



Investment Solutions, Inc.

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Rebalancing Your Portfolio

Everyone loves a winner. If an investment is successful, most people naturally want to stick with it. But is that the best approach?

It may sound counterintuitive, but it may be possible to have too much of a good thing. Over time, the performance of different investments can shift a portfolio's intent—and its risk profile. It's a phenomenon sometimes referred to as "risk creep," and it happens when a portfolio has its risk profile shift over time.

When deciding how to allocate investments, many start by taking into account their time horizon, risk tolerance, and specific goals. Next, individual investments are selected that pursue the overall objective. If all the investments selected had the same return, that balance—that allocation—would remain steady for a period of time. But if the investments have varying returns over time, the portfolio may bear little resemblance to its original allocation.

How Rebalancing Works

Rebalancing is the process of restoring a portfolio to its original risk profile.¹

There are two ways to rebalance a portfolio.

The first is to use new money. When adding money to a portfolio, allocate these new funds to those assets or asset classes that have fallen. For example, if bonds have fallen from 40% of a portfolio to 30%, consider purchasing enough bonds to return them to their original 40% allocation. Asset allocation and diversification are investment principles designed to manage risk. However, they do not guarantee against a loss.

The second way of rebalancing is to sell enough of the "winners" to buy more under-performing assets. Ironically, this type of rebalancing actually forces you to buy low and sell high.

Periodically rebalancing your portfolio to match your desired risk tolerance is a sound practice regardless of the market conditions. One approach is to set a specific time each year to schedule an appointment to review your portfolio and determine if adjustments are appropriate.

Shifting Allocation

Over time, market conditions can change the risk profile of an investment portfolio. For example, consider a hypothetical portfolio that was 50% invested in bonds, 10% in treasuries, and 40% in equity. Over the course of a few years, if the stock portion of the portfolio outperformed the other assets, the hypothetical portfolio may no longer reflect the initial allocation. An adjustment may be needed to reflect the original risk profile. Keep in mind that investing involves risks, and investment decisions should be based on your own goals, time horizon, and tolerance for risk. The return and principal value of investments will fluctuate as market conditions change. When sold, investments may be worth more or less than their original cost. This is a hypothetical example used for illustrative purposes only. It is not representative of any specific investment or combination of investments.

Citations:

1. FINRA.org, 2025

What Is a Roth 401(k)?

While many people are familiar with the benefits of traditional 401(k) plans, others are not as acquainted with Roth 401(k)s.

Since January 1, 2006, employers have been allowed to offer workers access to Roth 401(k) plans. As the name implies, Roth 401(k) plans combine features of 401(k) plans with those of a Roth IRA.^{1,2,3}

With a Roth 401(k), contributions are made with after-tax dollars—there is no tax deduction on the front end—but qualifying withdrawals are not subject to income taxes. Any capital appreciation in the Roth 401(k) also is not subject to income taxes.

What to Choose?

For some, the choice between a Roth 401(k) and a traditional 401(k) comes down to determining whether the upfront tax break on the traditional 401(k) is likely to outweigh the back-end benefit of tax-free withdrawals from the Roth 401(k).

Please remember, this article is for informational purposes only and is not a replacement for real-life advice, so make sure to consult your tax professional before adjusting your retirement strategy to include a Roth 401(k).

Often, this isn't an "all-or-nothing" decision. Many employers allow contributions to be divided between a traditional 401(k) plan and a Roth 401(k) plan—up to overall contribution limits.

Considerations

One subtle but key consideration is that Roth 401(k) plans aren't subject to income restrictions like Roth IRAs are. This can offer advantages to high-income individuals whose Roth IRA has been limited by these restrictions. (See accompanying table.)

	Traditional 401(k)	Roth 401(k)	Roth IRA
Contributions	Contributions are made with pretax dollars	Contributions are made with after-tax dollars	Contributions are made with after-tax dollars
Income Limits	No income limits to participate	No income limits to participate	For 2026, contribution limit is phased out between \$242,000 and \$252,000 (married, filing jointly), and between \$153,000 and \$168,000 (single filers)
Maximum Elective Contributions	Contributions are limited to \$24,500 in 2026* \$32,500 for those over age 50 \$35,750 for those between the ages of 60-63	Contributions are limited to \$24,500 in 2026* \$32,500 for those over age 50, \$35,750 for those between the ages of 60-63	Contributions are limited to \$7,500 for 2026 \$8,600 for those over age 50
Taxation of Withdrawals	Qualifying withdrawals of contributions and earnings are subject to income taxes	Qualifying withdrawals of contributions and earnings are not subject to income taxes	Qualifying withdrawals of contributions and earnings are not subject to income taxes
Required Distributions	In most cases, distributions must begin no later than age 73	In most cases, distributions must begin no later than age 73	There is no requirement to begin taking distributions while owner is alive

*This is an aggregate limit by individual rather than by plan. The total of an individual's aggregate contributions to his or her traditional and Roth 401(k) plans cannot exceed the deferral limit - \$24,500 in 2026 (\$32,500 for those over age 50 and \$35,750 for those between ages of 60 and 63).

Source: IRS.gov, 2026

Roth 401(k) plans are subject to the same annual contribution limits as regular 401(k) plans—\$24,500 for 2026; \$32,500 for those over age 50. These are cumulative limits that apply to all accounts with a single employer; for example, an individual couldn't save \$24,500 in a traditional 401(k) and another \$24,500 in a Roth 401(k).⁴

Another factor to consider is that employer matches are made with pretax dollars, just as they are with a traditional 401(k) plan. In a Roth 401(k), however, these matching funds accumulate in a separate account, which will be taxed as ordinary income at withdrawal.

Setting money aside for retirement can be part of a sound personal financial strategy. Deciding whether to use a traditional 401(k) or a Roth 401(k) often involves reviewing a wide range of factors. If you are uncertain about what is the best choice for your situation, you should consider working with a qualified tax or financial professional.

Citations:

1. To qualify for the tax-free and penalty-free withdrawal of earnings, Roth 401(k) distributions must meet a five-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawals also can be taken under certain other circumstances, such as a result of the

owner's death or disability. Employer matches are pretax and not distributed tax-free during retirement. Once you reach age 73, you must begin taking required minimum distributions.

2. In most circumstances, you must begin taking required minimum distributions from your 401(k) or other defined contribution plan in the year you turn 73. Withdrawals from your 401(k) or other defined contribution plans are taxed as ordinary income, and, if taken before age 59½, may be subject to a 10% federal income tax penalty.

3. Roth IRA contributions cannot be made by taxpayers with high incomes. In 2026, the income phaseout limit is \$168,000 for single filers, \$252,000 for married filing jointly. To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawals also can be taken under certain other circumstances, such as a result of the owner's death or disability. The original Roth IRA owner is not required to take minimum annual withdrawals.

4. IRS.gov, 2026

For Your Information

- We are open from 9:00 a.m. – 5:00 p.m. Monday through Thursday, and 9:00 a.m. – noon on Fridays.
- We are open during the lunch hour.
- We have a mail drop on the far north door of the building. If you have any information you would like to deliver after normal business hours please drop it off there.

In February, there is everything to hope
and nothing to regret.

“In February, let gratitude be the compass that guides us towards greater abundance and contentment.”
– Oprah Winfrey



Long & Associates, P.C.

Assisting you with accounting, tax preparation, and tax planning

Investment Solutions, Inc.

Advising you and creating strategies for investment and retirement planning

Benefit Resource Group, Inc.

Handling employee benefits and other business services

Whether you need one of these services, or all three, you'll work with the same professional, knowledgeable staff with our Comprehensive Solutions Program

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