



PORTFOLIO CONSTRUCTION

Portfolio Rebalancing: Common Misconceptions

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Decisions relating to portfolio rebalancing, while often considered secondary to deciding on the allocations themselves, can be considered an active investment strategy and have important implications for expected (and realized) portfolio returns and risk.

In this article we address common misconceptions about the role and implications of rebalancing, particularly in the context of actively-managed portfolios. These include the so-called “rebalancing premium” and the impact of rebalancing on the expected performance of risk-targeted and levered portfolios. A [companion article](#) (Ilmanen and Maloney (2015)) examines the rebalancing of strategic asset portfolios.

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