

# How rebalancing can reduce your risk

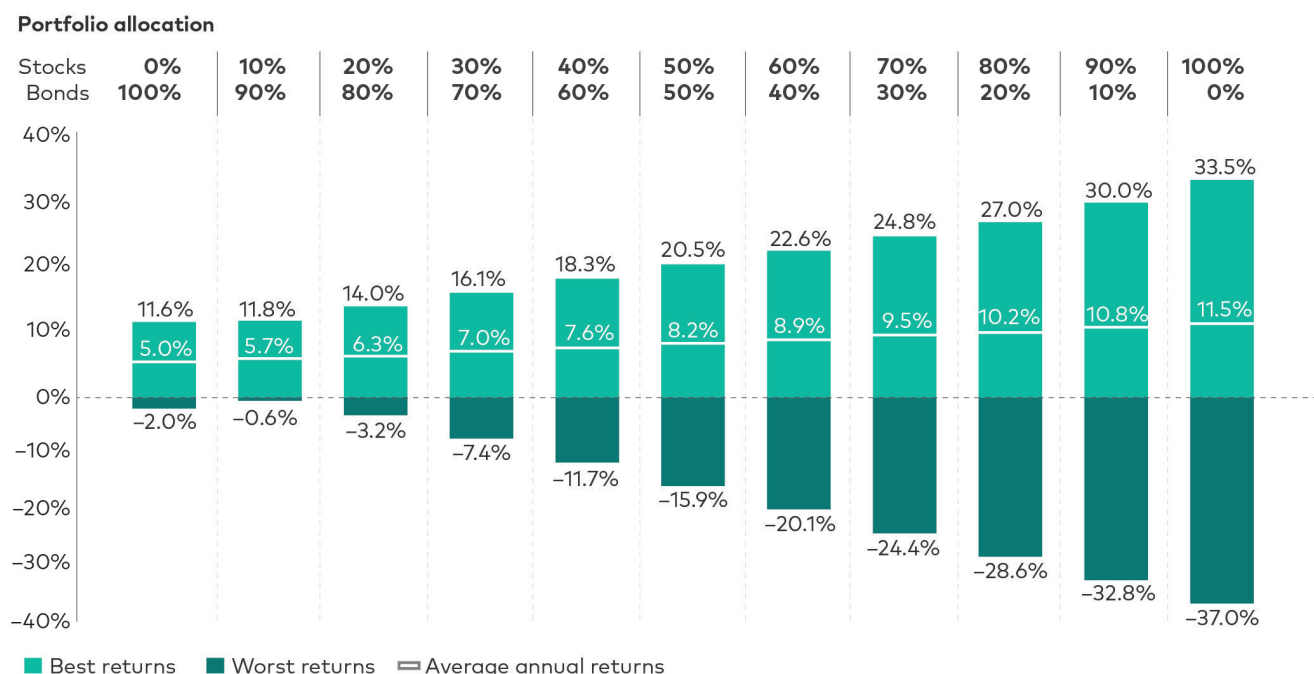
Volatile financial markets, events in your life, and even regular investment reviews can prompt you to wonder why we rebalance your portfolio. After all, if your strongest-performing assets account for a larger portion of your holdings, why not let them ride? It all comes down to risk.

**Appropriately balancing risk and returns.** When we initially drew up your investing plan together, we weighed several factors: Your income, age, and your financial goals, among other things. We built your portfolio based on your unique goals and incorporated some market-return assumptions. The resulting portfolio's allocation balances the potential returns you'll need to reach your goals with the risk of potential losses you may incur.

In other words, the purpose of rebalancing isn't to score the maximum returns possible. The purpose is to manage risk, so your nest egg might fluctuate less in the event of a downturn. The chart below visualizes the concept. Historically, as the percentage of equities in a portfolio has increased, so have the portfolio's returns. But there's a trade-off: the higher the percentage of stocks, the greater the risk of losing money.

## Historically, higher-return assets have brought increased risk

Best, worst, and average returns for various stock/bond allocations, 1997–2021



Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Source: Vanguard, as of December 31, 2021.

Notes: Stock allocation consists of 60% U.S.-domiciled equities and 40% equities domiciled outside the United States. Bond allocation consists of 70% U.S.-domiciled fixed income securities and 30% fixed income securities domiciled outside the United States. U.S. stocks are represented by the Dow Jones Wilshire 5000 Index from 1997 through April 22, 2005, and the MSCI US Broad Market Index thereafter. International stocks are represented by the Total International Composite Index from 1997 through August 31, 2006; MSCI EAFE + Emerging Markets Index from September 1, 2006, through December 15, 2010; MSCI ACWI ex USA IMI Index from December 16, 2010, through June 2, 2013; and FTSE Global All Cap ex US Index thereafter. U.S. bonds are represented by the Bloomberg U.S. Aggregate Bond Index. International bonds are represented by the Bloomberg Global Aggregate Float Adjusted Composite Index.

