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5 Steps to Spring-Cleaning Your Investment Portfolio

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Presentation Roadmap

- Key benefits of streamlining
- 5 key steps to take as you streamline
  - Reduce your number of accounts
  - Embrace simple investment strategies
  - Cut faux diversification and other portfolio clutter
  - Make changes tax-efficiently
  - Document and stick with a once-annual portfolio review

Key Benefits of Streamlining: Investment Considerations

- You'll have fewer moving parts to oversee, which:
  - Makes it easier to keep tabs on portfolio's asset allocation
  - Simplifies rebalancing
  - Streamlines the performance review process
- Expedites tax season
  - Fewer 1099s to track down
  - Fewer cost basis records
- You may be able to lower expenses with fewer providers (or a single one)

Key Benefits of Streamlining: Personal Considerations

- Fewer accounts and holdings = more time to spend on other things
- Many people experience cognitive decline as they age;
  having fewer accounts and holdings reduces risks of fraud and/or mismanagement
- With a streamlined portfolio, your loved ones will have less to deal with if you become incapacitated or die

Step 1: Reduce Your Number of Accounts and Providers

Advantages of having fewer accounts and providers

- Reduces oversight and recordkeeping responsibilities
- Reduces number of portals and passwords
- Simplifies tax season
- Expedites transferring among account types
  - Taxable into IRAs during accumulation years
  - IRAs into taxable during decumulation

How Low Can You Go?

Multiple accounts are usually inevitable due to the tax code

- Tax-sheltered retirement accounts
  - Traditional tax-deferred IRAs and company retirement plans
  - Roth IRAs and company retirement plans
  - Spouses’ accounts must remain in your own names
- Tax-sheltered single-purpose accounts
  - Health savings accounts
  - 529s and Coverdell Education Savings Accounts
- Taxable accounts

But You Can Still Do a Bit of Cleanup

- Traditional tax-deferred accounts provide a great streamlining opportunity
  - The typical worker has 12 jobs, so lots of small 401(k)s and IRAs floating around
  - Consider a single supersize IRA
- Consolidate Roth and taxable accounts with the same provider
- When to consider consolidating in company retirement plan
  - You need creditor protections
  - Your 401(k) is ultra-low-cost
  - You have access to rare funds: e.g., stable value, “G” fund

Step 2: Stick with Simple Portfolio Building Blocks

- For larger accounts, seek broad diversification
- Broad-market index mutual funds, exchange-traded funds

US equity	**3,743** holdings in Vanguard Total Stock Market
Non-US equity	**8,512** holdings in Vanguard Total International
Bond	**17,778** holdings in Vanguard Total Bond Market

