



# The Importance of a Mid-Year Financial Review

*It is not just a routine task, but a strategic necessity to align with your goals*

As we reach the halfway mark of the year, it's a prime opportunity to assess your financial planning goals and review your investment portfolio. This mid-year check-in is essential for ensuring that you stay on track to meet your financial objectives.

The economic landscape can shift significantly within a few months, affecting various asset classes differently. Therefore, reassessing your portfolio allows you to make necessary adjustments in response to market dynamics, such as recent all-time highs.

## **Diversification: Spreading Risk**

One of the fundamental principles of sound investment strategy is diversification. Diversification involves spreading investments across different asset classes to mitigate risk. By the middle of the year, you can analyze how diversified your portfolio is and whether it aligns with your risk tolerance and financial goals.

For instance, if a particular sector or asset class, such as technology stocks, has significantly outperformed, it might now constitute a larger percentage of your portfolio than originally intended. While it's exciting to see high returns, this can lead to an over-concentration risk. Conversely, underperforming sectors may need to be evaluated for their future potential or replaced with better-performing alternatives.

A mid-year review helps in rebalancing your portfolio, ensuring that you maintain an appropriate mix of stocks, bonds, real estate, and other investments. This rebalancing act is crucial for managing risk and can enhance the potential for long-term returns.

## **Asset Allocation: Aligning with Goals**

Asset allocation refers to the distribution of investments among various asset categories. The optimal allocation depends on factors like age, risk tolerance, and investment horizon. By mid-year, it's beneficial to revisit your asset allocation to confirm it still aligns with your financial goals and life circumstances.

For example, if you're approaching retirement, you might want to shift a portion of your portfolio from high-risk equities to more stable, income-generating bonds. Alternatively, if you've recently received a bonus or inheritance, you might have additional funds to invest, prompting a reassessment of your allocation strategy.

Moreover, market conditions in the first half of the year can impact the performance of different asset classes. If equities have soared to all-time highs, it might be a prudent time to take some profits and reallocate to undervalued assets or safe-haven investments like gold or Treasury bonds.

## Evaluating Performance: Winners & Losers

Reviewing the performance of your investments is a critical component of a mid-year financial check-in. Identifying investments that have performed exceptionally well or poorly can provide insights into market trends and help guide future decisions.

### High Performers

Investments that have yielded high returns warrant a closer look. While it's tempting to continue riding the wave of success, it's essential to assess whether these gains are sustainable. High-performing assets may have reached or exceeded their intrinsic value, increasing the risk of a correction. In such cases, you might consider trimming these positions to lock in gains and reduce exposure to potential volatility.

### Underperformers

On the flip side, underperforming investments require scrutiny to understand the underlying reasons. If a particular stock or fund has consistently lagged, it might be due to temporary setbacks, poor management, or broader industry challenges. Distinguishing between short-term fluctuations and long-term declines is crucial. For temporary underperformance, holding or even buying more could be advantageous if you believe in the asset's recovery potential. However, persistent poor performance may signal the need to divest and redirect funds to more promising opportunities.

## Market Context and Strategic Adjustments

Recent market highs present both opportunities and risks. On one hand, rising markets can boost your portfolio value, but on the other, they can also signal inflated asset prices and increased volatility. By conducting a mid-year review, you can strategically navigate these conditions.

For instance, during market highs, it might be wise to adopt a more defensive investment approach. This could involve increasing allocations to bonds, dividend-paying stocks, or other low-risk assets. Additionally, reviewing and updating your financial goals can ensure they remain relevant amid changing market dynamics and personal circumstances.

## A Planning Necessity

A mid-year financial review is not just a routine task but a strategic necessity. By focusing on diversification, asset allocation, and investment performance, you can make informed adjustments that align with your financial goals.

Regularly revisiting your financial plan and portfolio helps you stay proactive in managing risks and seizing opportunities, ensuring your financial health remains robust in the face of market fluctuations.