What is portfolio management and why is it important?

Submitted by Chris on Wed, 12/05/2018 - 15:00

What is Portfolio Management?

There is an incredible range of investment opportunities available to investors today. It seems you cannot watch TV or browse the internet for even five minutes without seeing an advertisement for the latest brokerage firm offering trades for under ten dollars and the tools and information you need to make money. They make it seem so easy. Anybody can do it, right?

Not anyone can do it nor should they

The truth is that portfolio management is complex and takes time and education to do properly. A multitude of questions first need to be answered before even attempting to decide which investments to choose for your portfolio. Among those things to consider are:

·Investment goals such as retirement or income

·Level of acceptable risk

·Amount you have to invest

·Period of investment

And once all those questions are answered, then comes the hard part: Which types of investments do you choose? Asset classes include:

·Real estate

·Stock equities

·Bonds

You can quickly get lost in a sea of opportunity and become confused as to which direction to take to meet your specific goals and objectives.

Portfolio Management

While some people take the time to educate themselves and over time gain the experience necessary to manage their own portfolios, many investors turn to professional portfolio managers for help with their investments. A professional portfolio manager can help you determine both your short -and long-term goals, assess the level of risk you are willing to accept, and help you choose the right investment vehicles based on your specific goals, objectives and risk tolerance.

The three key elements a professional can help you with are asset allocation, diversification, and rebalancing.

Asset allocation

A portfolio manager can help you decide which asset classes to invest in and how much to invest in each class. All asset classes do not move in tandem with each other and some are more volatile than others. Depending on your tolerance for risk, your investments may be weighted more heavily toward one class or another.

Diversification

Diversification means spreading out your investments within each asset class you choose. It is difficult to consistently predict individual winners and losers within an asset class, even for professionals. Diversification spreads the risk and reward out among subsectors of an asset class creating broader exposure and hopefully capturing the success of the entire asset class over time.

Rebalancing

Throughout the year a portfolio manager will move investments around to capitalize on opportunities such as extended stock market rallies or rising bond yields. This may cause an investor?s portfolio allocation to move away from their original allocation.

Rebalancing occurs when your portfolio manager sells certain assets and purchases others to realign your portfolio with your overall tolerance for risk and investment goals.

This brief article merely touches on the complexity of portfolio management. In reality, professionals take years honing their education and skills to be able to effectively manage the wealth of their clients. While it is not impossible to manage your own portfolio, the rewards are often worth the costs of having your portfolio managed professionally.

Westport Capital Markets, LLC :: 257 Riverside Avenue **?** Westport, CT 06880 **?** Phone: 203.222.8933 **?** Fax: 203.222.8898

Source URL: https://www.westportcapitalmarkets.com/blog/what-portfolio-management-and-why-it-important