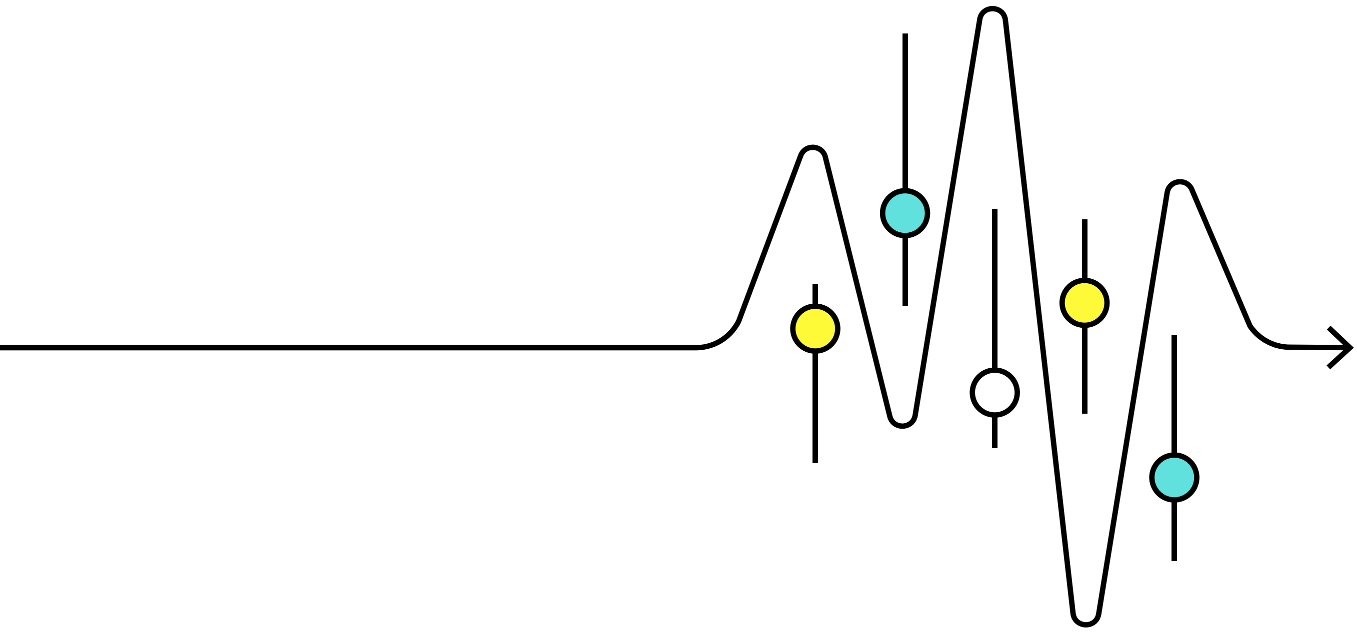
→ Types of rebalancing strategies

Advisors can use several rebalancing strategies to help ensure their clients' portfolios are on track to meet their financial goals while also considering possible tax consequences.

These include:

Continuous review rebalancing aims to maintain consistent weights for portfolio holdings. This strategy can be effective during market instability as it attempts to keep the overall risk level of the portfolio relatively steady over time by preventing significant deviation from the pre-determined balance between equities and fixed-income assets. By readjusting the proportions of assets in a portfolio according to the investor's risk tolerance, rather than set time frames, this strategy can be effective. The sub-strategies of constant-mix rebalancing and percentage-of-portfolio rebalancing fall under this type.

Calendar rebalancing refers to the process of evaluating the assets held in a portfolio at specific predetermined time periods and making necessary adjustments to bring them back to the initial allocation with a chosen frequency. This is not the most optimal of rebalancing strategies and many advisors opt not to use this strategy in favor of continuous review.



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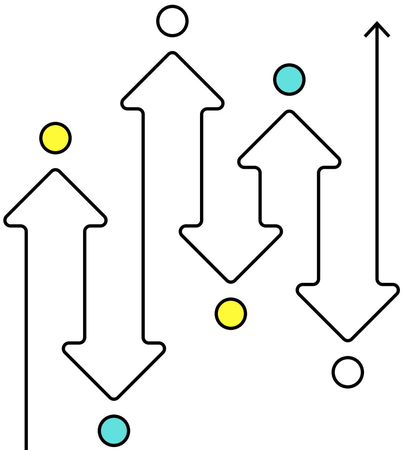

→ Six reasons to continuously rebalance

Whether the markets are up or down, continuous portfolio rebalancing can be vital in keeping a portfolio within the right risk-reward ratio, as well as being an element of the value that an advisor can provide to their clients.

