Vanguard

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Why portfolio rebalancing matters

Many investors focus on building the right portfolio. Just as important, though, is maintaining it.

Over time, market movements can change the mix of investments within a portfolio. As some investments grow faster than others, the level of risk[1] you are taking can gradually change without you realising it.

This highlights an important but often overlooked point: rebalancing is not primarily about improving returns. Its purpose is to help ensure your portfolio continues to reflect the investment strategy and level of risk you originally chose.

By periodically restoring a portfolio to its intended asset allocation, rebalancing helps keep long-term plans on track, regardless of how markets perform[2].

Risk changes even when your strategy doesn't

Asset allocation refers to how investments are divided between different asset classes, such as shares and bonds[3].

This balance affects both a portfolio's growth potential and level of risk. Shares have historically delivered higher long-term returns but can experience larger short-term fluctuations. Bonds have generally provided greater stability and can help reduce the impact of stock market downturns.

When you select a portfolio, you are effectively choosing a balance between these different characteristics. The challenge is that markets can gradually change that balance over time.

Market performance can reshape your portfolio

Different asset classes rarely perform in the same way at the same time.

When shares outperform bonds for an extended period, they become a larger proportion of a portfolio. While this may increase returns, it can also leave you taking more risk than originally intended. Equally, if bonds outperform shares, a portfolio may become more defensive and offer less growth potential than expected.

This gradual shift away from a portfolio's original asset allocation is known as 'portfolio drift'.

The chart below illustrates how a portfolio can become increasingly concentrated in shares when it is not rebalanced.

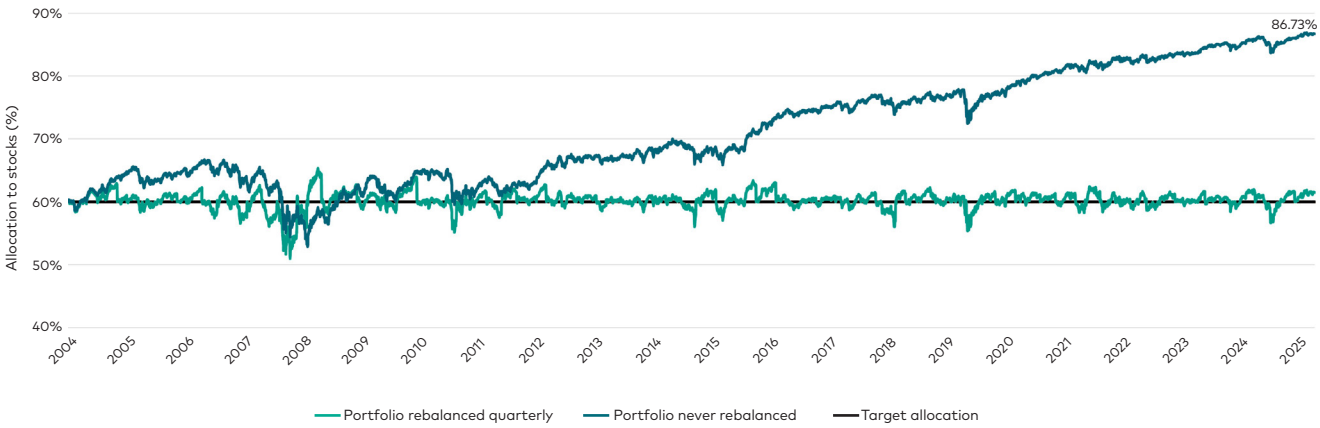
[1] In this guide, risk refers to the degree to which the value of a portfolio may fluctuate over time. Changes in a portfolio's asset allocation can result in it becoming exposed to greater or smaller fluctuations than originally intended.

[2] Gary P. Brinson, L. Randolph Hood, and Gilbert L. Beebower, 1995. "Determinants of portfolio performance." Financial Analysts Journal 51(1):133–8. (Feature Articles, 1985–1994.)

[3] Bonds are a type of loan issued by governments or companies, which typically pay a fixed amount of interest and return the capital at the end of the term.

Regular rebalancing helps keep portfolios aligned with their intended risk profile. Failure to rebalance can increase the portfolio's risk profile.

Changes in exposure to shares for a rebalanced portfolio and a 'drifting portfolio' (2004 – 2025)



Past performance is not a reliable indicator of future results.

Notes: The initial allocation for both portfolios is 60% Global shares and 40% Global bonds. The rebalanced portfolio is returned to this allocation at the start of each quarter. Returns for the Global stock allocation are based on the MSCI All Country World Index. Returns for the Global bond allocation are based on Bloomberg Global Aggregate Index (GBP hedged). All returns calculated in GBP. The performance data does not take account of the commissions and costs incurred in the issue and redemption of shares.

Source: Vanguard, using data from Bloomberg. Daily returns data from 31 December 2004 to 31 December 2025.

A portfolio invested 60% in global shares and 40% in global bonds at the end of 2003 would have become increasingly concentrated in shares if left untouched. By the end of 2025, the allocation to shares would have risen to over 80%.

By contrast, a portfolio that was rebalanced regularly would have remained close to its original allocation of 60% shares and 40% bonds.

