

This Is a Good Time for Tax-Smart Investing and Staying Properly Balanced

By the time you're reading this, there will be only 29 trading days left in 2023.

Overall, it's been a great year for most stocks to date – especially the biggest ones. But it has also been undeniably volatile with stocks up early in the year, down in the spring, up sharply over the summer, and down again from July to October.

The S&P 500 Index is now up about 17% year-to-date, a pretty darn good year, when you consider stocks gain about 10% annually on average over the long run.

But that doesn't really tell you the whole story about stocks.

You see, the up-and-down swings this year have left some investors behind and others out of balance in their stock portfolios. And as noted above, you have very little time left to get your portfolio back into proper balance before the New Year.

Don't worry. Today I'll show you how to do it using proven *TradeSmith* tools. But first, to borrow from the late, great Paul Harvey, here's "the rest of the story" about stocks this year.

The 7 that Hold Up the Rest

As noted, the S&P 500 is up nicely this year with 17% gains (and still 29 trading days to go). But that performance isn't really representative of the "average" stock. It largely reflects the outsized gains of just seven stocks, the "Magnificent 7" that I've written about before.

APOLLO

So far in 2023 S&P7 is up more than 50%. S&P493 is basically flat.



Source: Bloomberg, Apollo Chief Economist

Remember, stocks in the S&P 500 Index are weighted by their market capitalization. So, larger companies have a higher weighting and, therefore, a greater influence on the index's performance.

If you look at the **S&P 500 Equal Weight Index ETF (RSP)** instead, it's a whole different story. RSP treats every stock in the S&P 500 equally, vastly reducing the impact of the Magnificent 7. And RSP is up just 3.2% year-to-date.

Worse yet, looking at the full list of S&P 500 stocks, nearly half of them are negative year-to-date, while 164 S&P 500 stocks are down 10% or more. I know I have a few of them in my portfolio, and I bet you do too.

But there is a simple way to deal with that using the *TradeSmith* Risk Rebalancer tool.

And as a bonus you may just find a way to save some money on your 2023 tax bill using a time-honored, tax-smart strategy of harvesting a few losses over the next 29 days. Here's how to go about it.

Making Decisions without Emotion

Our tools and algorithms crunch all the cold, hard data on every stock in our database. Sales, profits, a stock's trend, volatility, and more to give you our rational, unemotional guidance on what to do with every stock in your portfolio: Buy, sell, or hold.

And our algorithms go one big step further by suggesting how much of each stock you should hold so you're not risking too much of your hard-earned money on any one of them.

When it comes to managing a stock portfolio, we believe in equal risk parity. This simply means taking the same amount of *risk* in each stock position. What it does *not* mean is taking the same position *size* in each stock.

The reality is that every stock has its own "personality" and different volatility.

Our Risk Rebalancer tool takes a portfolio of stocks and equally balances the investments according to our proprietary risk measures. And that's the proper way to build a portfolio.

We use our proprietary Volatility Quotient (VQ) to allocate more money to your lower-risk stock positions and less money to your riskier positions.

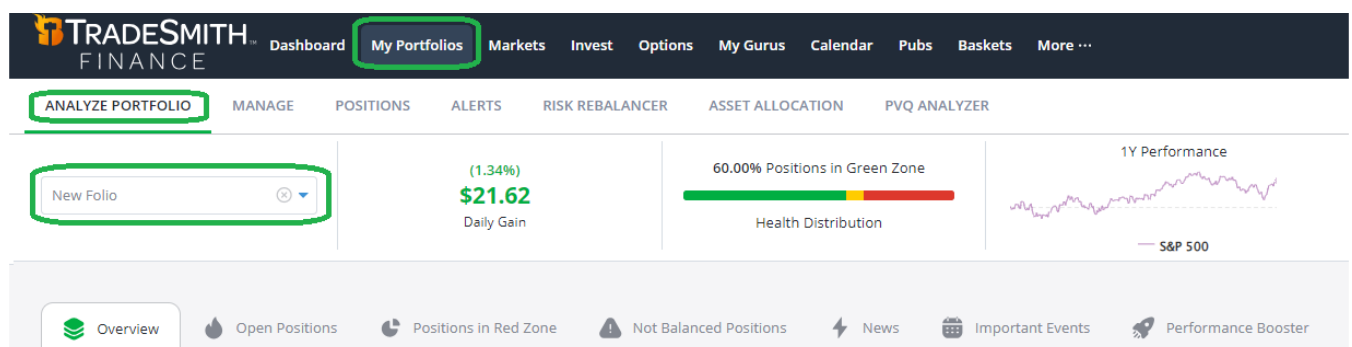
You can think of the Risk Rebalancer as a fancy calculator that helps ensure you are *risking* the same percentage of your total portfolio value per trade, based on each stock's unique VQ. It analyzes your current stock portfolio and provides you with an optimal position size for each stock, right down to the exact number of shares of each stock to add or subtract so you stay in balance. That's equal-risk position sizing.

