Spring Cleaning Your Investments

Everyone needs to clean-up their financial clutter at least once a year

Spring is traditionally the time to clean the garage and to get the yard in shape. It's also a great time to clean up your investment portfolio. Going into the final days of tax season, this is a perfect opportunity to get rid of clutter, review your asset allocations and make the necessary changes if your portfolio has strayed from your financial plan.

Here are seven steps to making your portfolio cleaner and more efficient.

Think of your investments as a portfolio. This is the first key step. Many investors focus on each individual holding and fail to look at the sum of the parts. Of course, it is important to invest in quality mutual funds, exchange-traded funds, stocks and bonds. But it's smarter to start by determining whether your overall portfolio allocation is in line with your financial goals and risk tolerance.

Ideally, this should all be an extension of your financial plan. Even younger investors starting out should think in terms of their overall portfolio, even if it contains only a few holdings at this point.

Find your most recent statements and organize your records. Review all monthly, quarterly and yearly documents from your investment accounts. Keep them all in a paper file or on your computer and find a way to take a consolidated, overall view of your holdings as a portfolio. Categorize your portfolio by account and by asset class on a spreadsheet. This shows you how well-diversified you are across different asset classes.

Your spreadsheet might reveal an ungainly number of individual holdings across different accounts. That's called financial clutter. This is common among folks who have a number of old 401(k)s from former employers. This makes your portfolio hard to track and monitor efficiently.

Consolidate your accounts. Decrease your financial clutter and consolidate your accounts as much as possible. Unless there is a compelling reason to leave an old 401(k) with a former employer, monitoring your portfolio is much easier if you roll the account into a consolidated individual retirement account or even your current employer's 401(k) if allowed. Also, consolidate other accounts such as IRAs, taxable accounts or annuities from various companies.

Review your financial plan. Do this before reviewing your individual investments so your current allocation doesn't distort your judgment. It is very important that you have a financial plan in place before you decide on an asset allocation strategy. The financial plan should drive your investing activities, allocation and choice of investments. A well-constructed plan helps you focus on your risk-tolerance and your goals for the money you save and invest.

Review your current investment holdings. Did your stocks hit their sell targets? How do your mutual funds compare to their peers? Establish a monitoring process for your individual holdings, and review them against appropriate benchmarks on a regular basis. If needed, make changes as you see fit. It's best to do this with the help of an advisor, but start by checking Morningstar.com to analyze investment holdings and compare mutual funds.

Rebalance your portfolio. After you review your allocation across all of your various accounts, you can buy or sell holdings or add new investment dollars to get back in line as soon as possible to ensure that it is consistent with the risk and return targets in your financial plan.

Establish a regular process to review and monitor your portfolio. Getting your portfolio in shape just once does no good if you don't establish a process for reviewing your portfolio and your holdings on a regular basis. This doesn't mean looking at your investments daily or even weekly. Doing so can only make you antsy about your investments, which often leads to bad decision-making.

Monitoring and rebalancing your portfolio quarterly or semi-annually is sufficient for most investors. Revisit your portfolio allocation and tweak your financial plan annually to ensure that everything is in synch.

Finally, make sure you have a financial advisor at least reviewing your assumptions and decisions. Doing so can provide you peace of mind – so you can sleep better at night.