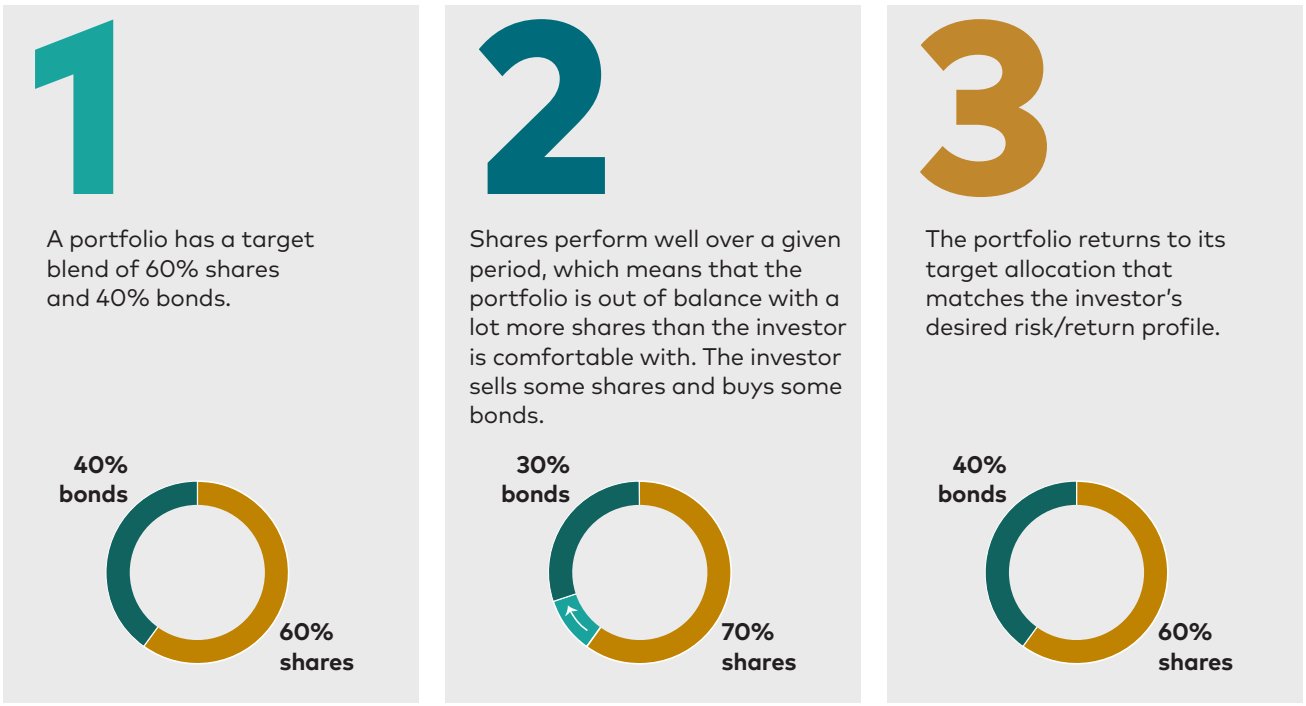
This demonstrates why rebalancing is fundamentally a risk-management tool. Its objective is not to maximise returns but to help maintain the investment approach you originally selected.

Restoring balance through disciplined investing

Rebalancing involves adjusting investments, so your portfolio continues to reflect its intended asset allocation.

If shares have become a larger proportion of your portfolio than intended, some may be sold and the proceeds reinvested in areas that have become underweight, such as bonds.

This process is illustrated below.



Notes: This example is hypothetical and does not represent any real portfolio. In this example, shares have increased from 60% to 70% of the portfolio, meaning the portfolio now carries more equity risk than originally intended. The aim is not to predict which asset class will perform best next. Instead, it is to maintain a portfolio that remains aligned with your long-term goals.

Source: Vanguard.

Why rebalancing can feel uncomfortable

At first glance, rebalancing can feel counterintuitive. It can involve reducing your investments in assets that have performed strongly and adding to those that have lagged. Many investors instinctively feel more comfortable increasing their investments to recent winners and avoiding assets that have struggled.

However, rebalancing is not about predicting future market movements or rewarding poor performance. Instead, it is a disciplined process designed to stop short-term market trends from changing a carefully chosen investment strategy.

By focusing on long-term objectives rather than recent performance, you avoid making decisions driven by emotion and maintain a more disciplined approach to investing.

Staying focused on the long term

Market movements are unavoidable. Over time, they will change the balance of almost every portfolio.

Rebalancing provides a disciplined way of responding to those changes. Rather than allowing market performance to determine your portfolio's level of risk, you can maintain the asset allocation you originally chose and keep the investments aligned with your goals.

Ultimately, successful investing is not simply about choosing a portfolio. It is also about maintaining it. Rebalancing helps ensure that short-term market movements do not distract you from your long-term plan, helping you to stay focused on what matters most: achieving your financial goals.

Focus on the things in your control

Market movements are beyond your control, but how you respond to them is not. Regular rebalancing helps ensure your portfolio remains aligned with your financial goals and the investment strategy you originally chose.

If you're not sure whether your portfolio still reflects the balance and level of risk you originally chose, speak to your adviser about reviewing your current asset allocation.

Investment risk information

The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

Past performance is not a reliable indicator of future results.

Performance figures shown may be calculated in a currency that differs from the currency of the share class that you are invested in. As a result, returns may decrease or increase due to currency fluctuations.

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