(Note, Risk Rebalancer is available to *TradeStops* Premium, Pro, and Lifetime members, as well as *Trade360*, *TradeSmith Essentials*, and *TradeSmith* Platinum members. And as a reminder, mine is a Platinum account, so you may see features here that are not available to you.)

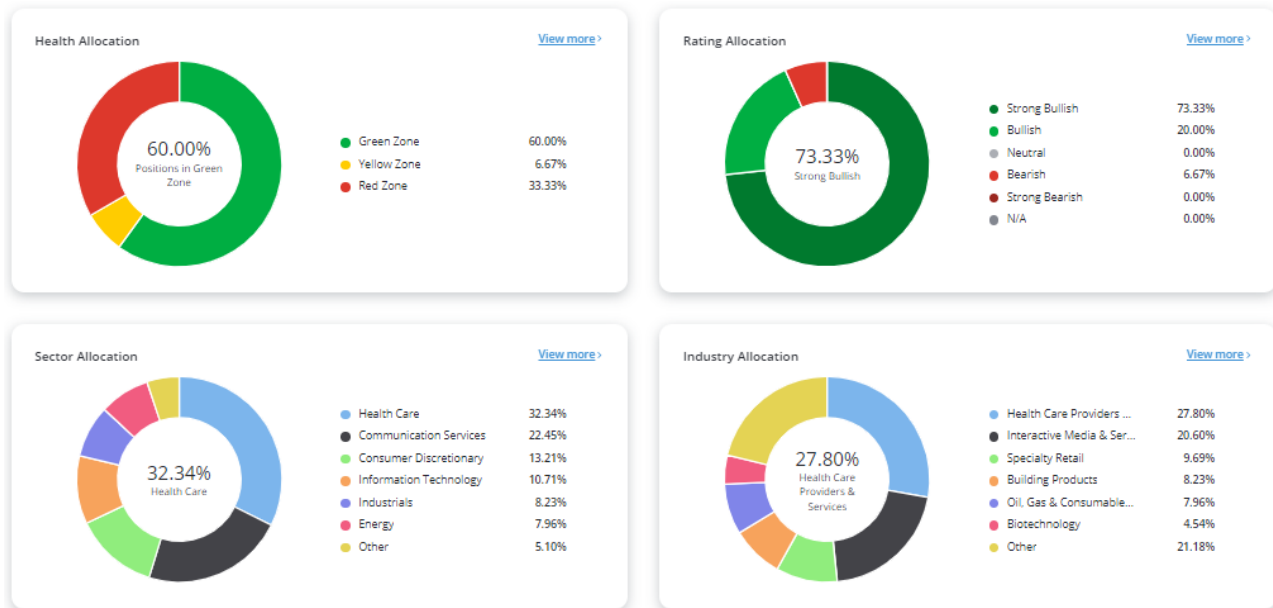
Check that Risk ...

To see if your portfolio is properly in balance using our platform, simply click on the **My Portfolios** tab from the main menu, which brings you to the **Analyze Portfolio** option. Now run your portfolio through the analyzer by selecting it from the drop-down menu.

This takes you to the **Overview** tab. Here's what it should look like on your screen.

