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WHEN IS A GOOD TIME TO RESHUFFLE YOUR LAME-DUCK PORTFOLIO?

By Josh McRae - Financial Advisor, Brenthurst Wealth, Cape Town

President Cyril Ramaphosa's recent cabinet reshuffle has produced more yawns than applause as many have been left wondering: why bother? Change, after all, should be about improving or breathing new life into something that's no longer performing optimally.

And the South African economy has been anything but optimal for far too long now. Which is not good news for local investors.

Not only are we stuck with lame-duck politicians, but some of us now possibly have lame-duck portfolios that are not performing as they should. Time for a reshuffle?

Maybe, maybe not. Unlike a cabinet reshuffle, changes to your portfolio must be purposeful, they must be informed, and they must be results-driven.

IT'S ALL ABOUT RISK

In politics there are always undertones and nuances that aren't always obvious to the casual observer. The president's reshuffle, for instance, is quite clearly about bringing friends closer and pushing enemies further away.

Good risk management, you could say, in the lead-up to national elections in 2024. When looking to reshuffle your investment portfolio, risk should also be top of mind.

That decision will be linked to your reasons for wanting to reshuffle your portfolio.

There are a few clear reasons for doing so, such as a change in personal circumstances, e.g., a divorce or retirement. Or, changes in the market or economy may force you to shuffle things around so that your portfolio remains properly diversified.

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YOUR RISK PROFILE GIVES YOU CONTEXT

One of the most important functions of your risk profile is to help you make informed investment decisions aligned with your personal needs and preferences.

For example, if you have a low risk profile, you are probably more comfortable investing in less volatile assets, such as bonds or cash. A higher risk profile, by contrast, would see you invest in riskier assets such as stocks or real estate, that offer higher possible returns.

Being aware of your risk profile can also help you avoid emotional investment decisions. If you understand your risk profile and the potential risks and benefits of different investment strategies, you're less likely to make impulsive decisions based on short-term market fluctuations or fear of missing out.

GET A TRUSTED ADVISOR

You better believe that the president has trusted aides he turns to when planning his machinations and cabinet appointments. Don't you think you too should have some expert advisor to lean on?

You get just that when you work with a financial advisor who can help you identify your risk profile and adjust your investment portfolio so that it's appropriately aligned. An advisor can help you navigate the complex financial landscape and make informed decisions based on your individual circumstances.

They can also help you understand the potential risks and benefits of different investment strategies, and help you make adjustments when necessary. This is helpful when you transition from one life stage to the next, whether that's from being single and footloose, to first-time parents, or first-time grandparents when you're in retirement.

Your advisor will also be able to help you decide how often you should reshuffle your portfolio, if at all. Some experts suggest rebalancing your portfolio every year, while others recommend a more frequent approach.



Ultimately, the frequency of your portfolio reshuffle will depend on your investment goals, risk tolerance and other personal factors. I recommend that investors aim to rebalance their portfolio no more than once a quarter or twice a year to avoid unnecessary transaction costs and potential tax implications.

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MAKE CHANGE FOR THE RIGHT REASON

The latest cabinet reshuffle is clearly about the 2024 general elections. The goal would be to secure victory for the ANC, once again, for which it needs to win votes.

In a portfolio reshuffle, your goal should not be to win short-term returns at the cost of your long-term strategy. Trying to continually find the next hot investment and beat the market is a flawed strategy. Firstly, this will drive up your transaction costs because you pay fees and commissions every time you buy or sell an investment. Secondly, chasing returns can lead to emotional investing when you become more focused on short-term gains rather than long-term growth.

This can lead to impulsive investment decisions that are driven by fear, greed or other emotions, rather than sound financial analysis. Emotional investing can cause you to make decisions that are not in your best interest and can lead to lower returns. Your best strategy is to rather focus on building a diversified portfolio of assets that you believe will grow over time and only switch to realign with your risk profile and drastic economic events.

Let's not forget that the president has reshuffled his executive at least once before, and the results were equally ineffective. You don't have the same luxury of making ill-informed decisions in your portfolio. Rather, sit with your financial advisor to decide whether, when and how often you need to be shifting your investments around.

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JOSH obtained his BCom degree in the College of Law at the University of South Africa (UNISA) and is a Financial Advisor under the direct supervision of BWM Managing Director and CERTIFIED FINANCIAL PLANNER®, Brian Butchart.

Josh is an ambitious, hard-working individual with over five years' experience in the financial planning industry. His expertise includes financial and retirement planning, offshore investing, and estate planning.

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