Four Buckets. One Retirement Plan.

Four jobs, one spending plan

When headlines become unsettling, ask which dollars you will need soon and which can stay invested. Buckets organize those jobs; the labels do not create returns. The source illustrates a $1 million portfolio with 60% in stocks and no bond allocation. It is a starting point for discussion, not a universal recommendation.

Job / allocation	Illustrative amount and role
Reserve / 15%	$150,000 money market fund; hypothetical 4% yield. Near-term spending, fees and obligations.
Stabilize / 25%	$250,000 fixed deferred annuity; hypothetical 6% crediting during its guarantee term.
Compound / 50%	$500,000 diversified, quality-oriented dividend equities across industries and markets.
Explore / 10%	$100,000 limited growth sleeve; count overlapping technology and other concentrated exposure.

Money market yields change; these funds are not FDIC-insured deposits. Stocks can fall and dividends can be reduced. Fixed-annuity guarantees rely on the insurer, and contract value is not cash surrender value. Compare bonds and Treasuries for liquidity and diversification as well as yield.

Source: How Smart Investors Prepare for the Storm, pp. 6-7.

Size the reserve in dollars first

Risk tolerance is how a loss feels. Risk capacity is whether the household can keep paying its bills through it. The source proposes at least 12 months of expected portfolio withdrawals, advisory fees and known obligations, with 18-24 months or more worth discussing when spending is inflexible.

Reserve calculation	Amount
Annual portfolio withdrawal need	$40,000
Annual fee: 1% x $600,000 stocks	$6,000
One-year floor: $40,000 + $6,000	$46,000
Two-year target: $46,000 x 2	$92,000
Potential excess: $150,000 - $92,000	$58,000 before other known expenses

The $40,000 is the gross portfolio need, including the household tax allowance in the source cash-flow illustration. Add known cash obligations not already included. Do not count the same cash as both business working capital and household reserves. A reserve is finite; recovery before it runs down is not assured.

Mix	Reserve / fixed / core / growth	Stocks
More defensive	25% / 30% / 40% / 5%	45%
Middle example	15% / 25% / 50% / 10%	60%
More growth	5% / 20% / 60% / 15%	75%

All mixes total $1 million; checking is excluded. The growth example has only $50,000 cash, barely above the $46,000 one-year need under the same spending and fee assumption. Actual fees change with stock allocation.

Source: How Smart Investors Prepare for the Storm, pp. 7, 12-13.

A shock test, not a backtest

The source applies the S&P 500's 33.8% February 19-March 23, 2020 decline equally to both stock sleeves for 33 calendar days. Cash earns an assumed 4% and the fixed annuity 6%; neither rate is verified as available in 2020. There are no withdrawals or taxes and no assumed manager advantage.

Ending value after the modeled 33-day shock



Bars start at zero. Hypothetical amounts, not forecasts.

Read the comparison: four buckets retains about $68,924 more than the 80%-stock reference, mostly because it owns fewer stocks. Against the matched 60%-stock / 40%-cash portfolio, the difference is only about $432, from assumed interest rates. The liquid comparison avoids annuity surrender restrictions.

Reproduce it: ending value = cash x 1.04^(33/365) + annuity x 1.06^(33/365) + stocks x 0.662 - stocks x 0.01 x (33/365). Four buckets starts with $150,000 cash, $250,000 annuity and $600,000 stocks.

Rounded ending values can differ by $1 from differences calculated before rounding. All cash assumes a perfect exit before the fall; it is a counterfactual, not an executable timing strategy, and no re-entry is modeled. The S&P 500 recovered its prior high by August 2020; this does not establish future recovery speed.

Source: How Smart Investors Prepare for the Storm, pp. 8, 23.

What if the storm misses?

The same stock total return is applied to both equity sleeves. The source compares an 80%-stock / 20%-cash reference, four buckets at 60% stocks, a matched 60%-stock / 40%-cash portfolio and all cash.

Strategy	Stocks -34%	Stocks 0%	Stocks +20%
Higher equity	$728,000	$1,000,000	$1,160,000
Four buckets	$811,000	$1,015,000	$1,135,000
Liquid comparison	$806,000	$1,010,000	$1,130,000
All cash	$1,040,000	$1,040,000	$1,040,000

Trade-off: four buckets ends $83,000 ahead of the higher-equity reference in the falling case but $25,000 behind it in the rising case. It ends $5,000 ahead of the matched-equity liquid comparison in every case: $250,000 x (6% - 4%). That is the assumed rate difference, not evidence of superior management.

One-year formula: ending value = cash x 1.04 + annuity x 1.06 + stocks x (1 + stock return) - 1% x beginning stocks - withdrawals. This table sets withdrawals to zero. For example, $150,000 x 1.04 + $250,000 x 1.06 + $600,000 x 0.66 - $6,000 = $811,000.

All cash finishes $95,000 behind four buckets in the rising scenario. Selling is only one timing decision; reinvestment is another. These scenarios do not assign probabilities or measure lifetime success.

Assumptions: cash 4% net of money-market fund expenses; annuity 6% with no explicit rider or advisory fee in the base model; 1% annual advisory fee on beginning stock assets only, deducted at year-end. No taxes, trading costs or additional stock-fund/manager expenses. Dividends are included in total returns, not added twice.

Source: How Smart Investors Prepare for the Storm, pp. 9, 23.

Write the operating rules before a decline

Decision	Illustrative rule from the source
Protect spending	Keep the $92,000 two-year target intact; reassess new obligations first.
Review allocation	Review quarterly and when stock exposure moves outside 55%-65%. These bands are examples, not optimized thresholds.
Use true excess	Up to three roughly $19,333 tranches from $58,000, only while stocks remain below the agreed range and the spending target stays intact.
Refill thoughtfully	Use cash flows, permitted contract withdrawals or maturities first; trim overweight assets tax-consciously when needed.
Override the rule	Health, spending, income or tax changes take priority. Revisit unused surplus after six months.

A 10% or 20% market fall is a review trigger, not an automatic buy. Rebalancing may add risk while prices fall. A locked annuity cannot be treated like a liquid bond fund. The scenario results assume no tactical deployment or rebalancing gains.

Bring to a review: the annual spending gap, upcoming obligations, all account balances, tax basis and actual annuity terms. Ask what can be withdrawn today, how reserves will be replenished and whether a lower-cost similarly allocated portfolio can meet the same needs.

Source: How Smart Investors Prepare for the Storm, pp. 13-15, 23.

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