TIME INTERVALS FOR REBALANCING A PORTFOLIO

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ABSTRACT

Rebalancing a portfolio to maintain a target asset allocation is a well-accepted tactic in modern portfolio management. Rebalancing strategies can be based on either ranges over which each asset class is allowed to vary away from its target weighting in the portfolio, or based on time intervals for automatic rebalancing. When time intervals are used the portfolio manager must decide on how frequently to rebalance. We have found that in the absence of transaction costs and taxes, monthly rebalancing provides the best risk-adjusted performance. However, when transaction costs and taxes are introduced, longer-term rebalancing strategies may produce better net of cost and tax risk-adjusted results.

Keywords: *Asset allocation, rebalancing, risk reduction, portfolio management, passive management*