



The bucket list: How to organize your money with intent

Are we always rational about money? When we think about it, the value we assign may not always align with our intentions

Opportunities and challenges

Money. It's a tricky concept in many ways, introducing both opportunities and challenges. When we think about wealth, we often think in terms of different "mental" accounts. In other words, we assign different values to, and uses for, money based on a variety of factors. These might include where it came from (inherited or gained through years of work) and what we intend to do with it (spend on lifestyle or give to charity, for example).

From mental accounts to physical ones

When you consider all your mental accounts—the sources of your money, and how you may use them—you might find it helpful to establish a more precise, physical framework of "buckets." This system allows you to regularly review the structure of your capital, to identify if behaviors truly align with what you are trying to accomplish.

Organize with intention

People may find it empowering to organize their money in four buckets: **liquidity** (cash), **lifestyle** (spending), **legacy**, and **growth**. This way, they can make sure that their money is organized and utilized in a way that supports their intentions and values.

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Liquidity (cash)

Many investors will plan for a contingency, to have enough money on hand to feel psychologically safe through the turmoil of markets, business cycles and life events. The goal is to ensure that spending or lifestyles will not be unexpectedly restricted or result in the sale of assets at the wrong time (i.e., sell low). Within the liquidity bucket, we want to have enough operating cash reserves for typical lifestyle expenses. These cover timeframes of approximately 1 to 3 years, encompassing big purchases, business expenses and the like. Many people also like to have “dry powder” available for opportunistic investments, so when others are selling low, they can spring into action and buy. How much liquidity, or cash, do you have on hand? Is it providing you with the freedom to do what you’d like, when you’d like? Liquidity might include actual cash, deposits, short-duration fixed income (bonds) and money market funds. In addition, it might also include lines of credit or real estate-based lending.



Lifestyle (spending)

By strategically allocating assets, investors can maintain lifestyle needs and wants for the rest of their lives. If, for example, they faced a large loss of capital in a business or concentrated investment—or a life event that left principal earners unable to work—this bucket would have enough money to mitigate adverse effects and maintain a consistent way of living. Its contents are specifically tailored to an individual or family’s definition of “lifestyle.” This could include everything from spending on essential needs to educational funds for children and grandchildren, to gifts for the family and the community at large. Do you have money set aside for your lifestyle? If so, is it enough? Maybe too much? Wealth reserved for lifestyle spending can also include multi-asset strategies and diversified alternative investments.



Legacy

The first two buckets hold money set aside for use within one’s lifetime, while the legacy bucket contains money meant to be used either during or after one’s lifespan. But there is some flexibility here. If the lifestyle portion is drained too early due to factors such as longevity, the legacy bucket can provide support to achieve a minimum level of wealth. In addition, this bucket may also be utilized for family gifts—either outright or via more complex wealth planning structures—as well as philanthropic gifts by way of family foundations. What intentions do you have (if any) to use your wealth to benefit people or organizations? A quarter of our clients have said they have no intention of leaving money to others beyond their lifetimes, meaning that legacy isn’t relevant to them. (See the power of intent article for more information about what clients say they intend to do with their money.) But if you are interested in leaving wealth for a specific purpose, what does your legacy bucket look like? A wide range of strategies can be effective: life insurance, trusts, complex wealth structures, general investments, real estate and more. People sometimes choose to borrow against assets in their legacy segment (e.g., real estate) to re-fill other buckets (such as lifestyle).

