



Time Segmentation Investing - Buckets

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- Time segmentation
- Asset liability matching
- Defeasance
- Buckets

What's "buckets" really all about

- Controlling the client's behavior
- Controlling the advisor's behavior
- Making time your friend
- Recognizing that different investments require different amounts of time to be successfully harvested
- Matching
 - Patience
 - Client's usefor the funds
 - Type of investment utilized

What factors or behaviors might interfere with that delivery

- What might interfere with you maximizing your value-added?
- The client wants
 - To jointly manage investments with you
 - You to offer them a shoe store of selections . . . that they then pick from
 - To follow some crazy questionable investment nostrum

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- The client is
 - Unable to let go
 - Focused on the wrong thing . . . on the wrong objective(s)
 - Driven by greed, fear, hope, desperation

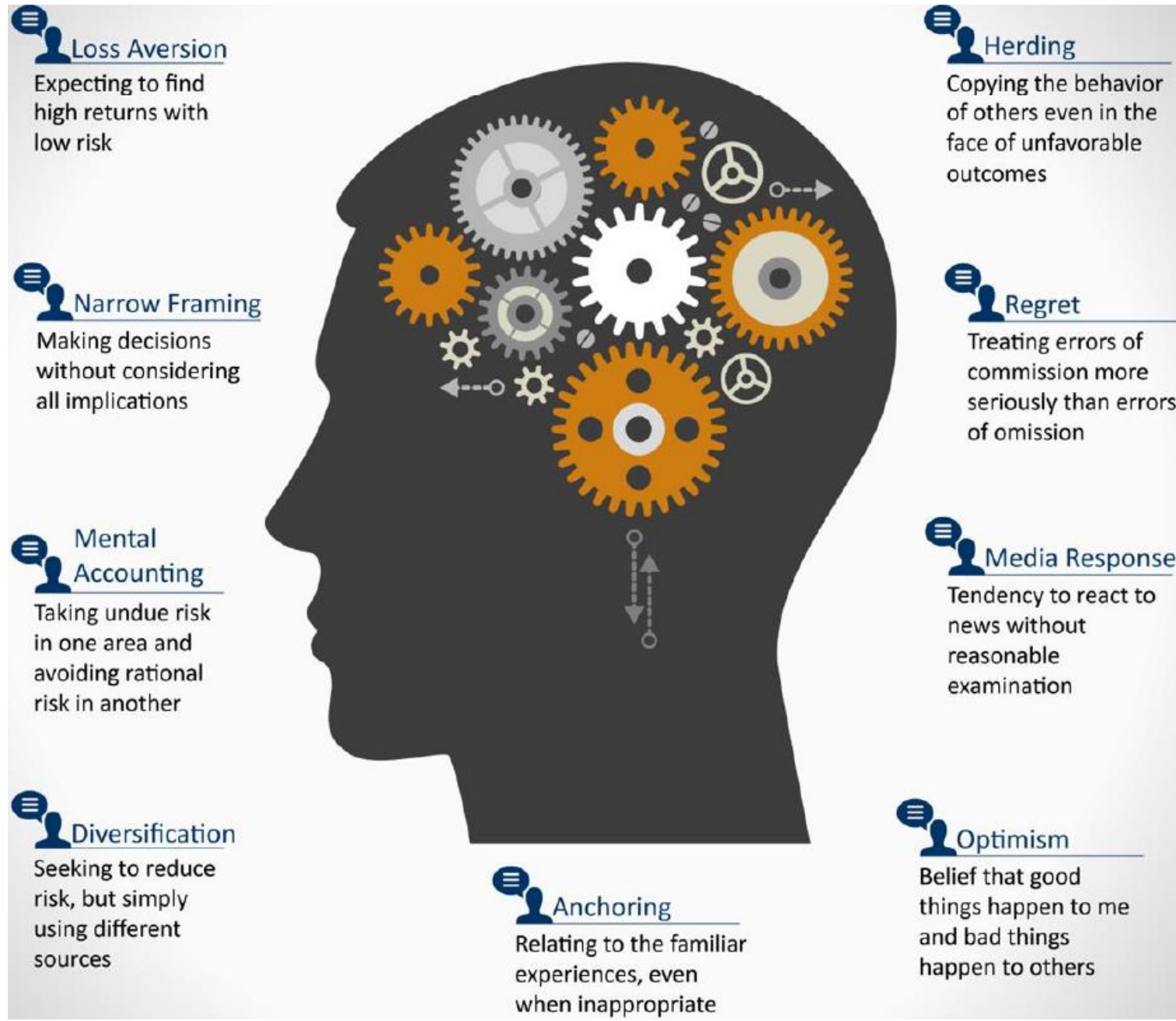
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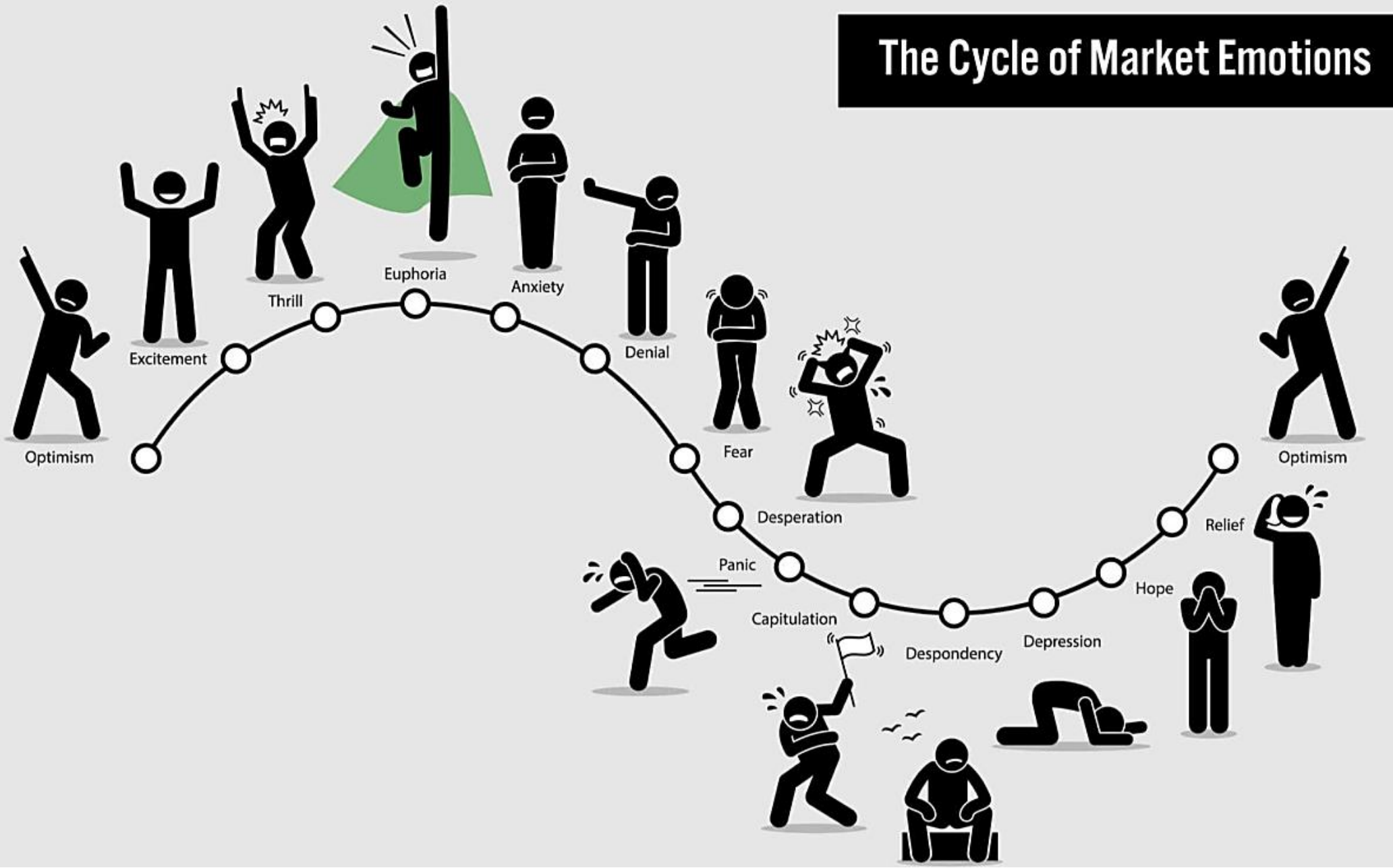
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- The client believes that
 - They can “beat the market”
- The client has a problem with time
 - Just seeking entertainment
 - Has an excess of time on their hands
 - Lacks a rewarding life

