Rebalancing Your Portfolio for the New Year? Consider These 2 Principles

Description

With 2018 now upon us, many investors will notice significant changes in the portfolio weighting of various sectors since the beginning of 2017. As sectors will always vary in terms of growth or contraction in any given year, the need for investors to rebalance portfolios to achieve an optimal risk balance is important. By either selling "winners" or buying "losers," gravitating toward some strategic long-term portfolio weighting is both prudent and necessary to ensure a good night's sleep throughout this year.

I'm going to discuss two investing principles every investor should consider when undertaking a rebalancing this year.

Fundamentals over hype

Any investment objective which seeks to ignore fundamental security analysis in favour of hype is one which should be ignored completely — in 2018 and in any year in the future. With hype in key sectors, such as cannabis and cryptocurrencies, in overdrive following an impressive 2017, the temptation to get sucked into these sectors in 2018 can be hard to ignore; that said, doing things the hard (correct) way is by far a better option for investors looking to be in the investing game in the long term.

Comparing companies' track records to competitors, historical averages, and idiosyncratic and market-based performance is perhaps old-fashioned, but tried and true. In general, equities tend to regress toward longer-term averages in the long run. For long-term investors, this fundamental tenant of finance needs to remain intact, and reinforced, in 2018.

Warren Buffett didn't get rich buying into the 1999 party — the tech bubble — and last time I checked, he isn't promoting any cannabis stocks or initial coin offerings. That said, he did invest in **Apple Inc.** (NASDAQ:AAPL) after a very reasonable length of time (decades), basing his investing decision on fundamental analysis of the company's cash flows over time.

Value over growth

Fundamental security analysis and value investing appears to be under attack in recent years. David

Einhorn, CEO of Greenlight Capital (a firm covered well in Michael Lewis's *The Big Short*), has warned of an alternative investing reality we now find ourselves in, recently stating:

> "What I was basically saying was: look, value investing over time has worked, we think this is the best and right way to invest, it's not going to be true every day, in every environment, but we are in an environment right now, where it doesn't seem to be working at all, and in fact the opposite seems to be working, because people are looking at things and saying, the ownership of a company is something other than the risk adjusted future profits of the company, maybe it's the social disruption, maybe it's the social desirability, maybe is the charismatic value of the CEO."

While reaching for companies such as **Canopy Growth Corp.** (TSX:WEED) or **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) may indeed provide momentum gains in 2018 greater than those of the broader index, having a solid selection of companies that did not fare as well in 2017 but are solid value plays based on a strong balance sheet and the potential for long-term outperformance should be the primary focus of long-term investors.

Stay Foolish, my friends.

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