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Maintain the Balancing Act: How to Rebalance Your Portfolio

Over time, the ups and downs of the financial markets can alter your portfolio. But there are a few easy ways to get your investment strategy back in line.

If you've been investing in the financial markets for several years, you're well aware that the value of your investments go up and down — and that these fluctuations can significantly alter the composition of your portfolio. Because volatility is an inherent aspect of the financial markets, you may wonder how best to deal with these fluctuations. For example, when the stock market's performance is rising, should you increase your stock holdings? When the stock market tanks, should you bail out or hold on?

First, you need to define your investment goals and establish a target portfolio that's appropriate to help meet these goals. You should then diversify your portfolio by investing among several asset classes such as stocks, bonds and real estate. (Note, however, that diversification does not guarantee against loss.) When creating your portfolio, you'll need to determine your *risk tolerance*, or the degree to which you're comfortable with the volatility of the financial markets. Also, define your *time horizon* — the number of years you have to invest before you will need your money, and how long the money must last in retirement.

If you haven't developed a personalized investment portfolio, speak to a TIAA-CREF consultant or access the **Asset Allocation Evaluator** on our website (**www.tiaa-cref.org**) by selecting **Tools** and then clicking on **Asset Allocation Evaluator**. The Evaluator will give you a model portfolio based on your time horizon, risk tolerance and investment preferences.

Do You Need to Rebalance?

Having a portfolio based on your time horizon, risk tolerance and investment preferences is an important first step toward reaching your retirement investment goals. However, the financial markets have ideas of their own: Over time, the vagaries of the stock market can disrupt your portfolio, potentially taking it seriously off course.

For example, let's say you establish a portfolio consisting of 65% stock/25% guaranteed/10% real estate. Several years later, a significant and persistent stock market downturn alters your portfolio so that it consists of 55% stock/20% guaranteed/25% real estate. If you want to restore your initial allocation, you'll need to *rebalance* your portfolio by shifting assets back to your original allocation.

How to Rebalance

Periodic rebalancing is a sensible way to ensure you maintain an appropriate allocation strategy. (Keep in mind that rebalancing does not guarantee that your investment goals will be met.) Generally, you need to rebalance your portfolio only if you've experienced a noticeable shift in your original asset mix — typically, a shift anywhere from 1% to 5% above or below your target allocation.

There are a few ways you can rebalance your holdings. For example, you can transfer funds from accounts that have grown larger than their target allocations to the accounts that have become smaller. Or you can contribute a lump sum to the accounts that are now proportionally smaller to bring your investments in those asset classes back to their target levels.

Another strategy is to change your future allocations so that your contributions are applied to the investments that are below their recommended targets, while keeping your current mix of assets.

If you want to rebalance your portfolio, we offer a service that rebalances your holdings every year on your birthday. With this service, you can choose from one of our sample portfolios or create your own customized allocation to match your risk tolerance. To use this service, go to our website at **www.tiaa-cref.org**, log into your account, select the **Manage My Portfolio** tab, click on the **Rebalance your Account** tab and follow the instructions. If you have any questions about your allocation strategy, our consultants will be happy to help.

Review Your Strategy

If your life circumstances or investment strategy changes, you could adjust, instead of rebalancing, your portfolio. Review your strategy every three to five years to see if you need to make changes.

The services available on the **Tools** section of our website can help. For example, the **Retirement Goal Evaluator** lets you see if you're accumulating enough for retirement and how much more you may need to invest to eliminate a shortfall. You can use the **Asset Allocation Calculator** to adjust your portfolio allocation strategy if you feel it's time for a change.

Here are a few life changes that can affect your strategy:

Marriage: You'll need to coordinate your investment strategy with that of your spouse.

Divorce/Loss of a Spouse: In either of these cases, you may need to alter your investment strategy.

Birth (or Adoption) of a Child: This can reduce the money you have available for investing and can result in changes in your time horizon and/or financial goals.

A Job Change: This can alter the amount you're able to set aside to invest and the investment choices available under your new retirement plan.

Preparing for Retirement: As you get close to retirement, you may want to adjust your portfolio to reduce volatility.

When to Reallocate

A change in investment strategy or life circumstances may mean you'll only need to *reallocate* your holdings — that is, direct contributions to different accounts than those you originally selected. For example, if you're a moderately aggressive investor and your portfolio consists of 65% stocks/25% guaranteed/10% real estate, as you approach retirement you might think about reducing your stock component to a lower percentage, and then shift the remaining allocation to fixed-income accounts or funds.

Generally, you should only think about reallocating your holdings if you have changed your investment strategy or have experienced a significant life change. For help with reallocating future contributions, call our Telephone Counseling Center at **800 842-2776**, the Automated Telephone Service at **800 842-2252** or go to the Secure Access section of our website (**www.tiaa-cref.org**).

Consider the investment objectives, risks, charges and expenses carefully before investing. Please call 877 518-9161 or log on to www.tiaa-cref.org for a prospectus that contains this and other information. Please read the prospectus carefully before investing.

There are inherent risks in investing in securities. Past performance is no guarantee of future results. In addition, investment return and principal value will fluctuate so your accumulation, when redeemed, may be worth more or less than the original cost.

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