

April is Financial Literacy Month: Portfolio Cleaning

by vcmorris - Thursday, March 31, 2011

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April is the month recognized in the United States as National Financial Literacy Month. It's the time when a concentrated effort is made to highlight the importance of teaching Americans how to establish and maintain healthy financial habits. <http://www.financialliteracymonth.com/>

Have you taken a look at your financial picture lately? If not, now's the time to see what your portfolio's doing for you. It can sound so mysterious and daunting: *reassess your portfolio*.

So let's break it down.

First of all – what's really in that word “portfolio”? If you own more than one security or financial instrument – meaning things like stocks and bonds – you have a portfolio. You build it by buying more securities and other financial investments like mutual funds.

To ease any discomfort you might have about realigning/reassessing these financial holdings, let me offer this simple, straightforward goal: When you look at reassessing your portfolio investments, just look for ways to increase your comfort level. Yes, comfort level. That's it. That's the goal.

My financial planner, Gary Ambrose of New York-based Personal Capital Management, gave me the following suggestions on how to do that. They'll work as a starting point for you, too.

- Develop a stock investment philosophy. Approach investing with a formal plan so you can make informed decisions confidently.
- Remind yourself why you're investing in stocks. Write down the reasons; indicate the long-term returns and the short term losses you expect. It'll help keep you focused on the long term.
- Monitor stock investments so you understand the fundamentals of those stocks. You're more likely to hold the stock during market volatility if you believe in the company for good reasons.
- Review your current asset allocation. Re-evaluate your strategy; compare your current allocation to your desired allocation.
- Determine the level of risk your stocks have compared to the overall market. If your stocks have a higher degree of risk than you realized, take steps to reduce risk by reallocating.
- Invest new funds in less volatile stocks.
- Remember the tax aspects of selling stocks. You may be tempted to lock in some of your profits, just remember you may have to pay taxes on your gains if the stocks aren't in tax-advantaged accounts.
- Consider selling stocks if you have short-term cash needs. Look for an appropriate time to sell if you're counting on your stock investments for short-term cash needs.

Here's to your health and wealth.

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