

Do you have a lingering memory of motion sickness after last summer's debt storm? I do. Before another cyclone hits, it's a good time to check your portfolio mix of stocks and bonds as a way of securing your financial ship.

A sensible portfolio review deals with your fears first

What will be most harmful to your standard of living if your portfolio comes up short? Have you taken a look at how your portfolio performs in the worst markets?

If there's another summer swoon for global stocks, now's the time to ask these questions. Here are five suggestions:



Reduce tail risk

Forget about daily ups and downs, which can be irrelevant. Tail risk -- or the probability of an extreme event such as a 2008-style meltdown -- is a storm tide for your portfolio.

You don't want to be mostly in stocks before you retire and then face a 2008-style tanking. Last summer was bad enough. You certainly don't want that kind of volatility if you need to preserve what you have.

Managing risk is a matter of balance. Ratchet down stock market exposure and your potential to lose money drops. While you may get the highest possible returns with stocks, your exposure to the extreme tails is lower if you add bonds.

Also keep in mind that you only get the "average" return if you hold your allocation for a long time. Most people jump in and out when they get spooked, so their performance is much lower.



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Benchmark

If you have an all U.S. large-company stock portfolio, how did it compare to the S&P 500 Index (.SPX)? The index is up 7.6 percent through July 25, when you include dividends. Did your stock funds do at least as well as that?

If you hold U.S. bonds, use the Barclays Capital Aggregate Bond Index or the iShares exchange-traded fund (ETF) (AGG) that tracks the index as a proxy. The fund currently has about a 2.5 percent yield (I hold it in my 401k).

Now that the U.S. Labor Department will start to require employers to tell you how much your retirement funds cost, you can easily see if you're being charged too much.

Because fund managers charge expenses, you will never get the return of the index. But the more you lag the index return, the more you should be reducing management expenses -- especially in your 401(k) funds.

If you are trailing the index by more than 0.25 percent, then transfer into low-cost ETFs or index mutual funds. Every bit of extra return goes into your pocket.

3 Revisit your investment policy statement

First of all, do you even have one? This is a stated list of goals for your portfolio. Do you want to retire early? Save for college? Keep on working and live off the interest?

Write it down and check your progress. You should state how much you want to invest in stocks, bonds and alternatives to reach your goal with the amount of risk that will allow you to sleep at night.

Rebalance

As part of your investment policy statement, your mix should reflect what you want to achieve. But with stocks or bonds moving with the market, your percentage in each asset class will shift. In order to keep to your goals, rebalance by selling winners and reinvesting to get back to your ideal mix.

This also allows you to buy low and sell high to take advantage of market dips. I know this sounds counterintuitive, but it will keep you on track.

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Be flexible

Things change. You may have gotten divorced. Maybe your children moved back in after college because they couldn't find a job. You may have to care for an aging parent. Make sure your portfolio plan can accommodate life changes.

When it comes to a sound portfolio review, keep in mind that it's not all about return. You need to project how much money you will need in the future to sustain a comfortable lifestyle, however you define that. Risk should be foremost on your mind now, even if you have plenty of time to invest.

And while inflation isn't quite a problem now, you should protect your bond holdings from rising interest rates with inflation-protected securities or bonds you hold to maturity.

If you need help, most large mutual fund companies, banks and brokerage firms can help with portfolio reviews and rebalancing. Some even offer certified financial planners to aid in the process.

If your needs are more complex, seek the guidance of a registered investment adviser or chartered financial analyst. But don't get into a situation where you feel obligated to buy commissioned products. Keep your costs low and objectives in clear view.

