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Rebalancing YOUR MUTUAL FUND PORTFOLIO

Most mutual fund investors know that a balanced fund is comprised of stocks, bonds, and cash equivalents—providing both growth and income generating securities. Being a "one stop" mutual fund, all securities are held in one basket allowing the investor a simple means of investing. The management of a balanced fund seeks to adjust the combination of the fund's portfolio of securities according to their own established objectives.

Let us examine how the concept of the balanced fund relates to balancing an individual's portfolio of several mutual funds. The "balancing" sought in a portfolio is also based on the balance of an investor's money held among funds with the objective of both growth and income. In a bull market, funds that invest in stocks will likely have remarkable capital gains, while the bond or income funds held in a portfolio may lag. Thus, over time the proportion of capital held in growth funds in relation to income generating funds would change and need rebalancing as different assets have different rates of return. When bond markets thrive and stock markets lag, the income component (in most cases bonds) will increase in proportion,while the stock component will decrease. If this is so, a portfolio must be rebalanced to meet a pre-planned objective of say 60% growth and 40% income, if the proportion changes markedly. Those who do not set objectives and then reassess their portfolio periodically, are referred to as passive investors. The objective of balancing is to maintain a portfolio that meets your financial planning goals at any given stage of your life. Another reason to shift your proportion of holdings may be to anticipate market trends.

Talk to your financial advisor to determine strategies to keep your portfolio balanced to your own specific goals in relation to your age and time of retirement. Invest intelligently, not passively.

What is an OPEN-END FUND?

An open-end fund refers to the most common investment fund. Without limit, shares/units are always offered for sale and are bought and sold directly from a fund. The unit value is calculated in relation to the total value of all the securities held in the fund portfolio.

Most are established as unit trusts, where the fund is a trustee holding the investments for the unitholders. Realized capital gains, interest, and dividends accruing in the fund are attributed and taxed as such to the unitholders. Though there are very few in Canada, a closed-end fund is much like investing in a public company. The sponsor of a closed-end fund sets the parameters of access to invest with these limitations set forth in a prospectus: a set time limit, the amount of money, or the number of shares issued. When these limitations are met, the fund is then "closed". Any future access to a closed-end fund investment must be achieved by buying shares from other investors by means of stock market trading or by a new secondary offering. A closed-end fund may be converted (referred to as mutualization) to an open-end fund.