



BOB CARLSON'S

Retirement Watch
SPOTLIGHT SERIES

The Simple Secret to Buying Low and Selling High

Bob Carlson
Editor, *Retirement Watch*
800-552-1152





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Higher Returns, Less Risk

- **Buy low, sell high**
- **Easy, automatic**
- **Takes advantage of cycles**
- **#1 neglected issue in most portfolios**

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Rebalance Your Portfolio

- **Started with initial allocation**
- **Markets, time change the allocation**
- **Changes risk/return profile**
- **Need to change back**

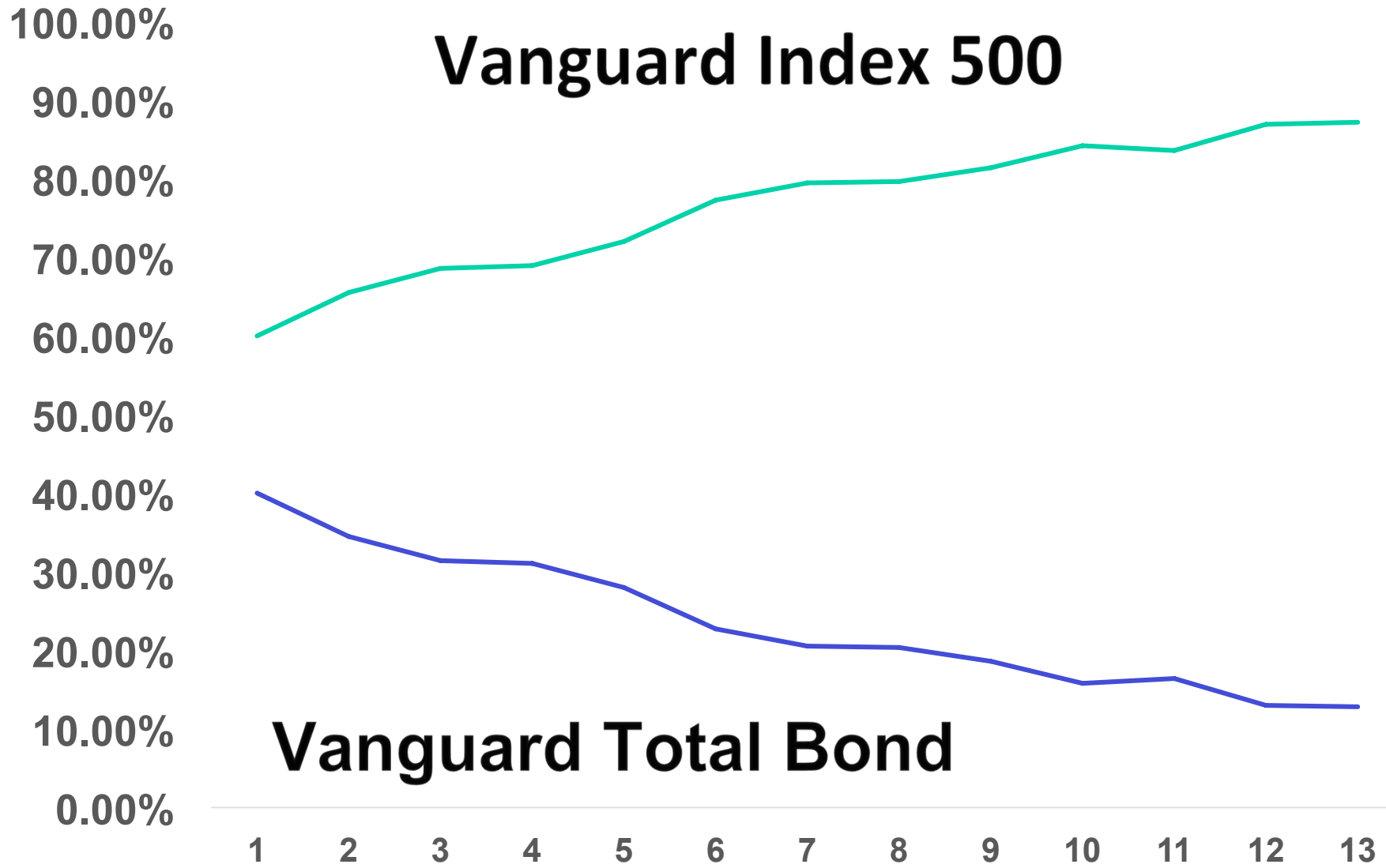
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70.00%

