Gatewood

THREE BUCKETS, ONE PURPOSE

A STRATEGIC GUIDE TO BUILDING ENDURING WEALTH

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GATEWOOD WEALTH SOLUTIONS

A NEW PERSPECTIVE

PURPOSEFUL RISK

Risk management is a tricky thing. The general assumption is that the older we get, the less risk we should take on, but that is not always the case.

If your retirement is fully funded and you have a good amount of cash, why not be more aggressive in funding your legacy and philanthropic goals?

DISCOVER HOW...

DON'T PUT YOUR EGGS IN ONE BASKET

PUT THEM IN THREE BUCKETS

There seem to be as many approaches to financial planning as there are wealth management firms. At Gatewood, we choose to employ goals-based planning, a strategy pioneered by the Charter Financial Analyst (CFA) Institute.

Goals-based planning involves segmenting out "risk buckets" and then matching asset allocations accordingly. A goals-based approach gives you a clear view of exactly where your assets stand, where they are projected to go, and what options exist for funding them in the future.

"GOALS-BASED PLANNING INVOLVES SEGMENTING OUT 'RISK BUCKETS'."

The beauty of the goals-based approach is that it can be easily personalized and scaled to address any client's needs, but the strategy tends to resonate especially well with clients who have concentrated risk in a closely held business or company stock.

RISK VS. REWARD

Managing highly concentrated assets

What is specifically challenging about a highly concentrated asset? Many people simply just don't know how to handle it - so they don't! We've come to learn that when people feel underprepared, they fail to take action.

> "WHEN PEOPLE FEEL UNDERPREPARED - THEY FAIL TO TAKE ACTION."

They file their position away in their back of their minds. "I know I have this asset," they think, "for when I really need it." They find reassurance in holding onto it for a rainy day, without considering that it may not even exist when the rainy day comes.

What if their business eventually goes south? Or what if their company becomes obsolete? In that case, their ownership or shares could be completely void of value. That would be a shame, especially if some of the assets could have funded a child's education, their retirement, or even goals that exceed their lifetime.

Plus, no one should have to cash out on any asset without considering the tax implications. Otherwise, it could end up costing them money that could have gone towards their goals, had they taken a broader perspective and considered other financial vehicles.

POWERFUL VISUALS

PURPOSEFULLY MANAGE RISK

Like any nuanced or complicated topic, financial planning is much more easily understood when presented with a powerful visual to accompany the message.

One way to think about goals-based planning is to envision three buckets or categories. These should help you visualize your assets and break them down into **"risk buckets"** to determine how you should allocate your assets and purposefully manage risk. These three buckets are...

BUCKET ONE

PERSONAL RISK

BUCKET TWO

MARKET RISK

BUCKET THREE

ASPIRATIONAL RISK

BUCKET #1

PERSONAL RISK

The first bucket (or category) of risk is our liquidity bucket or **"Cash Bucket."**

This bucket helps us make sure that we have enough cash - usually three to thirty months worth of savings depending on if you are new to your career or retired, to make sure you can weather any economic storm.

As Aaron Tuttle, our CEO, likes to remind our team, "Bull markets are measured in years, while bear markets are measured in months."

It is vital that we keep enough cash in this bucket to maintain the liquidity necessary to weather those bear months while remaining opportunistic.

"THE CASH BUCKET"

UNDERSTANDING INDUSTRY TERMS...

WHAT ARE BEAR MARKET AND BULL MARKETS?

In a **Bull Market**, optimism drives the momentum as investor confidence surges, pushing prices steadily upward. It's a period of opportunity, where growth and expansion create an environment ripe for wealth building, inviting participants to seize the gains of a thriving market.

Conversely, a **Bear Market** reflects a time of preservation, as declining prices and uncertainty dominate the landscape. Here, the focus shifts to resilience, navigating volatility with a disciplined strategy to protect capital and position for the eventual recovery ahead.

The idea is that in bearish markets, you draw from cash reserves to avoid liquidating assets during unfavorable conditions, whereas in bullish markets, you rebuild cash reserves to the target.

BUCKET #2

MARKET RISK

"THE RETIREMENT BUCKET"

The second bucket is essentially your **"Retirement Bucket."** It's the net present value of all the cash flow needed in retirement.

To get this number, firms like Gatewood will run a financial plan simulation to determine how much capital you will be spending in retirement, and then work backwards to see what is needed.

The goal, however, is not always to protect against principal loss; after all, your principal will always be at risk as the market fluctuates. Rather, this bucket's main goal is to seek to protect you against purchasing power risk, (essentially, the risk is that your "eggs" become more expensive than you can afford).