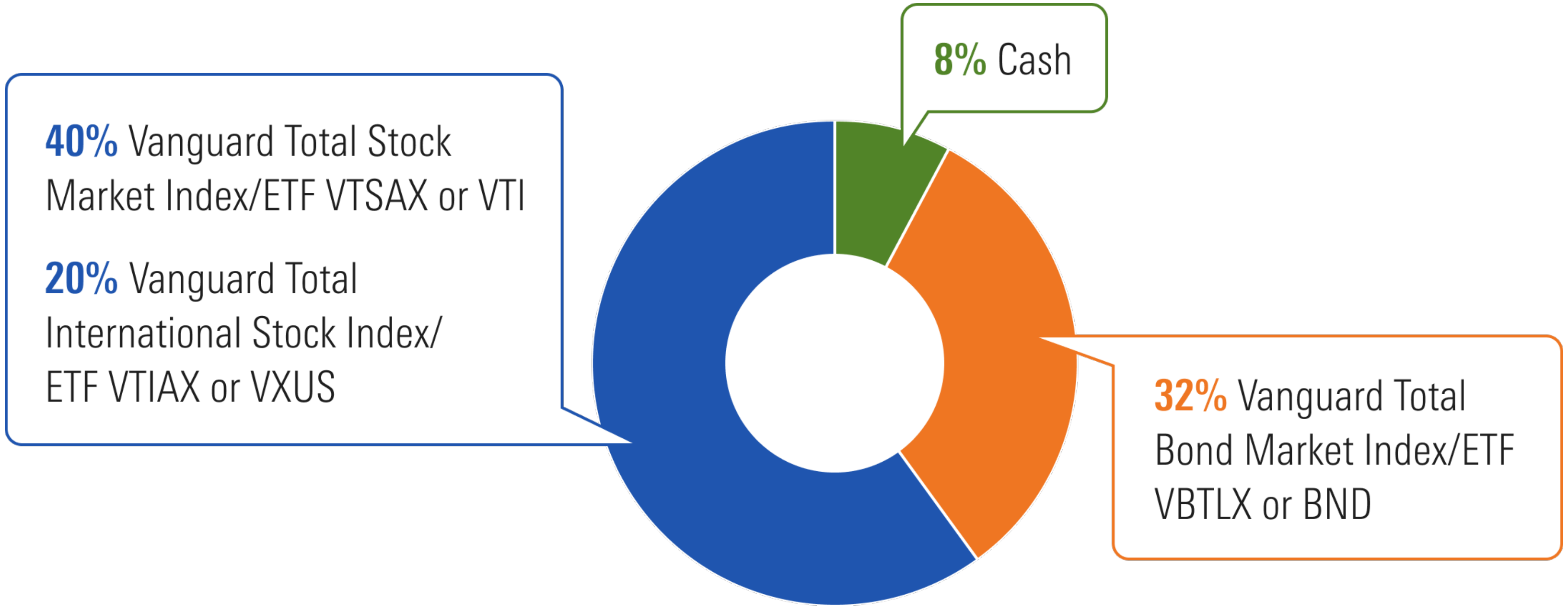
- Active funds can also provide a lot of diversification but won't be as encompassing and require some oversight

Consider Multi-Asset Funds for Smaller Accounts

One-stop allocation funds include:

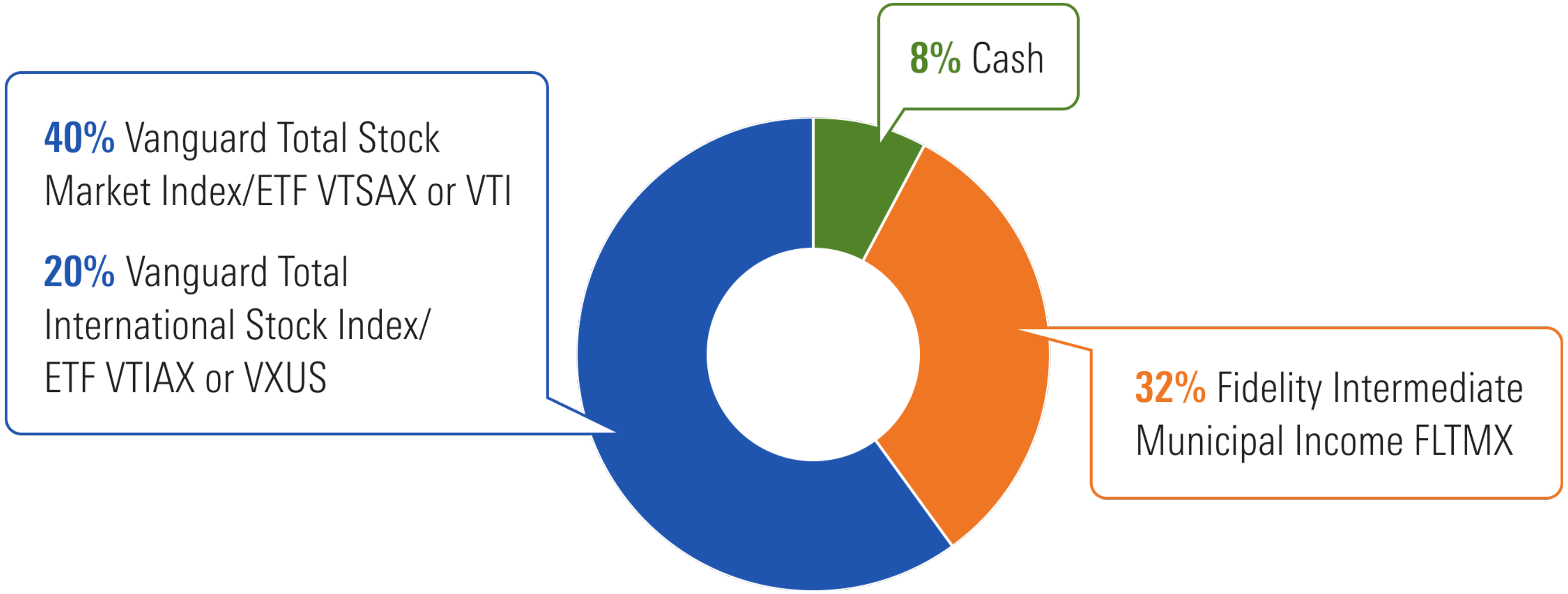
- Balanced funds
- Static-allocation funds
- Target-date funds