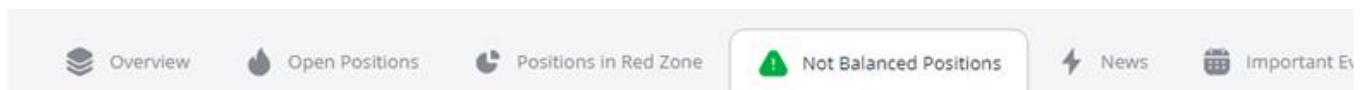


Scroll down and you can see your current portfolio allocation broken down by Health Grade, Stock Rating, plus Sector and Industry allocations.

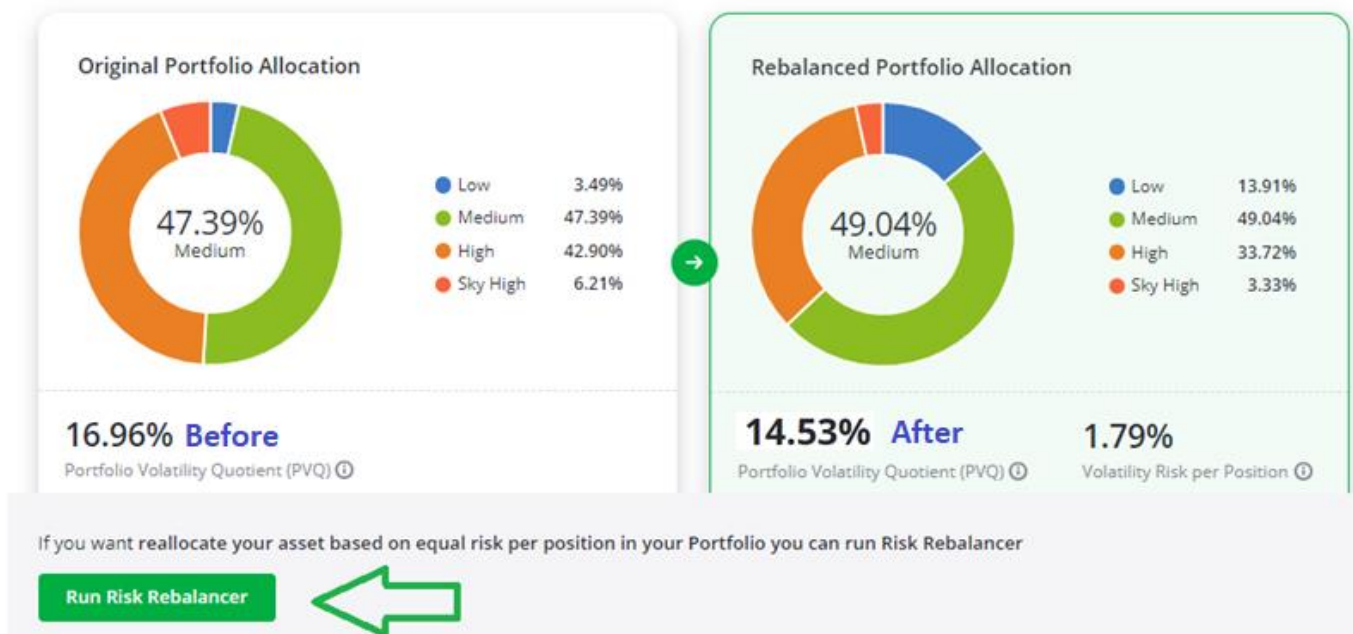


The **Overview** tab also shows how well your portfolio has performed, and allows you to compare it to an index like the S&P 500. Next, the **Open Positions** tab displays a list of all your stocks with key metrics listed for each, including the Health Indicator and VQ.

Now, click on the fourth tab over, labeled **Not Balanced Positions**.



Here are a few summary results to get you started. You can see how rebalancing for volatility would impact the overall portfolio volatility(PVQ), how much risk you are taking per position, and what risk categories your individual investments fall into.



This screen shows whether your portfolio is properly balanced according to risk parity, and it shows how your current portfolio compares to our suggested rebalanced portfolio allocation.

In this case my portfolio (left) isn't far off from a rebalanced portfolio (right). What can I say? I'm a good stock picker.

