Maintaining Balance in Your Portfolio

How have you reacted to the markets of late? In uncertain times, it may be tempting to take a conservative approach to protect investments from the downside.

Selling all of your stocks and holding cash is one alternative, though not practical for many investors. The potential capital gains tax consequences may be one reason this would be unpalatable. But more importantly, equity markets are largely unpredictable and cyclical in nature. The risk of being out of stocks is, over the long run, likely greater than the risk of owning them.

If the turbulence of the markets prompts you to want to take action, here are some constructive opportunities to make adjustments to your portfolio:

Restoring Portfolio Balance — If a particular holding dominates within a portfolio, there may be an opportunity to rebalance. We often think of rebalancing by selling appreciated shares; however, it's not always necessary to sell a position in order to bring balance back in check. Rebalancing can be done by investing new capital in asset classes that are now underweight. This brings the added discipline of focusing on undervalued sectors or asset classes for new investment opportunities.

Upgrading or Switching Securities — Certain companies or industries may offer greater stability and be better able to withstand these uncertain times. Companies with strong balance sheets, low debt and healthy cash flows may be better positioned to fund operations during difficult times. Buying into industries that will be least affected by an adverse economic climate, such as those in "defensive sectors" like consumer staples or healthcare, may help to shield against the downside because they serve consumers' basic needs throughout every market cycle.

Finding Income — As government treasury yields and interest rates have reached all-time lows, many traditional income-yielding investments may provide dismal returns. For investors searching for income, there may be suitable opportunities with equities. Certain quality, sustainable companies have a history of continuing dividend payments during market downturns. Care must be taken when determining which equities or funds have reliable dividend payout streams. However, during down market times, there may be an opportunity for continued dividend payouts while waiting for prices to rebound from depressed levels.

Dollar-Cost Averaging (DCA) — Down markets may represent opportunities for investors to put money to work for the longer term. Buying at regular intervals, regardless of market conditions, has the potential to lower the overall cost of shares, turning a downturn to your advantage (as discussed on page 3).

Active Management — During bull market times, the virtues of active management are often largely ignored. Actively managed funds can offer benefits that may be particularly helpful in today's uncertain markets. Professional managers are continuously adjusting to the changing environment, assessing the relative merits of each security and their risk/return potential on an ongoing basis, perhaps more rigorously than most individual investors. Funds may also offer wide diversification in holdings, helping to reduce portfolio risk.

Richmond Wealth Advisory
BMO Nesbitt Burns

Bonnie Richmond, BSW
Investment Advisor,
Wealth Advisor
416-365-6081
Bonnie.Richmond@nbpcd.com

BMO Nesbitt Burns Inc.
First Canadian Place
100 King St. W., 38th Floor
Toronto, Ontario M5X 1H3
Toll Free: 1-800-567-3006
Fax: 416-359-4941
www.RichmondWealthAdvisory.com

Wealth Management
BMO Nes

Richmond
WEALTH ADVISORY