Sample Minimalist In-Retirement Portfolio: Tax-Sheltered



Target Stock/Bond/Cash Mix	**60/32/8**
Risk Tolerance/Capacity	**High**
Spending Rate	**4%**

Sample Minimalist In-Retirement Portfolio: Taxable



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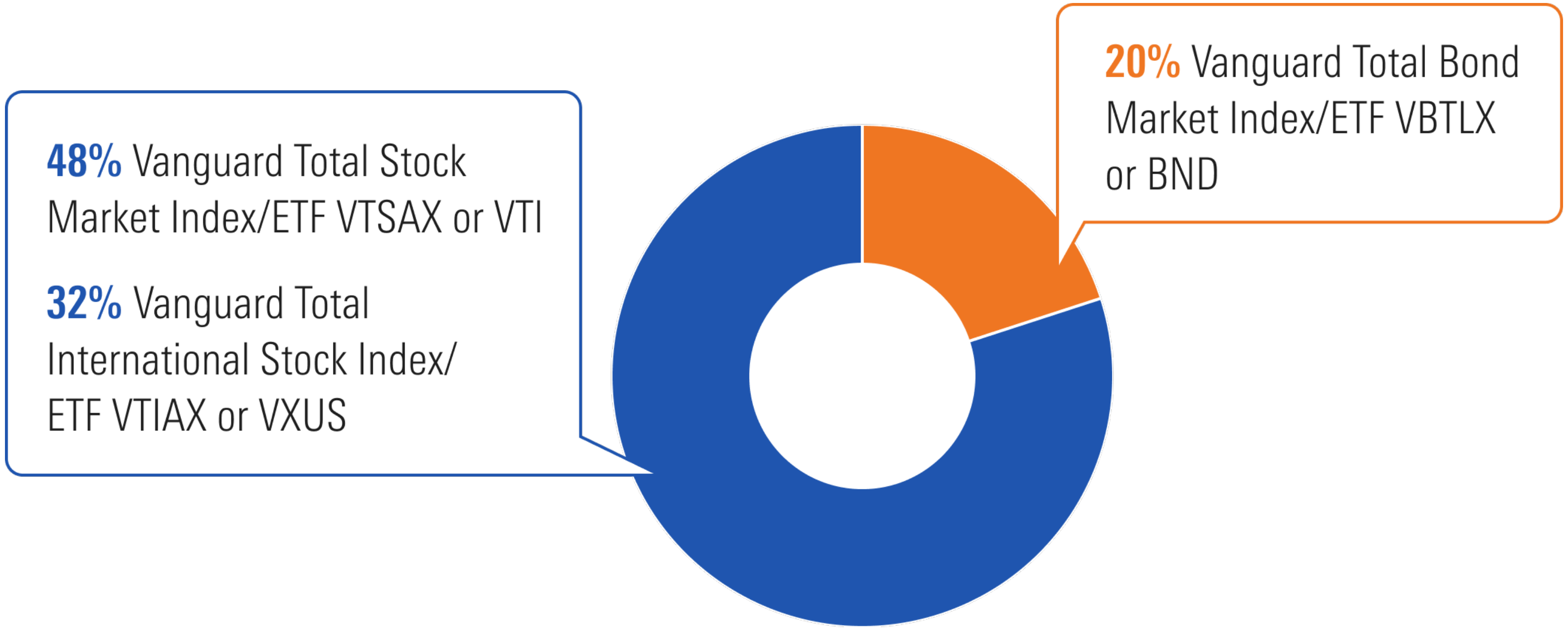
Sample Minimalist Accumulator Portfolio: Tax-Sheltered



