

## Portfolio Rebalancing

Your portfolio's asset allocation, which should incorporate your risk tolerance, time horizon and financial goals, is the most crucial decision in the portfolio construction process. Once you have settled on an appropriate allocation, maintaining the percentage balance between stocks and bonds requires periodic rebalancing because stocks and bonds will generate different rates of return. For example, a 60% stock/40% bond mix might become 75%/25% after a strong equity run like we have experienced in the past three years. A higher stock percentage exposes your portfolio to greater volatility, which may exceed your comfort level. Rebalancing restores the target allocation, ensuring that your portfolio's potential volatility continues to reflect your risk tolerance.

There are two components to rebalancing, each with a different rationale. The first is the rebalancing of the stock/bond mix. Since stocks have historically outperformed bonds, periodically rebalancing back to your original allocation will lower the future performance of your portfolio because you will be exchanging higher performing assets (stocks) for those with a lower expected return (bonds). Portfolios are rebalanced to their original stock/bond allocation for risk management purposes, not to increase return.

The second is the rebalancing among the various stock funds in your portfolio. We expect stock asset classes to have similar long-term returns but to vary widely from year to year. Rebalancing a portfolio's stock funds is not done for risk management purposes. It's a buy low, sell high strategy designed to take advantage of the inevitable reversion to the mean that occurs in the irregular short-term performance of stock asset classes.

Some argue that rebalancing is foolish because it forces you to sell your best performing assets. This is nonsensical. Let's assume that you have a 20% allocation to the Vanguard S&P 500 Index ETF (VOO) in your portfolio and expect it to net a total annualized return of about 10% over the long term. VOO rose 26.9% in 2023, 25.0% in 2024 and 17.8% in 2025, according to Morningstar. Without rebalancing, the total compounded gain over the past three years was 86.9%. If you rebalanced annually, then 20% of your portfolio still went up 26.9%, 25.0% and 17.8% in the past three years, for a total gain of 69.7%. You did not give up big gains. You just traded away some of the unexpected, excess gain, and in exchange received some downside protection from the probability of a reversion to the mean in the S&P 500.

Unlike the market timer, the rebalancer never has to guess about what the future holds. Your rebalancing decisions are based on what has already happened, not on what you or some talking head thinks might happen. After stock market downturns, you will purchase more shares of beaten down assets at attractive prices. Portfolio rebalancing is a systematic process that reduces the likelihood of making emotional decisions during periods of investor euphoria or pessimism. It is a simple, effective discipline that anyone can implement.

How often should investors rebalance? A Vanguard research [report](#) looked at the results of three different rebalancing strategies for a 60% global stock/40% global bond portfolio.

- The first strategy was "Calendar Based" - rebalancing monthly, quarterly, or annually.
- The second strategy was "Threshold Only" - the portfolio was rebalanced if its allocation drifted from the target asset allocation by a predetermined percentage threshold regardless of the time period involved.
- The third strategy was "Calendar and Threshold" - the portfolio was rebalanced on a scheduled basis but only if the asset allocation had also exceeded a predetermined percentage rebalancing threshold.

Vanguard recommends annual rebalancing primarily due to its simplicity and ease of implementation. More frequent rebalancing exposes the investor to more transaction costs and taxes in non-qualified accounts, especially during times of high stock market volatility. Less frequent rebalancing will likely lead to excessive portfolio allocation drift.

In summary, when or how you rebalance is not as important as making sure that periodic rebalancing is a component of your investment strategy. Although markets move unpredictably, a consistent rebalancing strategy helps anchor investment decisions to objective rules rather than emotions, leading to rational, consistent behavior, one of the most important determinants of long-term investing success.

## How To Afford A Yacht



Todd Burkhalter of Drive Planning pleaded guilty to a \$380 million fraud that victimized thousands of investors. According to the charges, between September 2020 and June 2024, Drive Planning marketed investment opportunities including the “Real Estate Acceleration Loan” (REAL) and the “Cash Out Real Estate Fund” (CORE).

