Prudential Investment Managers
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Rebalancing your investments after a baby

So you've just had a baby…. and in the exact moment that you first looked into your child's eyes, you realised – to a mix of joy and trepidation – that your entire life has changed. From your weekend plans to the allocation of rooms in your home, you're now going to have to relook and reconsider pretty much everything. But should you rebalance your investment portfolio too?

The answer is... probably yes

As your priorities change, your short-, medium- and long-term goals are likely to change as well, and it's important for your investments to reflect this. Another way of looking at it is that your and your partner's investment goals (like buying a house or saving towards retirement) are now very much linked to your child's investment goals (like investing towards their education).

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On the one hand, if you have enough cash to pay for all the additional expenses that come with having a new baby, while still being able to invest for their future, then rebalancing your own investment portfolio may not be necessary. However, this isn't the case for many first-time parents, with the inevitable rise in short-term household expenses (nappies, toys, medical costs, etc.) behaving more like a “sponge” that absorbs any and all free cash – leaving very little left to invest towards your family’s new medium- and longer-term goals. In instances like these, rebalancing your investments as a means to save towards future expenses becomes a very sensible option.

And while it’s important to ensure your little one has everything they need to thrive as they grow, when it comes to your finances it’s equally key not to go overboard and spend far beyond your means on unnecessary and expensive items. Remember that everything you spend now detracts from what you could be investing to spend later on their education or other unknowable necessities down the road.

What does rebalancing entail?

Rebalancing is simply a case of allocating the correct level of exposure (or weight in a portfolio) to different asset classes, while ensuring that your asset allocation moves in line with your new objectives. A good starting point is to look at the aspects of your portfolio that are no longer aligned with your objectives or risk profile. So if you had been investing towards an expensive holiday in two years’ time, you may decide you need to rather put this money towards your new child’s early education expenses which start in four or five years’ time. This could mean you need to adjust your underlying investments away from shorter-term cash to a medium-term investment solution like a diversified “balanced” fund which offers more growth potential.

For many investors, rebalancing can be as much about controlling risk as it is about increasing potential returns. So, for example, if you require greater capital stability in the short term (to pay for those baby and toddler expenses), you may need to reduce the amount of risk in your portfolio by lowering your exposure to longer-term growth assets – like equities and listed property - which carry more short-term volatility.

It’s important to remember that a well-balanced investment should be diversified across a range of different asset classes. At Prudential, we have a range of investment options to match different risk profiles and investment objects. Try out our Fund Selector Tool to find out which option best meets your needs. And even if you haven't had a baby recently, it's still a good idea to check on your investments on a regular basis to see if your asset allocation is still aligned with your investment goals. Since portfolio weights tend to move in line with market performance, some periodic rebalancing is generally necessarily.

To find out more, contact your Financial Adviser or our client services team on **0860 105 775** or email us at query@prudential.co.za.

https://www.prudential.co.za/insights/articlesreleases/rebalancing-your-investments-after-a-baby/