An investment approach that can help you work towards a confident retirement.

Retirement is a significant milestone in one's life, which requires careful planning and foresight to pursue a confident and stress-free transition. One effective way to plan for retirement is by adopting the Retirement Bucket Strategy. This investment approach segregates your sources of income into three buckets: immediate (short-term), intermediate, and long-term.

Each of these buckets has a defined purpose based on when the money is needed, enabling you to better optimize your investments and manage financial risk. Here are the fundamentals of the Retirement Bucket Strategy and how to implement it for a confident retirement.

The Three-Bucket Approach

The Immediate (Short-term) Bucket

The primary purpose of the immediate bucket is to provide liquidity and cover your daily expenses and emergency needs during the initial years of retirement. This bucket should hold assets that can be easily converted into cash, such as savings accounts, money market funds, or short-term certificates of deposit (CDs).

Typically, this bucket should cover around two to five years of living expenses. By having a cash reserve, you can help mitigate the need to sell long-term investments during market downturns, potentially preserving your portfolio's growth potential.

The Intermediate Bucket

The intermediate bucket is designed to provide income and growth for the next five to fifteen years of your retirement. This bucket should be composed of more conservative investments, such as bonds or dividend-paying stocks, which offer a balance of income and potential capital appreciation.

The assets in this bucket should be less volatile than those in the long-term bucket but provide higher returns than the short-term bucket. This strategy allows you to maintain a confident lifestyle while keeping up with inflation and preserving your wealth.

The Long-term Bucket

The long-term bucket is meant to generate growth and income for the later years of your retirement, generally fifteen years or more from the start. This bucket should hold more aggressive investments, such as stocks, mutual funds, or exchange-traded funds (ETFs), which have higher growth potential but also come with increased volatility.

By allocating a portion of your portfolio to these growth-oriented investments, you can work towards counteracting the effects of inflation and pursue retirement savings that will last throughout your lifetime.

Implementing the Bucket Strategy

To effectively implement the Retirement Bucket Strategy, follow these steps:

Determine your annual expenses: Calculate your estimated annual expenses during retirement, including housing, healthcare, food, insurance, and leisure activities. This will help you understand how much money you need to allocate to each bucket.

Allocate your assets: Based on your estimated expenses, allocate your assets across the three buckets. Aim for a well-diversified portfolio that aligns with your risk tolerance and financial goals.

Rebalance your buckets: As you progress through retirement, it's crucial to periodically rebalance your buckets. Move funds from the long-term bucket to the intermediate bucket, and from the intermediate bucket to the immediate bucket as needed. This ensures that your asset allocation remains aligned with your time horizon and changing financial needs.

Adjust for inflation: Regularly review your expenses and adjust your buckets to account for inflation. This will help you maintain your purchasing power and work towards your retirement goals.

Your Financial Professional

The Retirement Bucket Strategy is a practical and effective approach to managing your retirement finances. By segregating your sources of income into immediate, intermediate, and long-term buckets, you can optimize your investments, mitigate financial risk, and pursue retirement confidence.

As with any investment strategy, it's essential to consult with your financial professional to help you develop a plan that takes your unique financial goals and risk tolerance into account. Contact us today to get started!

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Investing includes risks, including fluctuating prices and loss of principal. No strategy assures success or protects against loss.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

Rebalancing a portfolio may cause investors to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss.