Using the Bucket Strategy at Reed Davis Wealth Management

What happens if your daughter tells you she's getting married in two months and you want to pay for her dream wedding? What happens when you take money out right then and the market is crashing?

Or let's say you get nervous and sell out early and the stocks have tremendous gains.

Either way, you run the risk of losing money.

By using the Bucket Strategy, we at Reed Davis Wealth Management will manage your money in a way that can reduce the risk to your portfolio and still allow you to capture gains. You may be wondering how it works. The idea is to divide your portfolio into different segments, or "buckets". And these different buckets will be used based on when you need the money. The Bucket Strategy makes sense if you rely on your portfolio for the bulk of your income. You have a bucket for each of the following time frames in your life: short term, medium term and long term.

The short-term bucket is where you put money that you think you will need in the next one to three years. Here the money is liquid, which can be accessed without trouble, even during a stock market crash.

The medium-term bucket can keep money for four to nine years. Assets here may include more income generating investments, such as dividend index funds and higher yielding bonds. These assets come with a higher risk than those in the first bucket, such as cash, but they also create income. These are also less likely to see huge swings in the markets. You may lose value during a market downturn, but not at the same level that is associated with growth assets.

Once you've started depleting the money in your short-term bucket and refill it with the medium-term bucket, there's a chance that you have seen modest appreciation and benefited from some of the income generating assets in this medium-term bucket.

The long-term bucket is for money that you know you won't need for the next 10+ years. Growth assets are likely to provide you with continued portfolio growth over the long run, even though they are vulnerable to bigger swings in the short term.

One of the nice things about this bucket is that you have the money here for 10 or more years. And with that timeframe, you will likely see big losses in a market turndown, but you have money in your other two buckets to use at this time; therefore, you won't need to sell while prices are low. Then as the market improves, you can capture the gains later in that 10+ years.

Just as a child playing with sand on the beach, the Bucket Strategy works by pouring assets between buckets. You will use money in your short-term bucket and replace it with money from your medium-term bucket. Then later, when growth assets are performing well in your long-term bucket, you can sell a portion of those, capture the gains, and invest the money in assets that make up your medium-term bucket.

The Bucket Strategy is a process that we use that allows you a bit more flexibility in terms of when you sell some of your assets. The result is that you have a stash of cash available for living expenses and more immediate needs, but the bulk of your portfolio continues to grow over time.