Does Portfolio Rebalancing Work? Yes, Even in Bear Markets

A bear market can sometimes throw your finely tuned asset-allocation mix out of whack. As stocks lag, your bond portfolio may start to outperform. Next thing you know, your “ideal” 70%/30% asset mix might be drifting toward a 60%/40% or even a 50%/50% split, and your actual mix no longer matches your risk profile.

You should consider adopting a portfolio rebalancing strategy—even during down markets when it’s tempting to let your “winners” keep growing while your “losers” are taking their lumps. That’s because rebalancing helps you buy low and sell high—an investing adage that’s easy to say and hard to do.

The chart below illustrates hypothetical outcomes for buying and holding vs. having two alternative rebalancing strategies.

Bottom line: Rebalancing can be a helpful investment discipline, whether you do it annually or use a rules-based system to rebalance only when stocks decline by a certain amount.

Doing the Math: Buy and Hold vs. Having a Deliberate Rebalancing Strategy

	Buy and Hold (No Rebalancing)			Rebalance Annually			Portfolio Rebalanced to 70%/30% Only After 20% Drop*		
Date	Stocks %	Bonds %	Investment Value	Stocks %	Bonds %	Investment Value	Stocks %	Bonds %	Investment Value
1/1/1999	70	30	$100,000	70	30	$100,000	70	30	$100,000
12/31/1999	74	26	$114,483	74	26	$114,483	74	26	$114,483
12/29/2000	70	30	$110,228	66	34	$111,180	70	30	$110,228
12/31/2001	65	35	$103,878	65	35	$104,745	68	32	$103,647
12/31/2002	57	43	$92,574	62	38	$91,763	68	32	$90,717
12/31/2003	62	38	$109,367	74	26	$111,319	73	27	$109,632
12/31/2004	64	36	$118,564	71	29	$121,247	74	26	$119,593
12/30/2005	64	36	$123,317	71	29	$126,300	74	26	$124,687
12/29/2006	67	33	$137,730	72	28	$141,905	76	24	$140,694
12/31/2007	66	34	$145,976	70	30	$150,328	76	24	$148,918
12/31/2008	54	46	$112,795	58	42	$113,759	62	38	$110,015
12/31/2009	58	42	$131,990	74	26	$136,857	77	23	$136,185
12/31/2010	60	40	$147,187	72	28	$153,973	78	22	$154,038
12/30/2011	59	41	$153,651	69	31	$159,872	77	23	$159,197
12/31/2012	61	39	$170,796	72	28	$179,803	79	21	$180,445
12/31/2013	68	32	$203,463	76	24	$219,476	84	16	$226,023
12/31/2014	70	30	$226,334	71	29	$244,433	85	15	$254,133
12/31/2015	70	30	$228,896	70	30	$247,204	85	15	$257,326
12/30/2016	72	28	$249,874	72	28	$269,864	86	14	$284,468
12/29/2017	75	25	$291,525	73	27	$313,972	88	12	$339,245
12/31/2018	74	26	$281,954	69	31	$304,347	87	13	$326,195
12/31/2019	78	22	$354,101	74	26	$379,385	89	11	$419,456
12/31/2020	79	21	$410,603	72	28	$436,791	77	23	$465,113
12/31/2021	83	17	$502,649	75	25	$522,538	82	18	$566,895
12/30/2022	82	18	$415,902	69	31	$435,898	81	19	$469,494
12/29/2023	85	15	**$510,055**	74	26	**$523,339**	83	17	**$574,261**

Talk to your financial professional about the benefits of a portfolio rebalancing strategy.

* This hypothetical investor rebalanced the portfolio after 20% equity drops on 3/12/01, 7/10/02, 7/9/08, 2/27/09, 3/12/20, and 6/13/22.

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