Target Stock/Bond/Cash Mix	**80/20**
Risk Tolerance/Capacity	**Moderate**
Anticipated Time Horizon to Retirement	**20–25 years**

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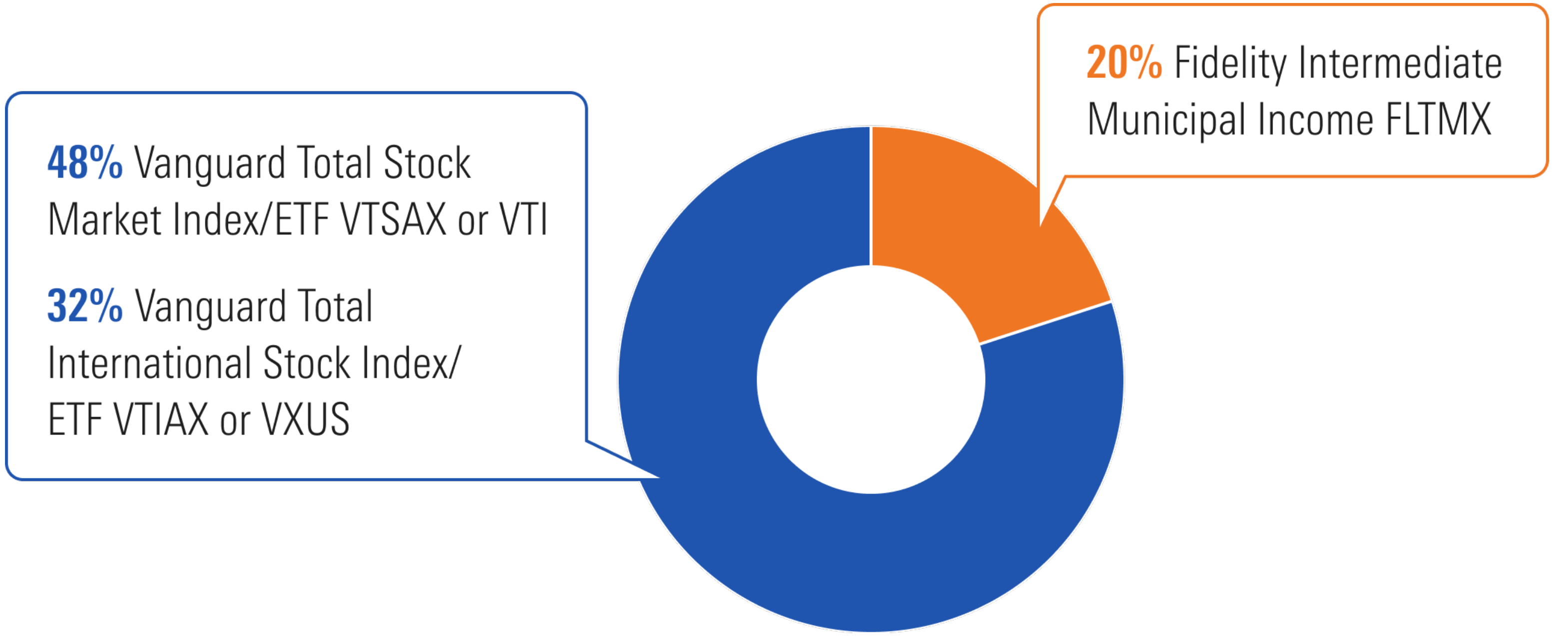