Here are six potential benefits of continuous rebalancing:

1. **Risk management:** Market volatility can lead to significant deviations from an investor's desired asset allocation. By rebalancing regularly, investors sell overperforming assets and buy underperforming ones. This process can help ensure that risk exposure is kept in check, preventing the portfolio from becoming overly concentrated in a single asset class.
2. **Maintaining discipline:** Emotional decision-making often plays a role in investment decisions. Continuous rebalancing enforces discipline by requiring investors to adhere to their pre-established allocation strategy, regardless of market sentiment.
3. **Capturing gains:** Over time, certain assets within a portfolio can outperform others. The portfolio's allocation can become skewed toward the high-performing asset without rebalancing. Rebalancing may allow investors to "take profits" from these assets and redistribute the gains to other assets, potentially locking in gains before a market correction occurs.
4. **Minimizing taxes:** Continuous rebalancing can help to reduce tax burdens through tax-loss harvesting, capital gains budget tracking, rebalancing in tax-deferred retirement accounts, and using excess cash to buy into the other asset classes that also balance the portfolio.
5. **Long-term return enhancement:** Studies have shown that continuous portfolio rebalancing can improve long-term returns. By selling appreciated assets and purchasing those that have lagged, investors effectively buy low and sell high.
6. **More flexibility:** Advisors using a continuous rebalancing strategy can more readily offer clients an adaptable way to shift asset allocations and manage cash as their financial needs and investment goals evolve in the short and medium term due to life changes and other circumstances.

How often should you review allocations?

Determining the ideal frequency of reviewing an allocation is typically based on several client needs and goals such as their:

- Investment goals
- Time constraints
- Risk tolerance
- Allowable drift
- Financial needs
- Life changes
- Transaction costs

As an illustration, investors who adopt a long-term buy-and-hold strategy could contemplate assessing their allocations annually in consultation with their financial advisors to determine if rebalancing is necessary.

On the other hand, individuals with shorter-term objectives might opt for more frequent reallocations to ensure they remain aligned with their goals.

→ Overcoming the challenges of continuous rebalancing

Of course, there are some drawbacks to continuous portfolio rebalancing. The first is cost. The client can incur transaction costs or brokerage fees, eroding a portfolio's returns over time. In today's RIA custody landscape, however, fees can be minimal since the advent of $0 commissions, thus reducing the cost friction. For example, rebalancing might involve selling increased-value securities. A continued upswing in prices of those securities sold in a rebalance action could cause you to miss out on some growth. By making rebalancing an integral part of an investment plan, you can know these and other potential costs in advance.

Second, continuous rebalancing can be time-consuming, especially using manual methods. Advisors often face challenges in attracting new clients, fulfilling compliance duties, managing technology, and fostering personnel growth. On average, practices serve 143 clients per producing advisor, and as practices grow, effectively scaling advice delivery can prove challenging.[4]

With many RIAs facing growth challenges due to staffing limitations, continuous rebalancing can be overwhelming for firms with many clients and diverse investment strategies.

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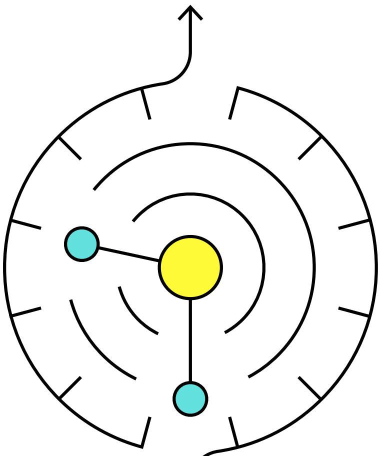
→ Technology and outsourcing

By utilizing outsourcing and advanced technology, advisors can enhance their efficiency and productivity in managing scheduled, ad-hoc, and continuous portfolio rebalancing reviews. The key is ensuring you have the flexibility to customize options and adapt to business growth and change.

Rebalancing and trading technology can provide the efficiency, personalization, sophistication, and scale advisors need to monitor and adjust asset allocations at any interval with features like:

- Firm-level settings to deliver the best of an advisor's portfolios, including tolerance bands that match the investment philosophy, and configurable minimum trade sizes, share rounding, and wash sale avoidance
- Blended model accounts that allow for the mixing and matching of offered models and firm models
- Account-level settings to help facilitate clients' goals, such as specific blends, security restrictions, and equivalents
- Cash allocation management to help minimize cash drag



However, not all advisors will take on a new technology platform. Three-quarters of all advisors cite insufficient time to learn and implement technology as a challenge that limits their ability to effectively use technology—the most frequently cited among all advisor technology challenges.[5]

Outsourcing essential rebalancing functions can save advisors time that could be spent building deeper relationships and growing the business. In addition, having access to industry experts can help them navigate the complexities of running their businesses.

