When You're Serious…

by Bradley R. Newman, CFP®

Why Manage My Portfolio?

Why should my portfolio be actively managed? It all boils down to one reason – the environment, not to mention your situation, is constantly changing. Much like many other facets of our lives, the same is true for portfolio management. The strategies and approaches that worked well in the past (last week, last month, last year or five years ago) are typically not be the best options for the current or future environments.

Change? What Change?

The evidence of the changing environment is all around us and we're not talking about minor, subtle or nuanced changes – these are major, overt and macro level changes that would be hard for a high school economics student to miss. The current economic variants that you should be thinking about, and preparing to respond to, are:

- The U.S. equity markets are now considered fully valued, or at least more fully valued than they were a few years ago. The S&P 500 has increased by over 200% since its low point in 2009.
- Interest rates are set to rise, finally. While we cannot project the trajectory, it is very likely that rates will begin to increase by the end of 2015.
- The dollar has risen almost 20% versus the Euro in the last 12 months and the impact to global companies that are domiciled in the U.S. is notable.
- Foreign markets (EAFE) outperformed domestic markets (S&P 500) in the first quarter – a rarity during the past five (5) years. This is an about-face, domestic had outperformed foreign by roughly 10%, on an annualized basis, during the past five (5) years ending 2014.

What About The Tax Man?

If a portion of your portfolio is in non-qualified or after-tax dollars, there will be tax repercussions to selling positions in your portfolio. While you hope to sell positions at higher values for gains, those gains will generate taxation.

Try to view the taxes positively. Protecting the gains you've made at long-term capital gains rate, most typically at a rate of 15%, is a very nice opportunity – think of it this way, locking in your gains and retaining 85% of the profit is a far better option than seeing the gains erode and retaining 0% of the profits.

Not Market Timing

We are talking about disciplined asset allocation moves and measured sector changes, not huge swings or large bets. Trying to time the markets by jumping 'all-in' or 'all-out' is a fool's game.

Most typically, a well thought out Investment Policy that provides a 20% range to operate within will be adequate for most market conditions. That being said, be prepared to consider more significant changes during more significant events; i.e., the most recent financial crisis.

Embrace The Change

The amount of change that has occurred in the past twenty years is staggering: the tech bubble, the financial crisis, the great recession, the implosion of the yield curve and the downgrade of U.S. debt, just to name a few.

What is the common denominator and take away from these events? No single portfolio structure was appropriate for all of those events; there were losses to be avoided and gains to be had by those who were able to adapt their portfolios to the circumstance of each issue.

Well Worth the Effort

I'll be the first to admit that effectively employing a disciplined investment management process is a tremendous amount of work and causes a fair amount of angst for the people charged with the decision making responsibilities. However, when done appropriately, the end results are worth the effort put forth.

Bradley R. Newman, CFP® is with Roof Advisory Group, Inc., an independent investment management and financial advisory firm based in Harrisburg. The firm is a fee-only Registered Investment Advisor that provides portfolio management and financial planning services for individual and institutional clientele. The firm's email address is invest@roofadvisory.com.