



# Northwest Cedar

FINANCIAL

## Why rebalancing can be so important

Imagine sitting in a rowboat and wanting to get back to shore. If you just sit there, the wakes from passing boats and the wind could cause you to drift further toward the middle of the lake — not where you want to be. Of course, they might actually move you toward the shore. Who knows?

On the other hand, you could use your paddles. It's more work, but it'll increase the possibility of your reaching your destination.

It's similar with your portfolio. If you neglect it, market activity may cause it to drift away — possibly far away — from where you want it to be.

Take, for example, a portfolio that starts out 60% stocks/40% bonds. If stocks were to have a particularly good year and bonds a bad one, the allocation could shift to, say, 70% stocks/30% bonds without the investor even realizing it. While this portfolio likely has better growth potential than the original, it could also take a bigger hit if stocks, which tend to be more volatile than bonds, turn around and have a bad year.

To help avoid this, you should consider periodically “rebalancing” your portfolio. This involves looking at how you're diversified across different types of investments and considering selling some investments and buying others when necessary to bring your portfolio back to the asset allocation you originally intended. In the example above, you might think about selling stocks and buying bonds to get to 60% stocks/40% bonds.

All investing involves risk, including loss of principal.

Asset allocation and diversification are investment methods used to help manage risk. They do not guarantee investment returns or eliminate risk of loss including in a declining market.

Investments in fixed-income securities are subject to market, interest rate, credit and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can cause a bond's price to fall. Credit risk is the risk that an issuer will default on payments of interest and/or principal. This risk is heightened in lower rated bonds. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity.

Equity securities are subject to market risk, which means their value may fluctuate in response to general economic and market conditions and the perception of individual issuers. Investments in equity securities are generally more volatile than other types of securities.

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