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Step 3: Cut ‘Faux’ Portfolio Diversification and Other Clutter

	1	2	3	4	5	6	7	8	9	10	11	12	13
1 Morningstar US Market	1.00												
2 Bloomberg Commodity	0.46	1.00											
3 LBMA Gold Price PM	0.07	0.38	1.00										
4 MarketVector Bitcoin PR	—	—	—	1.00									
5 Morningstar DM xUS GR	0.89	0.57	0.19	—	1.00								
6 Morningstar EM GR	0.75	0.59	0.30	—	0.87	1.00							
7 Morningstar Global Core Bond GR	0.35	0.26	0.50	—	0.48	0.46	1.00						
8 Morningstar US 10+ Yr Treasury	-0.11	-0.24	0.24	—	-0.11	-0.07	0.59	1.00					
9 Morningstar US Cash T-bill	-0.04	-0.01	0.11	—	0.02	0.04	0.09	0.04	1.00				
10 Morningstar US Core Bond	0.21	-0.01	0.34	—	0.25	0.25	0.81	0.84	0.08	1.00			
11 Morningstar US High-Yield Bond	0.76	0.48	0.16	—	0.78	0.73	0.43	-0.04	-0.06	0.35	1.00		
12 Morningstar US REIT	0.76	0.32	0.13	—	0.69	0.60	0.42	0.13	-0.03	0.36	0.71	1.00	
13 Morningstar US Small	0.94	0.43	0.04	—	0.83	0.71	0.28	-0.17	-0.06	0.14	0.75	0.76	1.00

- 0.76 to 1.00
- 0.51 to 0.75
- 0.26 to 0.50
- 0.01 to 0.25
- 0.00 to –0.24
- –0.25 to –0.49
- –0.50 to –0.74
- –0.75 to –1.00

Source: Morningstar Direct. Data as of Dec. 31, 2023

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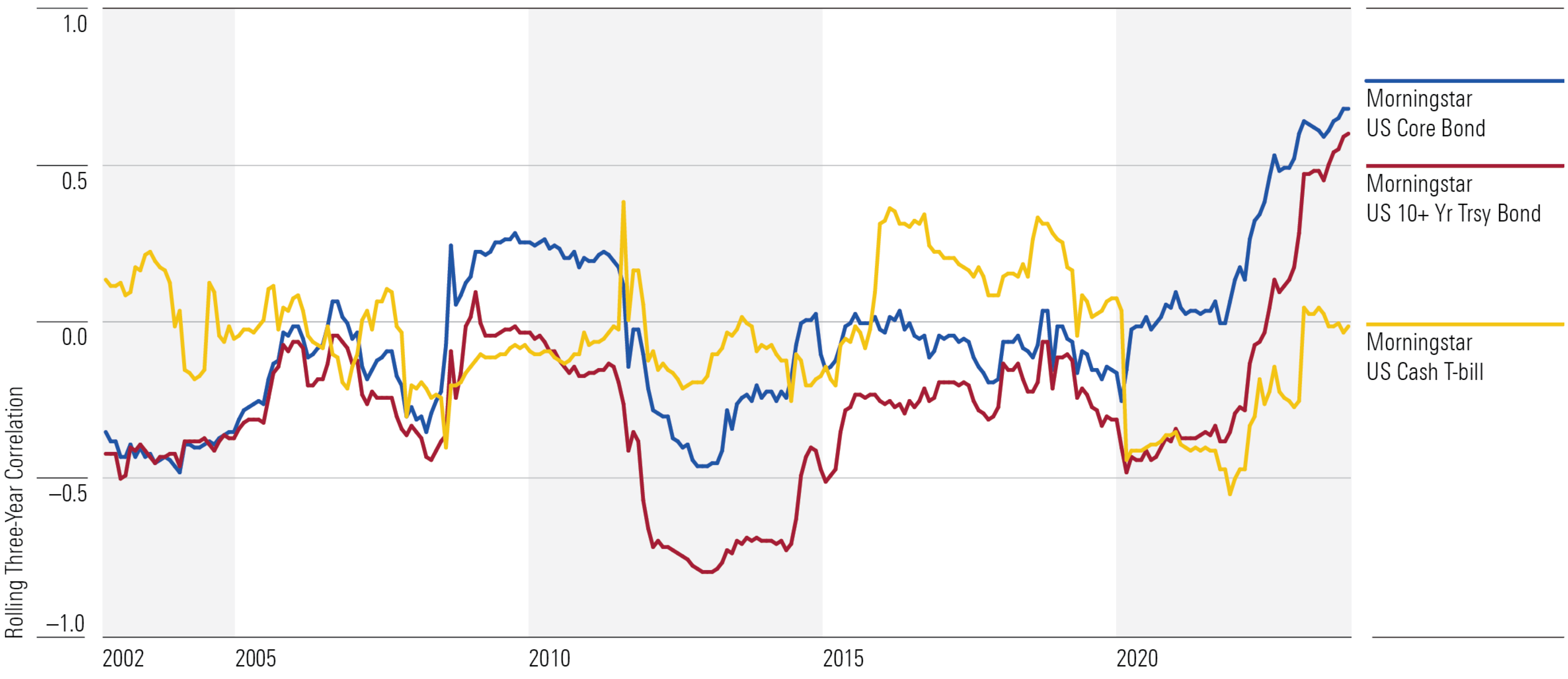
Cash and High-Quality Bonds Have Diversified US Stocks the Best



