Investor Bulletin:
Year-End Investment Considerations for Individual Investors

The SEC's Office of Investor Education and Advocacy and the Financial Industry Regulatory Authority (FINRA) are issuing this Investor Bulletin to provide individual investors with a few suggestions for year-end investment planning as the year draws to a close.

Review Your Asset Allocation

The end of the year is a reasonable time to review your overall investment portfolio and evaluate your existing asset allocation. Asset allocation involves dividing an investment portfolio among different asset categories, for example, stocks, bonds, cash and alternatives like real estate or commodities. By including asset categories whose investment returns move up and down under different market conditions, you might be able to better protect your overall investment portfolio from significant losses or price swings. Market conditions that cause one asset category to do well can cause another asset category to have average or poor returns. By investing in more than one asset category, you can reduce your overall risk.

Consider Rebalancing

After reviewing your asset allocation, you might want to consider rebalancing your investment portfolio. Rebalancing involves bringing your portfolio back to your desired asset allocation mix. Because some of your investments will grow faster than others, rebalancing allows you to adjust your investment portfolio so as not to overemphasize one or more asset categories. Generally, there are three ways to rebalance your investment portfolio: (1) sell some of the over-weighted assets in your portfolio and use the sales proceeds to purchase more of those assets that are under-weighted in your portfolio; (2) purchase additional investments in those assets that are under-weighted in your portfolio; or (3) if you are making continuous contributions to your investment portfolio, adjust your allocations so that more of your income flows to under-weighted asset categories until your portfolio comes back to your desired asset allocation mix.

Tax Considerations

As you review your investment portfolio at the end of the year, it is natural to consider your investment planning for the year ahead. If you are considering selling securities, it may be worthwhile to weigh the potential effects of current tax rates on your investments, including whether selling your securities will trigger capital gains or other taxes. In 2012, in particular, investors may be concerned about the so-called "fiscal cliff," which, if not resolved, could result in increased capital gains and dividend income tax rates. Potential changes in these tax rates could result in year-end selloffs as some investors may seek to take advantage of current capital gains and dividend income tax rates. Investors who are interested in learning what impact tax rates, including potential changes in the tax laws, may have on their investments under different financial scenarios should consult their tax adviser or visit the IRS website (www.irs.gov) for more information. Investors should also contact their financial adviser to discuss these issues before making any investment decisions.

Check Out Your Investment Professional

If you plan to use an investment professional to help you, verify whether the individual is licensed to do business with you, and check out their background—and the firm for which they work—using FINRA Broker Check or the Investment Adviser Public Disclosure (IAPD) website. Many investors do not realize that they can check the background of a broker or investment adviser. It's free and easy—and a key step for avoiding investment fraud.

Locate Your Financial Records

Do you remember where your financial records are located? If something were to happen to you, would your trusted family members or confidants know where to find your financial documents? These documents and related items may include stock certificates, savings bonds, brokerage statements, tax returns, mortgage statements, life insurance policies, individual retirement account statements, employer-sponsored retirement plan statements, pension documents, annuity contracts, housing and land deeds, bank account information, and estate planning documents (including health care instructions), as well as safe deposit box keys. Are your financial records organized in a safe place? Consider preparing a list identifying these records, including a list of financial accounts and all user names and passwords, and their location.

Related Information

- SEC Publication: Beginners' Guide to Asset Allocation, Diversification, and Rebalancing (available at http://www.sec.gov/investor/pubs/assetallocation.htm)
- Investor Bulletin: Top Tips for Selecting a Financial Professional (available at http://www.sec.gov/investor/alerts/ib_top_tips.pdf)
- FINRA's BrokerCheck (available at www.finra.org/Investors/ToolsCalculators/BrokerCheck/)
- Investment Adviser Public Disclosure (IAPD) (available at www.adviserinfo.sec.gov)