One way to think of it: Imagine you're a baseball manager looking to put together a team. You have a limited number of slots and a finite budget. You could go with a big-name slugger who hits lots of home runs—and commands a hefty contract. Alternatively, you could use that same budget amount to pick up a few less flashy players—who happen to be really consistent at hitting singles and doubles.

Your analysis shows that having a player with a higher on-base percentage in the lineup equates to more wins than having a player with a lot of homers. You could also reduce your risk by spreading out the investment over a few "quality" players rather than just one. So it makes sense for you to sign players who have the potential to get more base hits.

Similar reasoning is at work when you maintain a diverse, balanced portfolio with a disciplined commitment to an established asset allocation—for example, a portfolio made up of 60% stocks and 40% bonds. If you require relatively consistent returns (for instance, if you're generating income from your portfolio and want that income to remain steady), bonds serve to dampen the market volatility that might otherwise disrupt steady returns.

Please remember that all investments involve some risk. Be aware that fluctuations in the financial markets and other factors may cause declines in the value of your account. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income. Diversification does not ensure a profit or protect against a loss. Investments in bonds are subject to interest rate, credit, and inflation risk

**Connect with Vanguard®**

**Vanguard®**

© 2022 The Vanguard Group, Inc. All rights reserved.

## Important Information

VIGM, S.A. de C.V. Asesor en Inversiones Independiente ("Vanguard Mexico") registration number: 30119-001-(14831)-19/09/2018. The registration of Vanguard Mexico before the Comisión Nacional Bancaria y de Valores ("CNBV") as an Asesor en Inversiones Independiente is not a certification of Vanguard Mexico's compliance with regulation applicable to Advisory Investment Services (Servicios de Inversión Asesorados) nor a certification on the accuracy of the information provided herein. The supervision scope of the CNBV is limited to Advisory Investment Services only and not all services provided by Vanguard Mexico.

This material is solely for informational purposes and does not constitute an offer or solicitation to sell or a solicitation of an offer to buy any security, nor shall any such securities be offered or sold to any person, in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities law of that jurisdiction. Reliance upon information in this material is at the sole discretion of the recipient.

Securities information provided in this document must be reviewed together with the offering information of each of the securities which may be found on Vanguard's website: <https://www.vanguardmexico.com/institutional/products/en/list/overview> or [www.vanguard.com](http://www.vanguard.com)

Vanguard Mexico may recommend products of The Vanguard Group Inc. and its affiliates and such affiliates and their clients may maintain positions in the securities recommended by Vanguard Mexico.

ETFs can be bought and sold only through a broker and cannot be redeemed with the issuing fund other than in very large aggregations. Investing in ETFs entails stockbroker commission and a bid-offer spread which should be considered fully before investing. The market price of ETF Shares may be more or less than net asset value.

All investments are subject to risk, including the possible loss of the money you invest. Investments in bond funds are subject to interest rate, credit, and inflation risk. Governmental backing of securities applies only to the underlying securities and does not prevent share-price fluctuations. High-yield bonds generally have medium- and lower-range credit quality ratings and are therefore subject to a higher level of credit risk than bonds with higher credit quality ratings.

There is no guarantee that any forecasts made will come to pass. Past performance is no guarantee of future results.

Prices of mid- and small-cap stocks often fluctuate more than those of large-company stocks. Funds that concentrate on a relatively narrow market sector face the risk of higher share-price volatility. Stocks of companies are subject to national and regional political and economic risks and to the risk of currency fluctuations, these risks are especially high in emerging markets. Changes in exchange rates may have an adverse effect on the value, price or income of a fund.

The information contained in this material derived from third-party sources is deemed reliable, however Vanguard Mexico and The Vanguard Group Inc. are not responsible and do not guarantee the completeness or accuracy of such information.

This document should not be considered as an investment recommendation, a recommendation can only be provided by Vanguard Mexico upon completion of the relevant profiling and legal processes.

This document is for educational purposes only and does not take into consideration your background and specific circumstances nor any other investment profiling circumstances that could be material for taking an investment decision. We recommend getting professional advice based on your individual circumstances before taking an investment decision.

These materials are intended for institutional and sophisticated investors use only and not for public distribution.

Materials are provided only for the recipient's exclusive use and shall not be distributed to any other individual or entity. Broker-dealers, advisers, and other intermediaries must determine whether their clients are eligible for investment in the products discussed herein.

The information contained herein does not constitute an offer or solicitation and may not be treated as such in any jurisdiction where such an offer or solicitation is against the law, or to anyone for whom it is unlawful to make such an offer or solicitation, or if the person making the offer or solicitation is not qualified to do so.

THESE MATERIALS ARE PROVIDED AT THE REQUEST OF AND FOR THE EXCLUSIVE USE OF RECIPIENT AND CONTAIN HIGHLY CONFIDENTIAL INFORMATION, WHICH SHALL NOT BE REPRODUCED OR TRANSMITTED TO ANY THIRD PARTIES WITHOUT VANGUARD'S PRIOR WRITTEN CONSENT. THE CONTENTS OF THESE MATERIALS SHALL NOT BE UNDERSTOOD AS AN OFFER OR SOLICITATION TO BUY OR SELL SECURITIES IN BRAZIL AND VANGUARD IS NOT MAKING ANY REPRESENTATION WITH RESPECT TO THE ELIGIBILITY OF ANY RECIPIENT OF THESE MATERIALS TO ACQUIRE THE INTERESTS IN THE SECURITIES DESCRIBED HEREIN UNDER THE LAWS OF BRAZIL. SUCH SECURITIES HAVE NOT BEEN REGISTERED IN BRAZIL AND NONE OF THE INTERESTS IN SUCH SECURITIES MAY BE OFFERED, SOLD, OR DELIVERED, DIRECTLY OR INDIRECTLY, IN BRAZIL OR TO ANY RESIDENT OF BRAZIL EXCEPT PURSUANT TO THE APPLICABLE LAWS AND REGULATIONS OF BRAZIL.

PROVIDED AT THE REQUEST OF AND FOR THE EXCLUSIVE USE OF THE RECIPIENT. THE CONTENTS OF THIS DOCUMENT SHALL NOT BE UNDERSTOOD AS AN OFFER OR SOLICITATION TO BUY OR SELL SECURITIES IN BRAZIL AND VANGUARD IS NOT MAKING ANY REPRESENTATION WITH RESPECT TO THE ELIGIBILITY OF ANY RECIPIENT OF THIS DOCUMENT TO INVEST IN SECURITIES DESCRIBED HEREIN.

This document is provided at the request of and for the exclusive use of the recipient and does not constitute, and is not intended to constitute, a public offer in the Republic of Colombia, or an unlawful promotion of financial/capital market products. The offer of the financial products described herein is addressed to fewer than one hundred specifically identified investors. The financial products described herein may not be promoted or marketed in Colombia or to Colombian residents, unless such promotion and marketing is made in compliance with Decree 2555/2010 and other applicable rules and regulations related to the promotion of foreign financial/capital market products in Colombia.

The financial products described herein are not and will not be registered before the Colombian National Registry of Securities and Issuers (Registro Nacional de Valores y Emisores - RNVE) maintained by the Colombian Financial Superintendency, or before the Colombian Stock Exchange. Accordingly, the distribution of any documentation in regard to the financial products described here in will not constitute a public offering of securities in Colombia.

The financial products described herein may not be offered, sold or negotiated in Colombia, except under circumstances which do not constitute a public offering of securities under applicable Colombian securities laws and regulations; provided that, any authorized person of a firm authorized to offer foreign securities in Colombia must abide by the terms of Decree 2555/2010 to offer such products privately to its Colombian clients.

The distribution of this material and the offering of securities may be restricted in certain jurisdictions. The information contained in this material is for general guidance only, and it is the responsibility of any person or persons in possession of this material and wishing to make application for securities to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for securities should inform themselves of any applicable legal requirements, exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

This offer conforms to General Rule No. 336 of the Chilean Financial Market Commission (Comisión para el Mercado Financiero). The offer deals with securities not registered under Securities Market Law, nor in the Securities Registry nor in the Foreign Securities Registry of the Chilean Financial Market Commission, and therefore such securities are not subject to its oversight. Since such securities are not registered in Chile, the issuer is not obligated to provide public information in Chile regarding the securities. The securities shall not be subject to public offering unless they are duly registered in the corresponding Securities Registry in Chile. The issuer of the securities is not registered in the Registries maintained by the Chilean Financial Market Commission, therefore it is not subject to the supervision of the Chilean Financial Market Commission or the obligations of continuous information.

Esta oferta se acoge a la norma de carácter general No. 336 de la Comisión para el Mercado Financiero. La oferta versa sobre valores no inscritos bajo la Ley de Mercado de Valores en el Registro de Valores o en el Registro de Valores extranjeros que lleva la Comisión para el Mercado Financiero, por lo que tales valores no están sujetos a la fiscalización de ésta. Por tratarse de valores no inscritos, no existe la obligación por parte del emisor de entregar en Chile información pública respecto de esos valores. Los valores no podrán ser objeto de oferta pública mientras no sean inscritos en el Registro de Valores correspondiente. El emisor de los valores no se encuentra inscrito en los Registros que mantiene la Comisión para el Mercado Financiero, por lo que no se encuentra sometido a la fiscalización de la Comisión para el Mercado financiero ni a las obligaciones de información continua.