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To Streamline Holdings, Consider Cutting

- Dedicated sector funds, including real estate
- Region-specific funds
- Single-style funds that duplicate exposure in diversified funds
- Individual stock portfolios that duplicate existing mutual funds
- Commodities and gold (have offered some diversification benefit but not as much as cash and Treasury bonds)

Step 4: Bear Taxes in Mind if Making Changes

- Focus changes on tax-sheltered accounts: IRAs, 401(k)s, etc.
  No taxes due as long as the money stays inside the account
- If making changes to taxable account, watch out for capital gains taxes

10-year return, average large blend fund	**11.03%**
10-year return, average large growth fund	**12.56%**

- Check your cost basis and/or check with a tax advisor before selling
- If holdings in taxable accounts have losses, cut away!
- Focus on making taxable accounts more efficient by including total-market index funds for stock exposure

You May Be Able to Tie in Charitable Gifts

One tax-efficient idea for lightening up on holdings you no longer want is to give them to charity

- Removes your tax liability
- Charity pays no taxes on the appreciation
- May be able to deduct contribution (assuming itemized deductions are over standard deduction)

Step 5: Document and Stick With a Once-Annual Portfolio Review

Investment Policy Statement

NAME

DATE

INVESTMENT GOAL DETAILS

Goal

Goal Date

Goal Duration (number of years)

Amount Needed

INVESTMENT STRATEGY IN BRIEF

CURRENT INVESTMENTS

Include amounts for all accounts earmarked for goal

Employer-sponsored retirement plans (401(k), 403(b), 457 Plan)	$
IRAs	$
Self-employed retirement savings vehicles (SEP or SIMPLE IRA, Solo 401(k))	$
Taxable Accounts	$

Use an IPS to Stay on Track

- An investment policy statement is a great way to ensure that your portfolio is a portfolio, not an "investment collection"
- Your IPS should document:
  - Your goals and time horizon
  - Your target asset allocation
  - Your parameters for buying and selling holdings
  - Your parameters for monitoring:
    - When you'll sell a holding
    - How frequently you'll rebalance

Questions/comments

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The Long View | **weekly podcast** with co-host Jeff Ptak

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