But you can see that I have a lower allocation to low-risk stocks at just 3.5%, and higher allocation to high-risk and sky-high-risk stocks at more than 50%. What can I say? I'm also tempted to roll the dice at times.

Our algorithm suggests a more balanced approach for my portfolio by boosting my medium- and low-risk stock allocation.

I also have a few Red Zone stocks in my portfolio. These may be perfect candidates for year-end tax-loss harvesting. At tax time, these losses can help you offset capital gains on other positions in your portfolio.

... And Balance it Out

So, before running the **Risk Rebalancer**, click on **Show Advanced Options**, and check the box to **Reallocate Funds** from positions that are stopped out according to the Health Indicator, as shown below.

Choose a portfolio, and click the Rebalance button below to consider whether to reallocate your assets based on equal risk per position based on their Volatility Quotients. ⓘ

Select one or more of your portfolios: x New Folio	\$1,601.53 Total value ⓘ	\$1,601.53 Current Securities ⓘ	\$0.00 ☒ Include cash to be invested ⓘ	\$0.00 ☐ Include Dividends to be invested ⓘ
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 ☒ **Reallocate funds from positions that are Stopped Out according to the Health** ⓘ
This will likely result in more money being invested in your remaining positions.

Using this feature may require that you buy or sell additional shares to reach your established targets.
The TradeSmith Risk Rebalancer does not take into account the effects of commissions and potential tax consequences. This should be understood by the investor before making any changes.

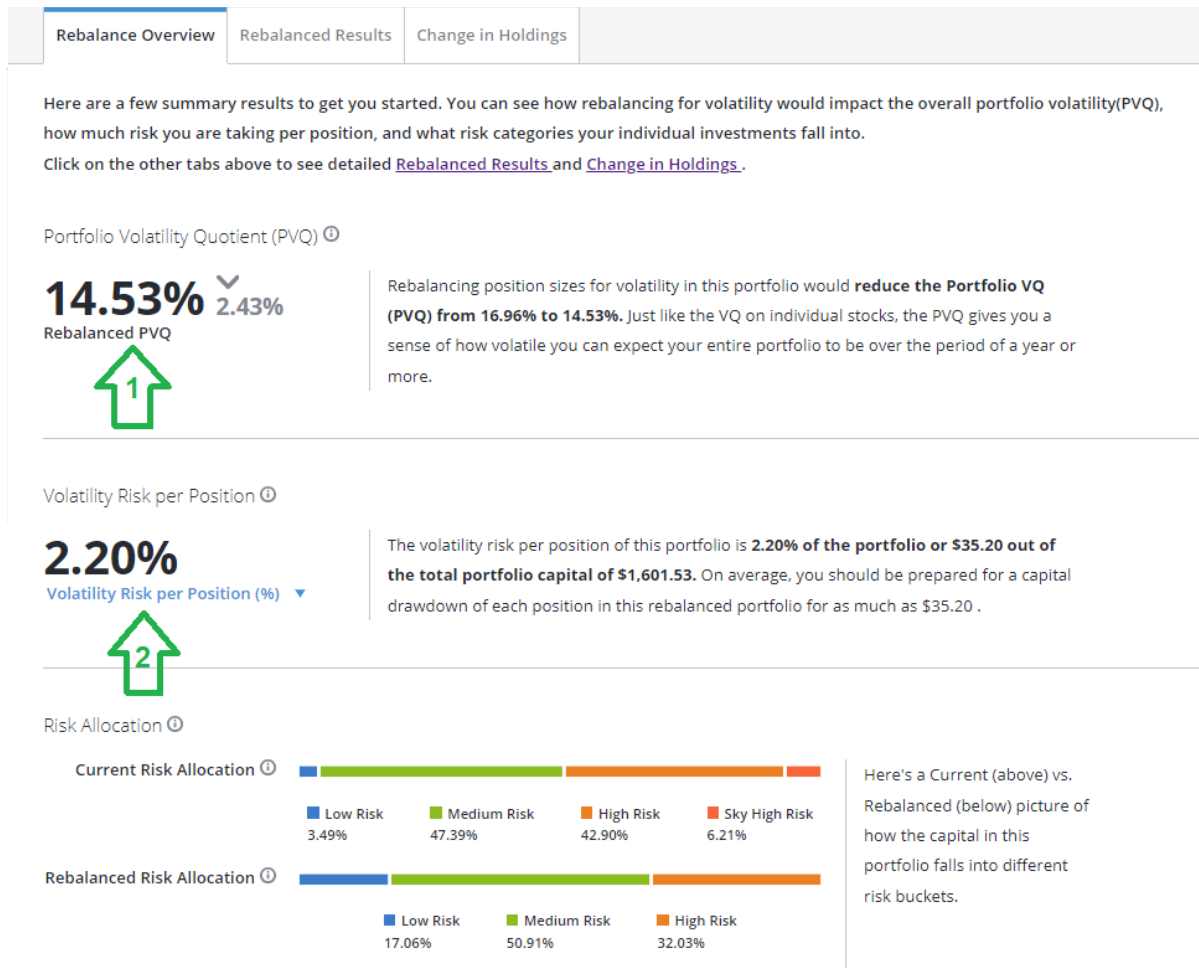
Rebalance [Hide advanced options](#)

