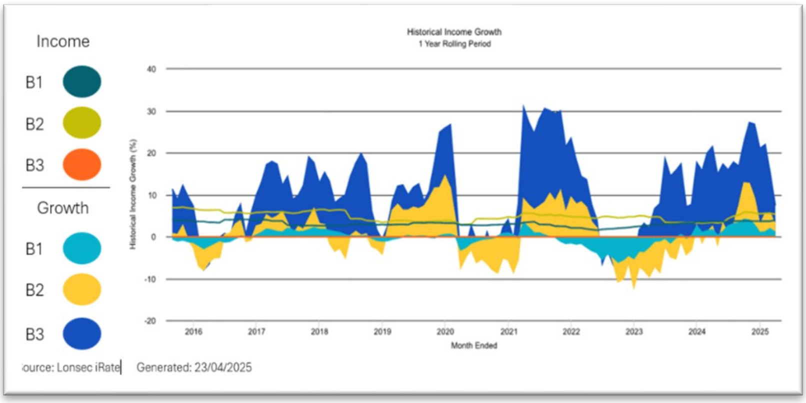
Written by Dean Cowdroy, Adviser at Up Wealth

Time-Horizons Investing: The Buckets Approach

What is Time-Horizons ("Buckets") Investing?

The time-horizons approach, commonly known as the "buckets approach" investing, is a strategic method that spreads your investments across three distinct 'buckets', each designed with a specific purpose and time horizon. This approach matches how long you expect to hold each part of your investment with the type of assets in it, helping to manage risk, plan withdrawals, and grow your money over time.

This strategy is particularly valuable for retirees and those approaching retirement, as it addresses one of the most significant challenges in retirement planning: managing sequencing risk. By structuring your portfolio across different time horizons, you can avoid having to sell volatile growth assets during market downturns, protecting your long-term wealth while ensuring short-term income needs are met.



Understanding the Three Buckets

Bucket	Asset Classes	Volatility	Time Horizon	Description
Bucket 1	Cash & Fixed Interest	Low to Medium	3 years or less	Focused on keeping your money safe and accessible in the short term. Includes fixed interest investments for stability and cash for easy access.
Bucket 2	Property, Infrastructure & Dynamic Funds	Medium to High	3 to 7 years	Designed to strike a balance between growth and income. Includes assets that offer more return potential than cash while remaining relatively stable.
Bucket 3	Global and Australian Shares, Alternatives	High	7 years or more	Focused on long-term growth by investing in shares and other higher-risk assets. These can fluctuate more but have greater growth potential over time.

At this point, it is important to understand several factors which allow us to start building a tailored portfolio for our clients. These factors include an understanding one’s expenditure needs, starting asset base and experience through various market conditions. These considerations provide us with key indicators which contribute to determining an appropriate level of risk for a particular portfolio.

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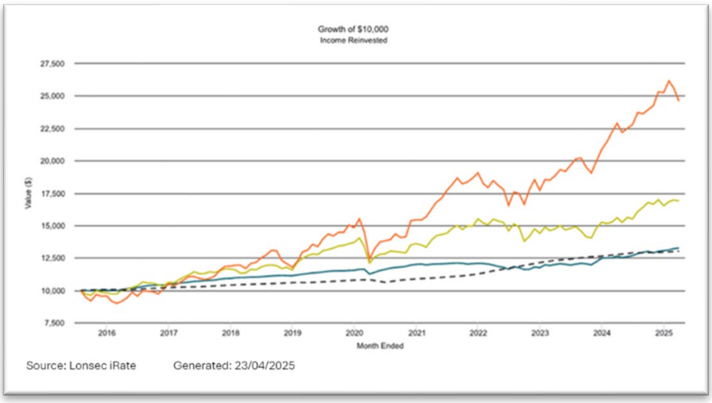
How We Build Your Portfolio

When we construct a time-horizon portfolio, we carefully match the income needs of the individual and time frames with each bucket, adjusting based on your goals and risk tolerance. This structure allows you to draw income without relying on selling growth assets too early, protecting you from having to sell investments at a loss during market downturns.

To apply this, we employ a sophisticated mix of active and passive investment funds:

- **Passive funds**
  - Track market indices, offering low-cost, broad diversification
  - Provides a “Market-like-return”
- **Active funds**
  - Aims to outperform the market by selecting specific investments.
  - May cost more but can add significant value over time.
  - Utilises different investment styles which work in different points in the business cycles.



At this point, it is important to understand an individual experience and understanding on a deeper level to provide a tailored solution and which ultimately provide structure in uncertain times typical of investing in markets. Here is where we can provide more of a buffer to provide some ‘piece of mind’ for clients, especially where there are reservations around the uncertainty ahead. These considerations provide us with key indicators which contribute to determining an appropriate level of risk for a particular portfolio, also known as risk profiling.

Addressing Retirement Anxiety

It's natural to feel anxious about the transition from employment income to drawing on your superannuation. After years of building your 'nest egg', the concept of drawing down on capital built over many years can be challenging, especially knowing it needs to last 30-40+ years.

The buckets approach addresses this anxiety by providing a structured framework that balances growth potential with income security. By having less volatile assets in Bucket 1 providing income-focused returns, this allows the more volatile assets within your portfolio to recover from short term impacts, many of which we have experienced firsthand such as the GFC, Covid-19 and even Mr. Trump in recent months. Even through these recessionary and volatile periods, history tells us that companies want to maintain steady dividend yields for shareholders, which allows the portfolios that we construct to be self-sufficient, paying pension payments in retirement.

The buckets approach isn't just about asset allocation - it's about peace of mind. By structuring your investments to match your time horizons, you can approach retirement with confidence, knowing your portfolio is designed to weather market storms while supporting your lifestyle for years to come.

As always, past performance is not a guarantee of future results. Markets change, and it's important to stay informed and take a long-term view. To keep the buckets working as intended, regular reviews and rebalancing are essential components of this strategy.

Any advice in this article is of a general nature only and has not been tailored to your personal objectives, financial situation and needs. Before acting on items in this article, you should consider whether it is appropriate having regards to your personal objectives, financial situation and needs.

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