Whether you need more technology or more people, customized and configurable outsourced services can provide a more efficient, cost-effective solution while helping you gain:

Time savings

- Continuously reviews portfolios to help ensure they remain on target allocation
- Delivers rebalancing advice each time the portfolio is out of alignment
- Allows advisors to spend more time on clients, value-added services and growing the business

Compliance oversight

- Provides potential peace of mind knowing accounts are monitored and opportunities are noticed
- Promotes ongoing advisor-client contact
- Justifies fees assessed to the client and meets regulatory requirements

Efficiencies

- Fosters standardized portfolios and advice across an organization
- Ensures investment research is easily distributed to clients and accounts
- Provides business continuity and eliminates resource redundancy

Business resilience

- Eliminates the need to buy and maintain technology
- Alleviates staff acquisition/retention, overhead, and training requirements
- Reduces additional or redundant costs such as market data and real estate

⟶ Making a stronger impact

By managing risk, maintaining discipline, capturing gains, helping enhance long-term returns, and reducing emotional biases, this approach can help ensure that a portfolio stays on track despite market volatility. Real-world reviews and empirical studies further validate the merits of continuous rebalancing, making it a valuable tool for investors seeking to maximize returns while minimizing risk.

While continuous rebalancing can take more time to perform, flexible and scalable technology and outsourcing solutions can help your clients meet their goals precisely and tax-efficiently across different time horizons. That means more time on clients, prospects, and other revenue-generating activities that will drive your business forward.

Learn more about **intelliflo managed** today.

⟶ Book a personalized demo to learn more

Sources:

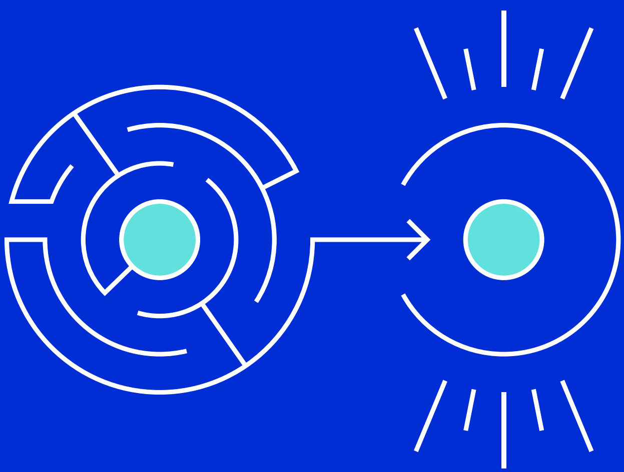
[1] Tuning in to the right frequency for rebalancing, Vanguard, November 1, 2022.

[2] Value of an advisor: A is for the Active Rebalancing of investment portfolios, Russell Investments, June 8, 2023.

[3] Small Rebalanced Portfolios Often Beat the Market over Long Horizons, Oxford Academic, December 6, 2022.

[4] U.S. Advisor Metrics 2022: Trends in Advisor Compensation, Cerulli Associates, March 31, 2023.

[5] State of U.S. Wealth Management Technology 2023: The Technology-Enabled Advisor, Cerulli Associates, April 24, 2023.



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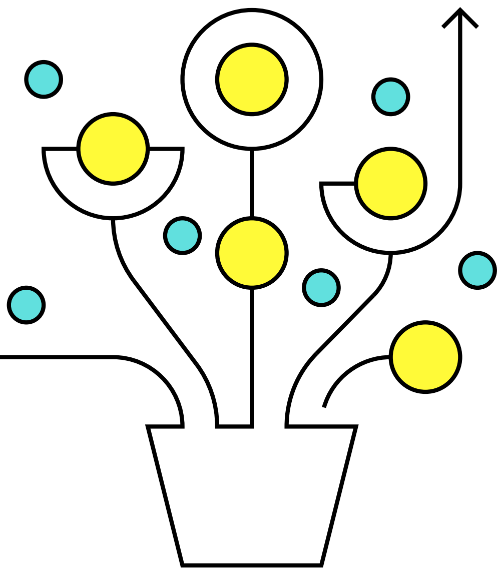
Our solutions support over 30,000 financial advisors worldwide, representing over three million end-investors



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