This feature will automatically reallocate funds from positions that are stopped out according to our Health Indicator, and will result in more money being invested in your remaining stocks that are healthy.

Now, to see our suggestions on how to get back in balance, click on the Risk Rebalancer tab.

Again, you start by selecting your portfolio. I'm using a demo called New Folio. But you can pull up your own portfolio to follow along.

Next click the **Rebalance** button, which will take you to the **Rebalance Overview** shown below.



There are two key metrics here to focus on.

1. Portfolio Volatility Quotient (PVQ): Just as we can assess the overall VQ, or risk, of each stock, we can also assess your overall portfolio volatility quotient.

TradeSmith defines the risk of any security (or in this case, your entire portfolio) by the VQ. It represents the security's normal risk and is based on historical prices.

Volatility Quotient ranges:

- Up to 15% = Low Risk
- 15% to 30% = Medium Risk
- 30% to 50% = High Risk
- Above 50% = Sky-High Risk

There are additional things to consider when looking at the risk of a portfolio. We are not simply averaging out the VQ of each stock to obtain an overall PVQ.

The portfolio risk not only considers the VQ of the individual securities, but also considers the correlation between the securities that make up the portfolio. You will typically have a higher PVQ if the holdings are correlated, or move up and down together.

When you are diversified, you can potentially have high-risk securities and still have a lower overall PVQ. My portfolio's current PVQ is approximately 16.96%. After rebalancing, we reduced the portfolio volatility to approximately 14.53%. A PVQ of 15% or less is considered low risk.

2. Volatility Risk per Position: This can be expressed as a percentage of the entire portfolio or as a dollar amount.

The volatility risk per position for my rebalanced portfolio is 2.2% of the portfolio. In other words, I'm risking just 2.2% of the portfolio total value on each stock. Risking 1% to 2% per stock position is typically considered to be conservative.

