

AAll InvestoGraphic: Adjusting Overweight Positions

1. Determine desired range (maximum, and minimum, relative position sizes to be allowed)

Maximum relative position sizes are set to help avoid stocks with harmful diversification due to overweighting. The more a particular holding is allowed to drift from the average position size, the more company-specific risk the investor is allowing. As these larger positions account for a greater percentage of the portfolio value, the portfolio will be more heavily affected if those positions decline.

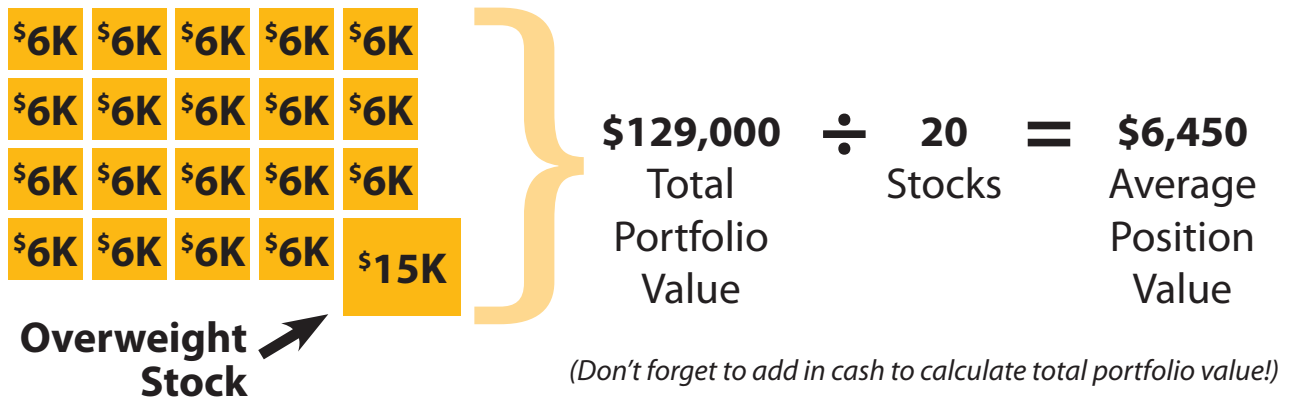
One may choose to pare back an overweight position size to 1.5x in order to limit company-specific risk exposure, while also allowing the winning stock to ride. Narrower rebalancing limits may prevent “winning” stocks from gaining momentum and boosting returns. It may also increase transaction costs, as the investor would be rebalancing more

often when the market is volatile. There are also tax implications when securities are sold.

In the case of AAll premium products *Stock Superstars Report* and *VMQ Stocks*, the maximum amount that an overweight position can drift has been set at 2.5x the average position size. *AAll Dividend Investing* sets a limit of 2.0x. To be clear, this rule applies to holdings that haven’t otherwise violated sell rules.

Minimum relative position sizes can also be used—to weed out stocks that have too little impact on your portfolio or to signal which companies to reinvest in (if they still meet other buy qualifications for your portfolio). “Underweight” positions for *AAll Dividend Investing* are usually 0.8x the average position size.

2. Calculate average position value



3. Calculate relative position size

$$\frac{\$15,000 \text{ Overweight Stock Position Value}}{\$6,450 \text{ Average Position Value}} = 2.3 \text{ Relative Position Size of Overweight Stock}$$

4. Determine desired relative position size and amount to sell

$$\begin{array}{ccccc} \$6,450 & \times & 1.5 & = & \$9,675 \\ \text{Average} & & \text{Target} & & \text{Target} \\ \text{Position} & & \text{Position Size for} & & \text{Position Value for} \\ \text{Value} & & \text{Overweight Stock} & & \text{Overweight Stock} \end{array}$$

→ **Sell \$5,325**
(\$15,000 – \$9,675 = \$5,325)
Worth of Overweight Stock Shares to Reduce Position Size to 1.5 Times Average