Burkhalter falsely claimed that REAL was a bridge loan fund that offered short-term loans to real estate developers who needed immediate cash. He promised 10% guaranteed returns every three months (a 46% compounded annual rate of return) for investors in the

REAL fund and falsely claimed investors’ funds were collateralized by real estate. He prepared “collateral sheets” identifying properties (some of which did not exist), with fictitious valuations acting as collateral. Burkhalter promised investors in the CORE Fund that they would receive “passive income from tax liens,” with guaranteed returns of 10% every six months - a 22% annualized return.

In reality, Burkhalter and Drive Planning operated REAL and CORE as Ponzi schemes; the funds were never used for the purposes he claimed. According to the Justice Department, Burkhalter used about \$2 million of investor funds to buy this yacht that he named “Live More”, \$2.1 million on a luxury condo in Cabo San Lucas, Mexico, \$800,000 on luxury vehicles, including a 2020 Prevost Marathon motorcoach and two 2024 Land Rovers, millions on luxury travel, including chartering private jets, and \$320,000 on clothing, jewelry and beauty treatments. “Todd Burkhalter perpetrated what is likely the largest Ponzi scheme in Georgia history,” U.S. Attorney Theodore Hertzberg said. “Unbelievably, Burkhalter shamelessly continued to scam his victims even while under federal investigation.” This is what financial fraud looks like - <https://www.youtube.com/watch?v=VTzoea0i67Y>

It is easy to swindle investors into believing that safe, high returns are possible in the optimistic environment of a bull market. It’s usually after a stock market decline, when investors need to withdraw funds, that the fraud is revealed. Watch out for promises of high guaranteed returns, especially in a short time period. Every investment carries risk. You have to choose which type of risk you want to take. Stocks are volatile in the short term but over the long term they have been the best Inflation beating investments for individual investors. Fixed income assets are stable in the short term but are unlikely to outperform inflation and maintain purchasing power over the long term. Beware of investments that promise stock-like returns with the stability of fixed income investments. As a general rule, be very skeptical of any promised “safe” returns in excess of the yield on the 10-year Treasury (currently around 4.0%). Financial scammers use social media and YouTube videos to troll for new marks who they can mislead and deceive. Greed, overconfidence, and a desire to make quick money - three strikes and you’re scammed.

## Keep Your Seatbelt Fastened

Winter is the time of year when domestic airline flights are most likely to encounter clear air turbulence. Quite often, this turbulence reaches a moderate level which is soon followed by the illumination of the seatbelt sign. There is nothing for passengers to do but remain seated with their seatbelts fastened and wait for the ride to improve. Each type of aircraft has a manufacturer’s recommended speed for flying through moderate turbulence. This speed is less than normal cruise speed. So, after turning on the seatbelt sign, the pilot will pull the throttles back a bit and slow down. Having done this countless times, pilots are not as anxious about the ride as the passengers.

I am using this example to make a point about how investors should react when the stock market goes through one of its periodic episodes of unpleasant volatility. Investors often become anxious during this “turbulence;” feeling that they must make changes to their portfolio until things settle down. But by tinkering with their portfolio instead of staying the course, they are, in effect, speeding up when encountering turbulence.

White knuckled passengers are uncomfortable in turbulence because they focus on the bumps; forgetting that the aircraft is maintaining its altitude and course, still speeding safely towards its destination and will soon exit the turbulent area. Likewise, investors should remind themselves that bouts of market volatility are perfectly normal and, like turbulence, will eventually end. While the return of the stock market over the short term is uncertain, our long-term expectation is that it will go up more than it goes down. Volatility should be thought of as temporary variations in a rising trend line. White knuckled investors who cannot “remain seated” during periods of market turbulence are unlikely to reach their financial destination or capture the long-term returns that we expect from stocks.

