LIGHTHOUSE FINANCIAL STRATEGIES LTD.

"Simplifying Your Financial Life…"

Mike F. Moss, LUTCF
Senior Financial Consultant

Try the Bucket Approach

Constructing a portfolio this way may help you ride through a bear market in retirement.

Stocks sometimes retreat. That reality can be overlooked in a long bull market. Bear markets do appear, and a deep downturn could force you to sell securities in retirement, so you can pay for necessary expenses.

Right now, you might have too much money in stocks. Years of steady gains may have unbalanced your portfolio and heightened your risk exposure. If you are 60 or older, that constitutes a warning sign, especially given this bull market's age. What would a downturn do to your retirement fund and your retirement income?

If you are wondering how to respond to this risk, consider the bucket approach to retirement income planning.

Suppose a bear market occurs just as you retire. Since your retirement income strategy pulls cash from deposit accounts and fixed-income investments first, your equity positions have time to rebound.

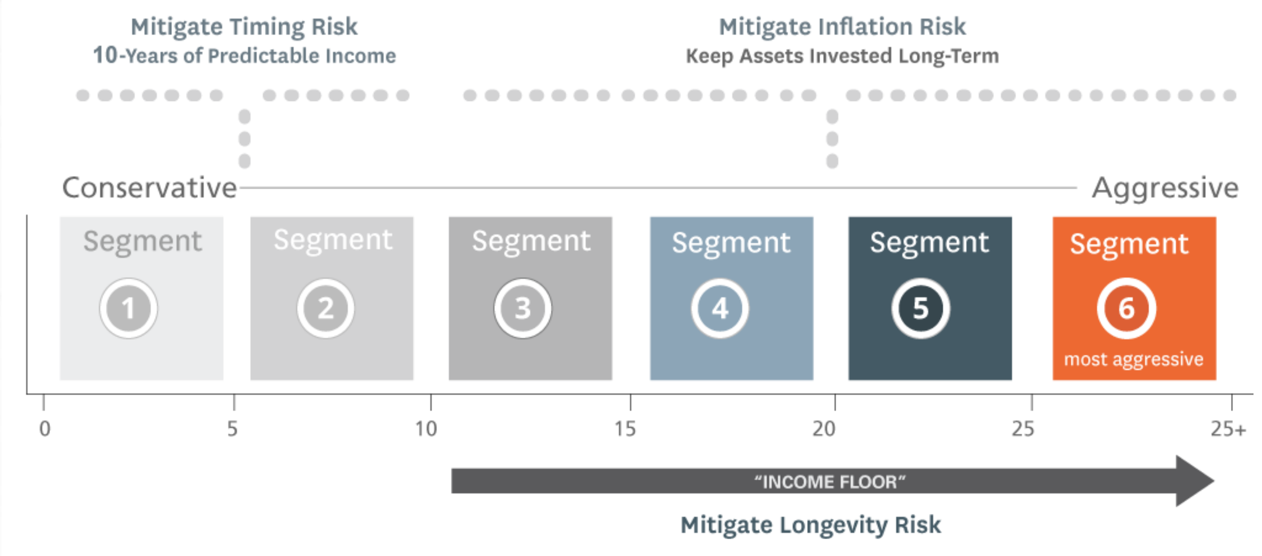
The bucket approach may help you through different market cycles in retirement. This investing strategy, credited to a Florida financial planner named Harold Evensky, has simple and complex variations. It assigns fixed-income and equity investments to different "buckets" with the goal of providing sufficient cash flow to retirees during different stages of their "second acts."[1,2]

The simplest version involves just two buckets. One holds the equivalent of 1-5 years of cash reserves (in deposit accounts and/or fixed-income investments), and the other holds everything else in the investment portfolio. When you need to fund your expenses, you turn to the cash and the fixed-income vehicles and leave equities untouched. Rebalancing your portfolio (that is, selling investments in an overweighted asset class) lets you increase the size of your cash bucket.[1,2]

Other versions of the bucket approach have longer time horizons. In one variation designed to be used for at least 25 years, a cash reserve bucket is created to fund the first two years of retirement, its size approximating 10% of the portfolio; the cash comes from FDIC-insured sources or Treasuries. A second bucket, intended to generate somewhat greater income, is planned for the rest of the first decade of retirement; this bucket is filled with longer-duration, fixed-income investments and comprises about 35% of the portfolio. The third bucket (the other 55%) is designed for the years afterward and contains a sizable equities position; the goal here is to realize some growth and compounding for a decade, then tap into that bucket for income.[1,2]

In glimpsing the details of the bucket approach, you can also see the big picture. Suppose a bear market occurs just as you retire. Since your retirement income strategy pulls cash from deposit accounts and fixed-income investments first, your equity positions have time to rebound. You have a chance to avoid selling low (and selling off part of your retirement fund).

Here is an illustrated example of a Bucket Strategy and the risks it addresses.



Is the bucket approach foolproof? No, but no investing strategy is. In the worst-case scenario, you drain 100% of the cash bucket(s) and end up with an all-equities portfolio. That is hardly what you want in retirement. Bucket allocations must be carefully calculated, and periodic bucket rebalancing is also needed.

The bucket approach may have both financial and psychological merits. Most retirees use the 4% rule (or something close) when withdrawing income: they take distributions from various accounts and asset classes, perhaps with little regard for tax efficiency. If Wall Street stumbles and their portfolios shrink, they may panic and make moves they will later regret – such as selling low, abandoning stocks, or even running toward alternative investments in desperation.

When you use a bucket approach, you first turn to cash and/or liquid securities for retirement income rather than equities. Psychologically, you know that if a bear market arrives early in your retirement, your equity holdings will have some time to recover. This knowledge is reassuring, and it may dissuade you from impulsive financial decisions.

Ask about the bucket approach today. It could be a great financial strategy to adopt for your retirement.
If you're interested, we can do a free analysis for you.
Check out our RetirementTime website for more information. MMoss.RetirementTime.com

Best Regards,
Mike Moss
Mike F. Moss, LUTCF

Citations.
1 - seattletimes.com/business/about-to-retire-heres-how-to-cope-with-stock-market-shocks/ [11/25/17]
2 - news.morningstar.com/articlenet/article.aspx?id=839521 [12/13/17]

1040 S. Commons Pl. Suite 201 ● Youngstown, OH. 44514 ● Phone: 330.758.7545 ● Mike.Moss@LFScompass.com