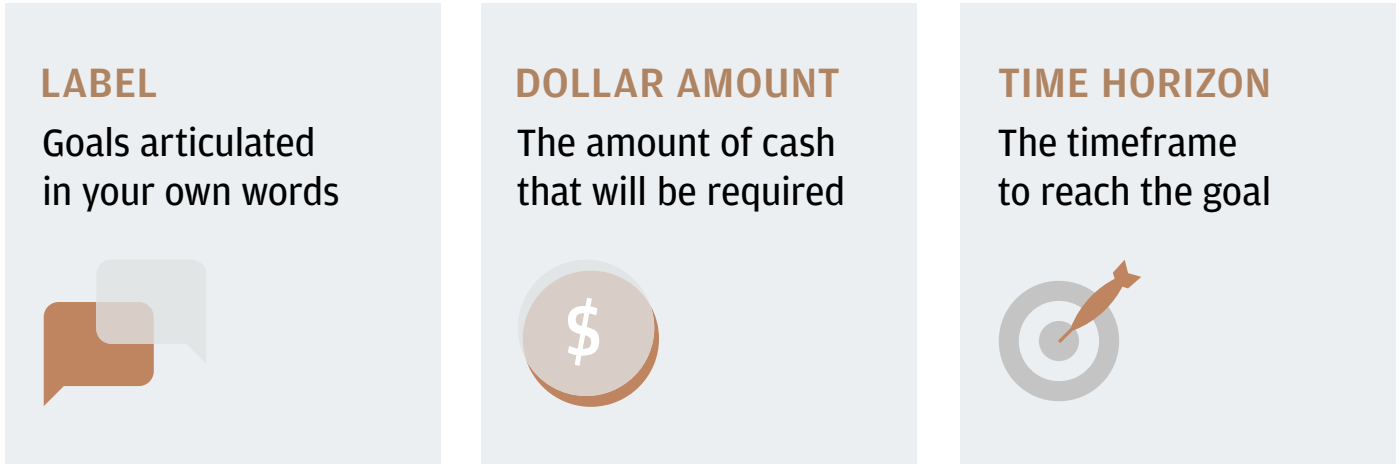


Growth

It is important to note that the contents of the aforementioned segments of wealth—liquidity, lifestyle and legacy—are all meant to be consumed. The fourth and final bucket has a different and distinct purpose. It is intended for long-term capital growth, which could serve as the foundation for intergenerational wealth or philanthropic giving in perpetuity. Do you have money that is meant to grow for decades to come? If so, how much? And have you communicated that with the people (family members) or organizations (family office) that are meant to steward it? Typically, this growth bucket includes long-term investing strategies that are more aggressive (e.g., private equity, public equities, and hedge funds), concentrated positions or investments, businesses and investment real estate (typically not family residences). Borrowing to enhance investment returns (“levered” investments) may also fit into this category.

Aligning goals with your buckets

For many of us, the concept of bucketing is a new way of organizing our thoughts around wealth. On the other hand, we all tend to have more or less developed ideas around our goals. An objective has three fundamental pillars: label, desired dollar amount and time horizon.



This matters because different buckets have different goals, time horizons and priority levels. Naturally, each will have dissimilar portfolio sizes and wealth strategies.

Creating a goals-based plan to secure your future

Sophia sat at her desk, looking out over the city from her high-rise office. She built her business from the ground up, and now, she was preparing to sell a significant stake in it. As she looked back on her journey, she realized what was most important to her—her family.









Sophia had always been driven, determined to succeed in business. But as she was moving to another phase in her life, something shifted inside her. She felt stronger than ever that her legacy was about more than the business she had developed. It was about leaving something behind for her family and the world. She knew that she needed help to restructure her wealth to achieve this goal, so she called her trusted advisor at J.P. Morgan

to discuss her future. There were two things she wanted to secure—funding her lifestyle goals and securing the future of her family.

Sophia's advisor listened patiently as she outlined her intentions. He knew that this was a crucial moment for her and her family. Together, they worked through the details, making sure that Sophia's plan was sound and secure.

As the deal for Sophia's business closed, she felt a sense of relief. She had achieved her goal, but more importantly, she had secured her family's future. Sophia knew that the road ahead would be challenging, but she was ready for it. She had a strategy in place, and she was prepared to execute it.

Have a blueprint, stay true to your objectives

	Goals	Strategic asset allocation	Capital allocation
	Cash for opportunistic investments, two years of spending buffer	 Cash	USD 10.0MM
	Lifestyle spending USD 1.0MM per year from 2024 to 2053	 Conservative	USD 27.7MM
	Legacy to family USD 30.0MM in 2053 (Invest \$ 22.4 MM now to give \$ 30 MM later)	 Balanced	USD 22.4MM
	Multi generational portfolio	 Growth	USD 39.9MM
Total			USD 100.0MM

Source: As of September 18, 2023

■ Cash
 ■ Fixed income
 ■ Equities
 ■ Alternatives

From awareness to action

Aligning your intentions with your wealth strategies is an ongoing process. It can begin at any stage of your journey. The strategies that serve your various goals may also evolve over time. For example, when you are younger you might not be sure how much wealth you will accumulate, or where it should go. As you get older, you may consider transitioning to more permanent wealth structures as you clarify your giving to your family or community. Whatever your intentions, get started. When you formally identify the buckets that apply to you and align them with your intentions, you can have much greater confidence in the long-term outcome of your wealth strategy.

This practical framework addresses some basic but important questions: where, exactly, is my money? Is it functioning the way I want it to? Will I have enough in a crisis? Will my wealth benefit my family? A single portfolio won't answer all of these questions. On the other hand, when you explicitly and intentionally organize your money, you can "right size" the amount of risk and illiquidity you adopt for each portion of your wealth, efficiently allocating capital throughout your wealth structure while addressing all pertinent questions. This can provide you with the peace of mind that your wealth is having its intended impact.

A few questions to get you started

Liquidity (cash)

- Are you planning on any significant purchases or financial commitments in the near term?
- Do you anticipate any outsized outflows?
- How much capital would you like to have available for compelling investment opportunities, or for tactical deployment in market dislocations?
- How much cash would you need to tide you through market volatility and business cycles, or for an unforeseen event?

Lifestyle (spending)

- What amount would you annually require to live as comfortably as you currently do?
- Are there any large outflows that you need to plan for?
- Do you anticipate any significant changes to your lifestyle needs over time?
- Are there any goals related to family members or loved ones that you view as a part of your lifestyle needs (education for children or grandchildren as an example)?
- Are there any other goals that you consider a part of your lifestyle?

Legacy

- How would you define success when it comes to you, your business, your family and your legacy?
- What do you want your legacy to be?
- Do you have any goals meant to benefit people during or beyond your lifetime?
- Who is the wealth meant for?
- When do you want to transition assets/holdings?
- What would you like to give? Cash, investments, real estate, collectibles etc.?

Growth

- What would you like to achieve with your wealth?
- Who will own and steward assets beyond your lifetime? Family members, family office, professionals?
- How do you view your concentrated assets?



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