## In The News

In the early hours of February 28, global markets were shaken by significant geopolitical developments, as the U.S. and Israel conducted coordinated strikes on Iran. Iran responded with missile strikes, which escalated tensions and raised uncertainty in global markets. It is not surprising to see heightened stock market volatility in the initial stages of a conflict. In moments like these, it is natural to feel uneasy. Headlines are dramatic, markets react quickly, and uncertainty can make even experienced investors uncomfortable. But volatility alone is not a reason to abandon a well-thought-out financial plan. Your portfolio should be designed with the understanding that unforeseen events, including geopolitical tensions, economic shifts, and policy changes, will occur. Times like these tempt investors to make quick, emotion-driven moves. But historically, reacting to headlines has often led to worse long-term outcomes than sticking with your financial plan. Wars, recessions, pandemics, political crises, and unexpected global shocks will always be with us. Excessive volatility is the result of institutional investors' short-term trading, hedging, and speculations, actions that should not be in your investing playbook. Long-term outcomes remain driven by fundamentals such as economic growth, inflation trends, and tax policy. Events unfolding in the Middle East are serious, and markets may remain volatile in the coming days and weeks. We get through times like these by staying disciplined, focusing on what we can control and ignoring predictions and fear mongering.

2025 proved to be a fruitful year for investors, with a wide range of asset classes generating positive returns. At the same time, the year was not without drama, from a new presidential administration to tariff-related volatility and debates over the impact of artificial intelligence. Amidst this backdrop of uncertainty, active fund managers should have thrived; however, a recent report suggests that most underperformed their index fund competitors last year. According to Morningstar's *Year-End 2025 U.S. Active/Passive Barometer* report, which measures the performance of active funds against their index fund competition, 62% of the 3,140 active funds included in its analysis underperformed their average index fund competitor last year. Active managers outperformed their index competitors in only four of the twenty asset classes in Morningstar's study. Notably, the picture looks worse for active fund managers over longer time horizons, with only about one of every five active funds beating their average passive counterparts over the ten years ending December 2025.

Some proponents of active funds claim that index funds are in a bubble, and this is hurting the stock market's pricing efficiency. They argue that index funds are price takers rather than price makers; simply buying whatever is in the index without regard to price or fundamentals. If true, this would be good news for active managers because it would lead to pricing anomalies that they could exploit. But as the Morningstar report clearly shows, the vast majority of active funds continue to underperform their index competitors across most time periods and most asset classes. As an increasing number of investors exit the active trading game and buy index funds, there remain fewer suckers playing the stock picking game for the pros to outsmart. This is a good thing for investors but a career-ending threat for active managers because the competition is becoming more difficult to outwit. But fear not. Active management will never completely go out of business because it is far too lucrative and tempting for type-A personalities who seek to prove themselves smarter than index funds.

Most of the people who say that passive investing is a bubble do not mention how it represents a bubble. What they really are saying is that it is popular. So are shopping online, watching Netflix, and eating pizza. These things are not "bubbles." The term bubble, in the financial vernacular, represents something that is highly speculative in nature, fueled by greed and leverage and surrounded by so much hype (usually by current owners) that price becomes unsustainable and eventually crashes. This in no way describes investors' growing preference for low-cost, comprehensible and tax efficient index funds. People using the term "bubble" to describe the popularity of indexing are either simply mistaken, bitter, or deliberately trying to mislead for their own gain.

According to The World Happiness Report, Finland ranks as the happiest nation in the world, a title it has held for eight years in a row. But I thought I might do a little more research. According to NOAA, Helsinki, the nation's capital, has on average 118 days each year in which the daily high temperature is below freezing. The record for the most "freezing" days was 165 in 1952, and the latest "freezing" day occurred on May 30<sup>th</sup> in 1975. Now, to my way of thinking, any Finlander who does not move to a warmer climate is lying when they say, "Of course I'm happy. I love living here!"

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