Rebalance Overview Rebalanced Results Change in Holdings													
The table below tells you everything you might want to know about the Current vs. Rebalanced state of this portfolio. You can also further adjust this portfolio by locking positions  , excluding positions  , and adding new positions.													
Actions 	Ticker	Health 	VQ%	Entry Date	Latest Close	Position Size, \$ 		Position Size, % 		Risk % per position 		Shares 	
						Current	Adjusted	Current	Adjusted	Current	Adjusted	Current	Adjusted
   	AA Alcoa-WI		48.03%	N/A	\$26.20	\$26.20	\$0.00	1.64%	0.00%	0.79%	0.00%	1.00 shares	0.00 shares
 	BLDR Builders Firstsource ...		35.49%	N/A	\$123.31	\$123.31	\$99.17	7.70%	6.19%	2.73%	2.20%	1.00 shares	0.80 shares
   	CSX Cisco Systems		17.75%	N/A	\$53.20	\$53.20	\$198.25	3.32%	12.38%	0.59%	2.20%	1.00 shares	3.73 shares
 	DELL Dell Tech-C		24.24%	N/A	\$67.95	\$67.95	\$145.21	4.24%	9.07%	1.03%	2.20%	1.00 shares	2.14 shares
 	FOXA Fox-A		24.66%	N/A	\$30.92	\$30.92	\$142.73	1.93%	8.91%	0.48%	2.20%	1.00 shares	4.62 shares
   	HRB H&R.Block		23.87%	N/A	\$42.39	\$42.39	\$0.00	2.65%	0.00%	0.63%	0.00%	1.00 shares	0.00 shares
   	KO Coca-Cola Co		12.88%	N/A	\$55.95	\$55.95	\$273.17	3.49%	17.06%	0.45%	2.20%	1.00 shares	4.88 shares
 	M Macy's		46.54%	N/A	\$10.95	\$10.95	\$0.00	0.68%	0.00%	0.32%	0.00%	1.00 shares	0.00 shares
 	MCK McKesson		18.11%	N/A	\$444.38	\$444.38	\$194.33	27.75%	12.13%	5.03%	2.20%	1.00 shares	0.44 shares
 	META Meta Platforms-A		32.93%	N/A	\$297.74	\$297.74	\$106.87	18.59%	6.67%	6.12%	2.20%	1.00 shares	0.36 shares
 	MRNA MODERNA		53.86%	N/A	\$99.44	\$99.44	\$0.00	6.21%	0.00%	3.34%	0.00%	1.00 shares	0.00 shares
 	MRO Marathon Oil		40.07%	N/A	\$27.39	\$27.39	\$87.83	1.71%	5.48%	0.69%	2.20%	1.00 shares	3.21 shares
 	TDG Teradata		30.19%	N/A	\$44.33	\$44.33	\$116.59	2.77%	7.28%	0.84%	2.20%	1.00 shares	2.63 shares
 	WSM Williams-Sonoma		34.31%	N/A	\$157.18	\$157.18	\$102.58	9.81%	6.41%	3.37%	2.20%	1.00 shares	0.65 shares
 	XOM Exxon Mobil		26.11%	N/A	\$120.20	\$120.20	\$134.80	7.51%	8.42%	1.96%	2.20%	1.00 shares	1.12 shares

Now click on the **Rebalanced Results** tab to see your new suggested portfolio allocation as shown above.

Take a close look at the **Position Size** columns. This shows the amount of money invested in each position, expressed as both a dollar amount and as a percentage of each position in the portfolio.

Figures in red indicate a decrease in position size, while green indicates an increase in the position size. The **Current** and **Adjusted** columns allow you to see a "before and after" comparison.

The **Risk % per position** tells you the amount of risk in each stock compared to the value of the overall portfolio. We are risking 2.2% of the entire trading capital per trade.

Finally, the **Shares** column provides your **Current** share size and how many shares you should have after rebalancing (**Adjusted** column).

Notice the rebalanced portfolio removes Red Zone positions, for instance **Alcoa (AA)** and **H&R Block (HRB)** as highlighted, plus the other Red Zone stocks **Macy's (M)** and **Moderna (MRNA)**(not highlighted). And the cash that's freed up is reallocated among your other positions according to each stock's own VQ.

Also, some positions are reduced in size, also shown in red. For example, our algorithm suggests trimming the high-risk position in **Meta Platforms (META)** from 6.12% down to 2.2%. Meanwhile, other stock holdings, like **Cisco Systems (CSCO)** and **Coca-Cola (KO)**, increase in size because they are lower-risk positions.

Mike Burnick's Bottom Line: End-of-year tax-loss harvesting can be a smart, money-saving strategy at this time of year. Let our Risk Rebalancer tool be your guide to cutting some poor performing – or high-risk – stocks from your portfolio. This tool also helps you avoid putting too much money into any single stock.

A good rule of thumb is to rebalance your portfolio at least once a year, or even quarterly if you are a more active investor. So, if you have not used Risk Rebalancer recently, you may want to do so now. Remember, you have 29 trading days – and counting – left in 2023.

Good investing,

Mike Burnick

Senior Analyst, *TradeSmith*