60.00%

50.00%

40.00%

30.00%

20.00%

10.00%

0.00%

Vanguard Index 500

Vanguard Total Bond

2019-7/2020

1

2

3

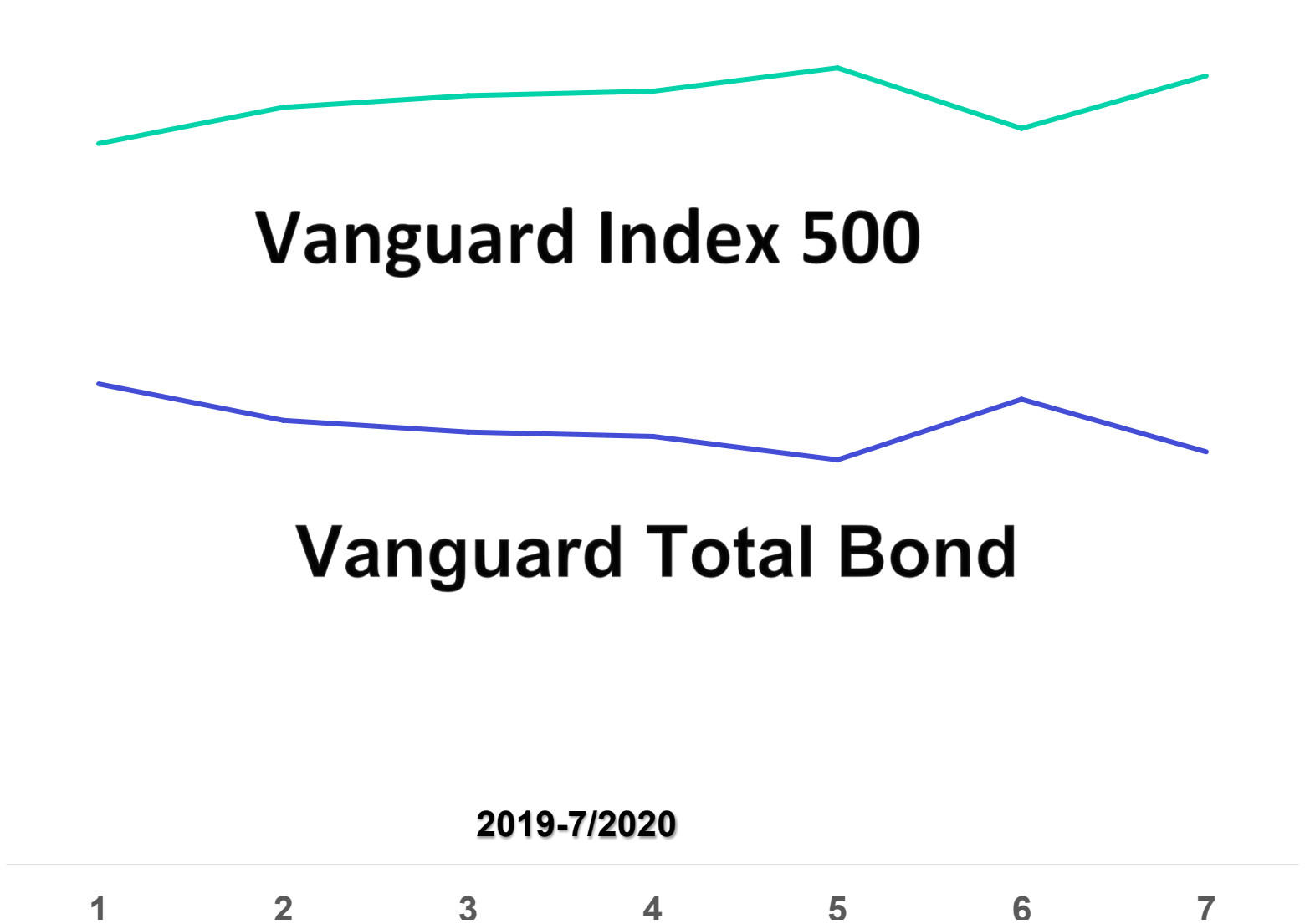
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Proven Strategy

- **Some academic studies**
- **Pension, endowment practices**
- **Morningstar studies:**

<https://www.morningstar.com/articles/974578/article>

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Drawdown Periods

	Max Drawdown	Peak Date	Valley Date	Recovery Date	Recovery Periods
2000s Recession					
Buy & Hold Portfolio	-28.3	9/1/2000	9/30/2002	2/28/2005	29.0
Yearly Rebalance Portfolio	-20.7	9/1/2000	9/30/2002	12/31/2003	15.0
2007–2008 Financial Crisis					
Buy & Hold Portfolio	-36.6	11/1/2007	2/28/2009	4/30/2011	26.0
Yearly Rebalance Portfolio	-31.9	11/1/2007	2/28/2009	10/31/2010	20.0
2020 Coronavirus Pandemic					
Buy & Hold Portfolio	-25.7	2/20/2020	—	—	—
Yearly Rebalance Portfolio	-19.7	2/20/2020	—	—	—

Source: Morningstar Direct. Data as of March 20, 2020.

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How to Rebalance

- **Costs less of a factor, but consider them**
- **Easy for tax-exempt accounts**
- **Taxable account guidelines:**
 - **Easier when new cash coming in**
 - **Rebalance less often**
 - **Allow greater tracking error**
 - **Don't reinvest distributions**

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How Often to Rebalance

- **Calendar vs. Amount of change**
- **End of period is better**
- **Let gains run for a while**
- **Designate percentage change**
- **Move when markets move**
- **Don't override system**

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Magic of Rebalancing

- **Ignore all the noise**
- **Controls risk level**
- **Reduces bear market losses**
- **Reduces recovery time**
- **Works with any portfolio or subportfolio**

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