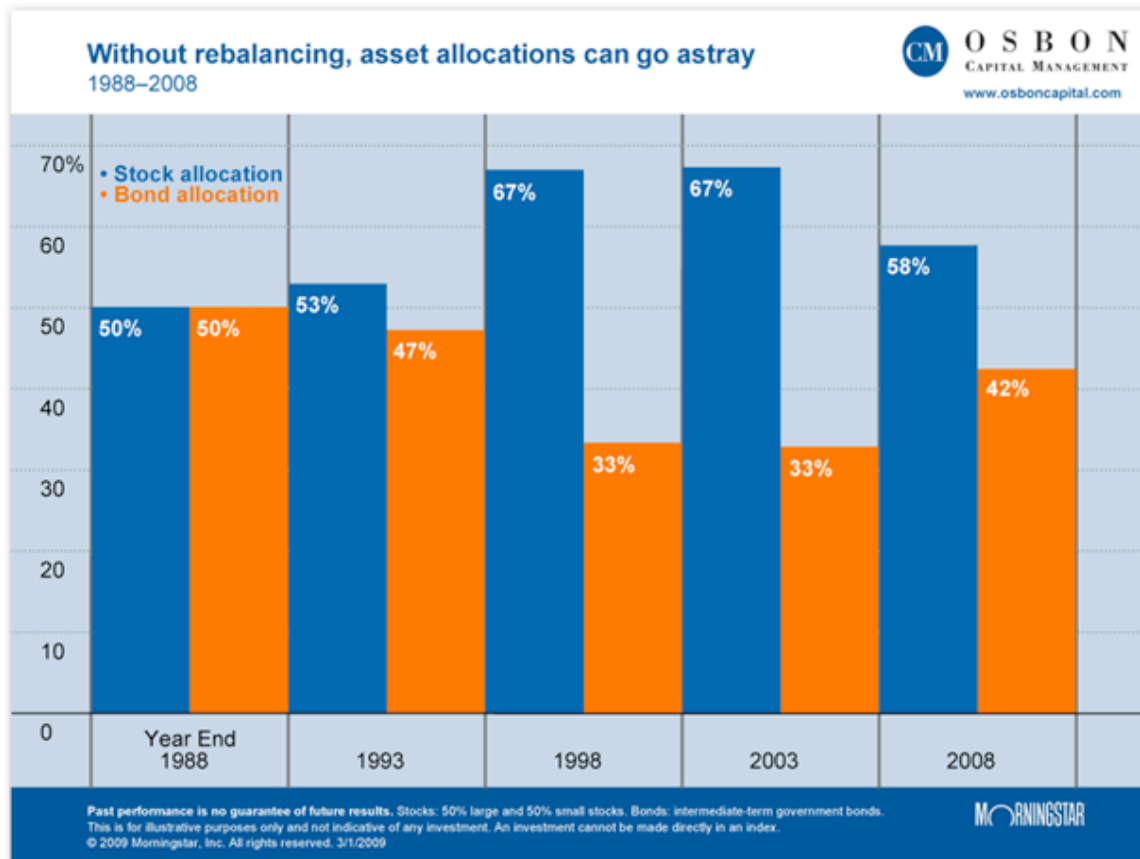




Quick Q & A #11

Q: Can we set it and forget it?



A: No. An unattended portfolio can get far out of balance.

A common misconception about passive investing is that once a portfolio is assembled, it can be left untouched indefinitely. This set it and forget it approach can result in a portfolio that looks and performs very unlike the original.

In the example here, a 50-50 allocation of stocks and bonds at the end of 1988 morphed into a 67-33 allocation by 1998. The faster growth of stock prices versus bonds over that period caused this unattended portfolio to reach a composition that may be inappropriate for the age, goals, income



needs, and risk tolerance of the investor who approved the original 50-50 allocation.

As asset allocation can strongly influence the risk and return characteristics of a portfolio, rebalancing is a key element of index investing, not just between stocks and bonds, but between domestic and international securities, large and small caps, etc. This is especially important in volatile markets – as we have experienced recently – where big swings in returns can dramatically transform the character of a portfolio in just weeks or months.

Read more: [More Quick Q&As from Osbon Capital Management](#)

Next time: Will the market go up or down tomorrow?

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The stock portfolio is 50% small stocks and 50% large stocks. Small stocks are represented by the performance of the Dimensional Fund Advisors, Inc. (DFA) U.S. Micro Cap Portfolio. Large stocks are represented by the Standard & Poor's 500®, which is an unmanaged group of securities. Bonds are represented by the five-year U.S. government bond. An investment cannot be made directly in an index. The data assumes reinvestment of all income and does not account for taxes or transaction costs.

Any historical returns are not net of advisory and/or other fees and expenses. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this Q&A will come to pass. Investing in the stock market involves gains and losses and may not be suitable for all investors. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security.

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