



# Grub's up

**Portfolio re-balancing could be in order.**

Update  
**29 May 2026**

Diversification is, as I'm sure we all know by now, the only free lunch in investing. It's unclear exactly how many courses come with that free lunch, but I suspect it's only the main. Personally, when I'm out for lunch (or dinner, for that matter), which I often am, I'll plump for the three-course menu.

So, how do we look at portfolio construction in the context of a three-course meal? In my view, the starter is sitting down and setting your investment objectives. How much do you have to invest, over how long a time frame, and what outcome do you want from your investments?

Then, the free lunch's main course: diversification. This is where you ensure you have a wide enough portfolio to hit the best reward for your chosen level of risk, but don't over-diversify.

Then, we come to the crowning glory of any meal, dessert. For me, the dessert is the ongoing maintenance of a portfolio, most importantly that is re-balancing. It's something that many newbies eschew, because they've been brought up to buy and hold, essentially forever.

That strategy has worked for the past 15 years or so, but it could be time to change tack. Getting into the practice of regularly re-balancing your portfolio has, in my view, not been this important since the turn of the millennium.

Re-balancing is essentially the act of taking profits from your winners and topping up your losers. Say your target weighting was 60% in global equities, 30% in bonds and 10% in property. If the global equity portion became 75% thanks to strong equity market returns, while bonds fell to 20% and property to 5%, a re-balancing would take the profits made from equities to bring them back to 60% and split the profits between bonds and property.

The current, secular bull market in equities has led many to believe that one should let the market determine your portfolio weightings: if equity markets climb, then so be it. However, that could completely alter the risk of your portfolio. This is especially true of periods where stock valuations are at historically high levels, such as in 1999 and 2000, as well as, arguably, now.

Admittedly, I was only 12 years old when the dotcom bubble burst, so my examples of that time (as well as the inspiration for this article) come from the late Yale University CIO David Swensen's 2005 book *Conventional Success*.

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If you'd managed to invest £10,000 in, say, **Allianz Technology Trust (ATT)** on 01/01/1998 and made no further purchases or sales, today you'd have c. £640,000. That's an annualised return of c. 15.5% in a period that includes a two-year bear market where ATT's share price fell c. 80%.

The problem, of course, as Swensen shows, is that most newcomer investors (and even many seasoned pros) loaded up on stocks through the entirety of the 1990s bull market, declined to re-balance and take profits, then saw their portfolios decimated when the bubble popped, sold out close to the bottom in 2002 and 2003 and stuck what they could salvage into bonds, missing the best gains of the next bull market in the process.

Swensen estimated that the average US mutual fund investor had c. 30% in equities in 1993 and 1994, and that by the 2000 market peak that had doubled to more than 60%, while their bond holdings during that time had shrunk from 30% in 1993 to around 10% by 1999. By 2003, equities were down to 40% and bonds climbed to 19%.



If they'd successfully re-balanced, they'd have consistently locked in profits from their stock holdings and topped up their fixed income portion, setting themselves up well for the bursting of the bubble.

I see similar happening with the VanEck Semiconductor (SMH) and VanEck Space Innovators (JEDG) ETFs, which I see a lot of influencers recommending, despite the fact that SMH has returned c. 63% in 2023, 25% in 2024, 40% in 2025 and 79% since the start of 2026, while JEDG has returned c. 45% in 2024, 82% in 2025 and 96% since the start of 2026.

Now, I'm not saying that today's period is the same as the dotcom bubble. Clearly, there are differences – there always are. However, my personal view is that the mega-IPOs of SpaceX, OpenAI, Anthropic, et al might signal the start of the end of the current tech bull market (which, don't forget, has gone on for almost two decades now).

That's certainly not a prediction and I'm prepared to be proven very wrong. The current bull run in stocks could continue for years, so I'm by no means selling all of my equity funds and trusts and trying to time the market.

What I am doing is assessing the performance of my holdings and deciding where I want to take profits. I have a few investment trusts in my portfolio that seem ripe for re-balancing. I'm up c. 120% in the space of around a year on ATT and similar gains have been seen in the emerging market space, most notably through **Fidelity Emerging Markets (FEML)** and **Pacific Horizon (PHI)**.

Emerging markets are the area I'm particularly considering re-balancing. The initial purchases for the four EM trusts and funds I hold amounted to c. 8% of my portfolio. That's almost doubled and EM trusts account for c. 14% of my portfolio. At the same time, while I expect EMs to do well moving forward, they've certainly become more attuned to the AI bubble. TSMC, Samsung Electronics and SK Hynix account for almost 25% of the MSCI Emerging Markets Index.

A good option for rebalancing my global EM trusts could be India, where the country is still going through a reset of equity market valuations. I'm still down c. 10% on my investment in **Ashoka India Equity (AIE)** and I remain of the view that this is an attractive point to be buying.

In the UK, too, **Temple Bar (TMPL)** and **Fidelity Special Values (FSV)** have gone from an initial investment of 5% to closer to 9%, while my UK small cap allocation has barely moved. Hence, re-allocating profits from TMPL and FSV into the likes of **Aberforth Smaller Companies (ASL)**, as well as private equity names that have fallen recently such as **3i Group (III)** and **HgCapital (HGT)** could be prudent moves.

Finally, **Scottish Mortgage (SMT)** is in line for a re-balancing, but I'll likely wait until the blockbuster IPOs have happened and share prices have popped before pulling the trigger and using the proceeds to top up quality growth names such as Rathbone Global Opportunities and Evenlode Global Equity.

Having this week returned from two weeks in Puglia and Emilia-Romagna I'm probably all Tiramisu-d out, so perhaps now my (hypothetical investment) dessert will instead be a portfolio re-balancing.



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