The securities described herein have not been registered under the Peruvian Securities Market Law (Decreto Supremo No 093-2002-EF) or before the Superintendencia del Mercado de Valores (the "SMV"). There will be no public offering of the securities in Peru and the securities may only be offered or sold to institutional investors (as defined in Appendix I of the Institutional Investors Market Regulation) in Peru by means of a private placement. The securities offered and sold in Peru may not be sold or transferred to any person other than an institutional investor unless such securities have been registered with the Registro Público del Mercado de Valores kept by the SMV. The SMV has not reviewed the information provided to the investor. This material is for the exclusive use of institutional investors in Peru and is not for public distribution.

The financial products described herein may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act 2003 of Bermuda. Additionally, non-Bermudian persons may not carry on or engage in any trade or business in Bermuda unless such persons are authorized to do so under applicable Bermuda legislation. Engaging in the activity of offering or marketing the financial products described herein in Bermuda to persons in Bermuda may be deemed to be carrying on business in Bermuda.

Vanguard does not intend, and is not licensed or registered, to conduct business in, from or within the Cayman Islands, and the interests in the financial products described herein shall not be offered to members of the public in the Cayman Islands.

The financial products described herein have not been and will not be registered with the Securities Commission of The Bahamas. The financial products described herein are offered to persons who are non-resident or otherwise deemed non-resident for Bahamian Exchange Control purposes. The financial products described herein are not intended for persons (natural persons or legal entities) for which an offer or purchase would contravene the laws of their state (on account of nationality or domicile/registered office of the person concerned or for other reasons). Further, the offer constitutes an exempt distribution for the purposes of the Securities Industry Act, 2011 and the Securities Industry Regulations, 2012 of the Commonwealth of The Bahamas.

This document is not, and is not intended as, a public offer or advertisement of, or solicitation in respect of, securities, investments, or other investment business in the British Virgin Islands ("BVI"), and is not an offer to sell, or a solicitation or invitation to make offers to purchase or subscribe for, any securities, other investments, or services constituting investment business in BVI. Neither the securities mentioned in this document nor any prospectus or other document relating to them have been or are intended to be registered or filed with the Financial Services Commission of BVI or any department thereof.

This document is not intended to be distributed to individuals that are members of the public in the BVI or otherwise to individuals in the BVI. The funds are only available to, and any invitation or offer to subscribe, purchase, or otherwise acquire such funds will be made only to, persons outside the BVI, with the exception of persons resident in the BVI solely by virtue of being a company incorporated in the BVI or persons who are not considered to be "members of the public" under the Securities and Investment Business Act, 2010 ("SIBA").

Any person who receives this document in the BVI (other than a person who is not considered a member of the public in the BVI for purposes of SIBA, or a person resident in the BVI solely by virtue of being a company incorporated in the BVI and this document is received at its registered office in the BVI) should not act or rely on this document or any of its contents.

Any person who receives this document in the BVI (other than a person who is not considered a member of the public in the BVI for purposes of SIBA, or a person resident in the BVI solely by virtue of being a company incorporated in the BVI and this document is received at its registered office in the BVI) should not act or rely on this document or any of its contents.

The sale of the Vanguard Emerging Markets Bond Fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18.627. Vanguard represents and agrees that it has not offered or sold, and will not offer or sell, any Vanguard Emerging Markets Bond Fund to the public in Uruguay, except in circumstances which do not constitute a public offering or distribution under Uruguayan laws and regulations. Neither the Vanguard Emerging Markets Bond Fund nor issuer are or will be registered with the Superintendency of Financial Services of the Central Bank of Uruguay to be publicly offered in Uruguay."

The Vanguard Emerging Markets Bond Fund correspond to investment funds that are not investment funds regulated by Uruguayan law 16,774 dated 27 September 1996, as amended.

This document does not constitute an offer or solicitation to invest in the securities mentioned herein. It is directed at professional/sophisticated investors in the United States for their use and information. The financial products described herein are only available for investment by non-U.S. investors, and this document should not be given to a retail investor in the United States. Any entity responsible for forwarding this material, which is produced by VIGM, S.A. de C.V., Asesor en Inversiones Independiente in Mexico, to other parties takes responsibility for ensuring compliance with applicable securities laws in connection with its distribution.

"Bloomberg® is a service mark of Bloomberg Finance LP and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and has been licensed for use for certain purposes by Vanguard. Bloomberg is not affiliated with Vanguard and Bloomberg does not approve, endorse, review, or recommend Vanguard Emerging Markets Bond Fund. Bloomberg does not guarantee the timeliness, accurateness or completeness of any data or information related to Vanguard Emerging Markets Bond Fund.

**Vanguard**

**Connect with Vanguard®**

© 2022 The Vanguard Group, Inc. All rights reserved.