



REBALANCING

Why the drift approach

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Anything that can help control investment risk is an awesome thing.

That's why portfolio rebalancing is a best practice must-have.

Let's look at how a rebalancing strategy can help reduce risk and ensure your clients' investments remain aligned with their overall financial plan.





What is Portfolio Rebalancing?

Portfolio rebalancing is the process of ensuring that an investment portfolio retains the appropriate balance of risk and reward in line with your client's financial objectives and desired level of risk.

It is inevitable that some portions of a portfolio will outperform others. As a result, the portfolio can naturally skew towards too much or too little risk. Rebalancing involves selling some of the assets that are performing well and reinvesting the funds in other areas.

So, for example, if a portfolio that began with a 50/50 split of stock and bonds had a period of underperforming bonds and outperforming stocks, the 50/50 split may skew more towards 60/40. To rebalance the portfolio in line with the original 50/50 objective, you could take the gains from the high-performing stocks and reinvest them in bonds.

This is effectively taking profits and reinvesting in the trailing securities. This is a sound investment practice because it usually enhances performance and ensures the portfolio remains within appropriate parameters for the client.

What are the benefits of rebalancing?

Control Risk

The fluctuating nature of the stock market means that the risk associated with a portfolio also fluctuates. Rebalancing helps manage the risk by proactively adjusting the portfolio in line with your client's original goals.

In short, failure to rebalance a portfolio could result in an 'all your eggs in one basket' syndrome which could result in your client's portfolio moving out of line with their objectives or missing out on an investment as it comes back into favour.

Stay on Track

Think of rebalancing as readjustments to the steering wheel to keep your clients on course to reach their financial destination.

It helps to keep your clients' long-term strategies in mind by adjusting their asset allocation in line with their financial goals and tolerance for risk.

This can help to protect their portfolio and maintain their investment income.

What has portfolio rebalancing got to do with the amount of time it takes the earth to revolve around the sun?



Did you say nothing?

Advisers typically rebalance their portfolios annually. By contrast, some discretionary MPS can be rebalanced as often as quarterly.

While annual rebalancing isn't a terrible idea, it is less than optimal.

The time-consuming process of obtaining client permissions, alongside the abundant opportunity for error, isn't ideal.

Quarterly rebalancing, on the other hand, is a rigid trap!

It provides a simple safety net for risk, but this can come at a high cost. Rebalancing on a fixed schedule can fail to strike the balance between risk and reward, sacrificing growth and in some cases generating unnecessary costs.

We examine the impact of different rebalancing methods on £100k invested across a range of global bond/equity portfolios over a 30-year period.

We run every rolling 30-year period from Jan 1915 to Dec 2025, which gives us 972 scenarios. We consider multiple asset allocations (from 80/20 to 20/80 bond/equity) under the following rebalancing options.

Quarterly

Annual

5% Drift Tolerance

10% Drift Tolerance



Bonds/ Equity	Volatility				Annualised Return				Number of Rebalances				Portfolio Value In 30 Years			
	Quarterly	Annual	5% Band	10% Band	Quarterly	Annual	5% Band	10% Band	Quarterly	Annual	5% Band	10% Band	Quarterly	Annual	5% Band	10% Band
80/20	9.34%	9.35%	9.35%	9.41%	7.67%	7.75%	7.76%	7.77%	120	30	7	2	£917K	£937K	£942K	£944K
70/30	9.49%	9.49%	9.50%	9.55%	7.99%	8.10%	8.09%	8.13%	120	30	9	3	£1.004M	£1.033M	£1.032M	£1.041M
60/40	9.85%	9.86%	9.89%	9.94%	8.32%	8.44%	8.42%	8.51%	120	30	11	4	£1.100M	£1.137M	£1.130M	£1.158M
50/50	10.41%	10.42%	10.46%	10.53%	8.66%	8.79%	8.77%	8.86%	120	30	11	4	£1.207M	£1.251M	£1.243M	£1.276M
40/60	11.13%	11.14%	11.19%	11.30%	9.01%	9.13%	9.11%	9.19%	120	30	11	4	£1.329M	£1.375M	£1.369M	£1.399M
30/70	11.98%	11.99%	12.05%	12.21%	9.36%	9.48%	9.49%	9.54%	120	30	9	3	£1.466M	£1.512M	£1.516M	£1.540M
20/80	12.93%	12.94%	13.03%	13.22%	9.74%	9.82%	9.86%	9.91%	120	30	6	1	£1.623M	£1.662M	£1.677M	£1.704M

The colour coding is intended only to provide a clear visual comparison between the rebalancing approaches shown.

This chart is for illustrative purposes only; it does not constitute investment advice and must not be relied on as such. The value of investments and the income from them can go down as well as up so you may get back less than you invest. These figures refer to the past and past performance is not a reliable indicator of future results. Returns are shown net of fees but exclude transaction costs and taxes. Transaction costs, taxes and inflation reduce investment returns.

The table reports the average annualised return, annualised volatility, number of rebalances, and portfolio value after 30 years across all 972 monthly rolling 30-year historical scenarios between 1 January 1915 and 31 December 2025, based on the actual historical performance of underlying financial indices. The initial investment amount is £100,000 and the results are net of 1% annual fee. Results are shown for portfolios with different allocations to global equities and global bonds under four rebalancing approaches: quarterly, annual, 5% drift, and 10% drift. All investment income is assumed to be reinvested, unless otherwise stated. Sources: Global Equities: Morningstar Global All Cap Target Market Exposure Index and DMS World Equity TR Index. Global Bonds: Morningstar Global Core Bond Index and DMS World Bond TR Index.

The Timeline Approach to Rebalancing

The outcome of our research clearly demonstrates that rebalancing based on market movements provides better outcomes, compared to rebalancing after a client review meeting or arbitrary date in the diary.

Our strategy is formulated on this tolerance-based approach. This means that when a 10% 'drift' of an asset class from the target allocation (on an absolute basis) occurs, we rebalance the portfolio.



HERE'S HOW IT WORKS...



We keep you fully informed of the client specific drift and notify you when an asset class drifts under or over 7% and then 9%, keeping you fully aware.



When assets in a specific asset class drift over or under 10% from target, we rebalance the ISA and SIPP components of the portfolio.



An important feature of Timeline's service is that we will help you to manage the clients CGT position and will never rebalance a GIA without your express permission to do so.

Tolerance-based rebalancing helps us ensure that portfolios remain in line with risk parameters and return objectives all year round as well as improving performance.

Our comprehensive onboarding training helps you to take control at every stage of the process.

Discover more about our investment philosophy

From risk and return to asset allocation, you can read our core investment beliefs on our [website](#) or get in touch for a chat.



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