Inflation is best hedged with a diversified portfolio, so we just aim to keep up with benchmarks rather than try to drastically outperform the market - in this bucket, at least. This way, as clients navigate through retirement, education, and other life goals, their capital account can keep up with the growth of those expenses.

RECOMMENDED STEPS

TO DETERMINE YOUR BUCKET'S VALUE

1. DETERMINE YOUR CASH-FLOW NEEDS
2. GATEWOOD RUNS YOUR PLAN SIMULATION
3. IDENTIFY CAPITAL NEEDED FOR RETIREMENT
4. CREATE A RETIREMENT BUCKET

BUCKET #3

ASPIRATIONAL RISK

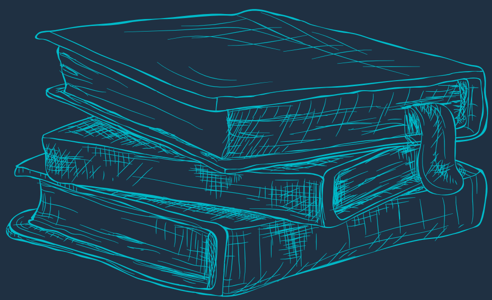
The final bucket includes anything in excess from the first two buckets, which we consider aspirational and therefore this is the **"Future Bucket."**

This could include legacy planning for children, grandchildren, or a cause that is important to you.

This bucket often warrants more concentrated risks - this would include the closely held businesses or public company stock mentioned earlier on. Our expectation for assets in this bucket is that they will significantly outperform the market.

"THE FUTURE BUCKET"

While the potential for significant gains exists, the risk of substantial losses is equally high.



CRAFTING A REAL LIFE EXAMPLE

THE REAL LIFE RISKS OF PUTTING ALL OF YOUR EGGS IN ONE BASKET

Let's use an example and say that you work for a large pharmaceutical company, and a significant portion of your compensation is in company stock.

That means that you have many proverbial "eggs in one basket" - **so you better be getting some incredible returns to justify taking on all of that risk!** However, if you're only getting returns as low as let's say 4-5%, something will need to change. That's where we come in to create a purposeful strategy.

WHAT THIS MEANS
FOR YOU AND YOUR FAMILY

The visual aspect of these “buckets” makes goal-based planning simple to understand, but **it’s a quite complicated process to execute** and usually warrants the assistance of a third party.

Part of the challenge is having the right technical and financial knowledge to create a plan, but the other part comes from fighting our own human natures. Our innate “fight or flight” instincts cause us to run at the first sign of trouble - including in market uncertainty.

“IT’S VITAL TO YOUR SUCCESS THAT YOU HAVE SOMEONE TO HOLD YOU ACCOUNTABLE TO YOUR GOALS.”

That’s when the behavior coaching of a professional third party becomes invaluable. According to research, the help of a professional wealth advisor could **add 5.1% to a client’s investment returns.**

Therefore behavior coaching is a major, important aspect of wealth management - and that’s why it’s a company pillar for us at Gatewood. It’s vital to your financial success that you have someone to hold you accountable to your goals and managing your risk bucket.

As our firm’s founder, John Gatewood, is fond of saying, “Wealth is made through concentration, but preserved through diversification.”

To properly create and preserve wealth, you must deploy and maintain a sound strategy and confident perspective. We believe by adopting the mindset we’ve described here with the help of a fiduciary advocate, that you can create an enduring plan, with a confidence in your plan that you never had before!

HOW CAN WE HELP...?

VISIT OUR WEBSITE

CRAFT YOUR ACTION PLAN

If you'd value the guidance of a professional wealth advisor, we'd love to schedule a time to craft your financial action plan!

VISIT WWW. GATEWOODWEALTH.COM
TO BEGIN CRAFTING YOUR FINANCIAL ACTION PLAN WITH OUR TEAM.

SOURCES:

FIDELITY. (N.D.). WHAT DOES A FINANCIAL ADVISOR COST?. FIDELITY INVESTMENTS. RETRIEVED [09.30.2024], FROM HTTPS://WWW.FIDELITY.COM/VIEWPOINTS/INVESTING-IDEAS/FINANCIAL-ADVISOR-COST#:~:TEXT=INDUSTRY%20STUDIES%20ESTIMATE%20THAT%20PROFESSIONAL,AND%20HOW%20RETURNS%20ARE%20CALCULATED.&TEXT=GOOD%20ADVISORS%20WILL%20WORK%20WITH,GROW%20AND%20PROTECT%20YOUR%20ASSETS.

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