Most of it starts with our inherent psychological weaknesses



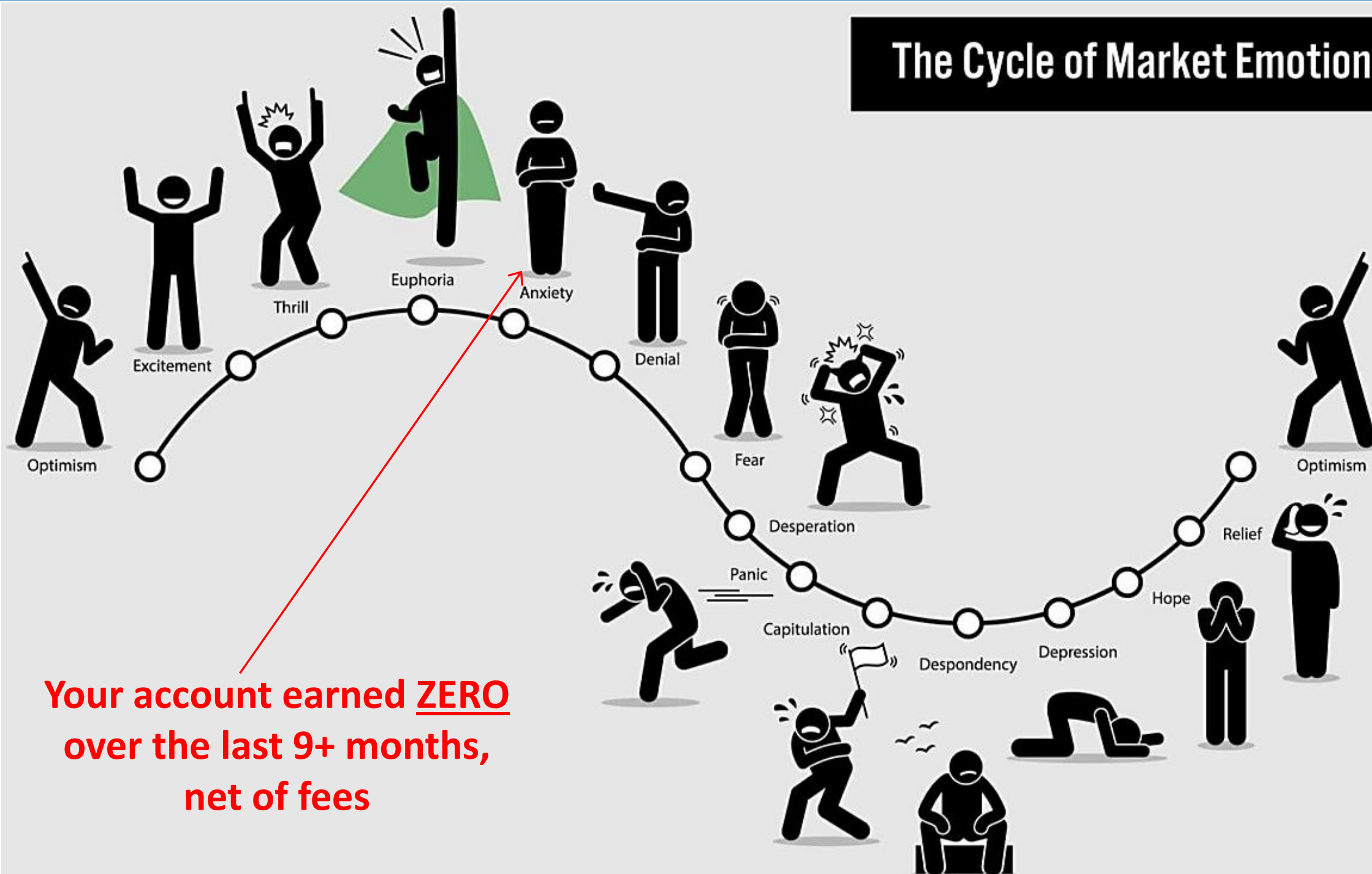
Most problematic behaviors are exacerbated by a focus on past performance as opposed to future goals

One of the greatest drivers - Focus on past performance



- Don't want to live in an uncertain world . . . even if embracing uncertainty leads to tremendous gain
- Feel the pain of loss more than the joy of gains
- Humans tend to feel the pain of a loss twice as intensely as the joy of an equivalent gain . . . often leading to panic selling
- Prefer avoiding losses over realizing gains
- Volatility, a correction, or fear . . . often drives this dysfunctional behavior

The Cycle of Market Emotions

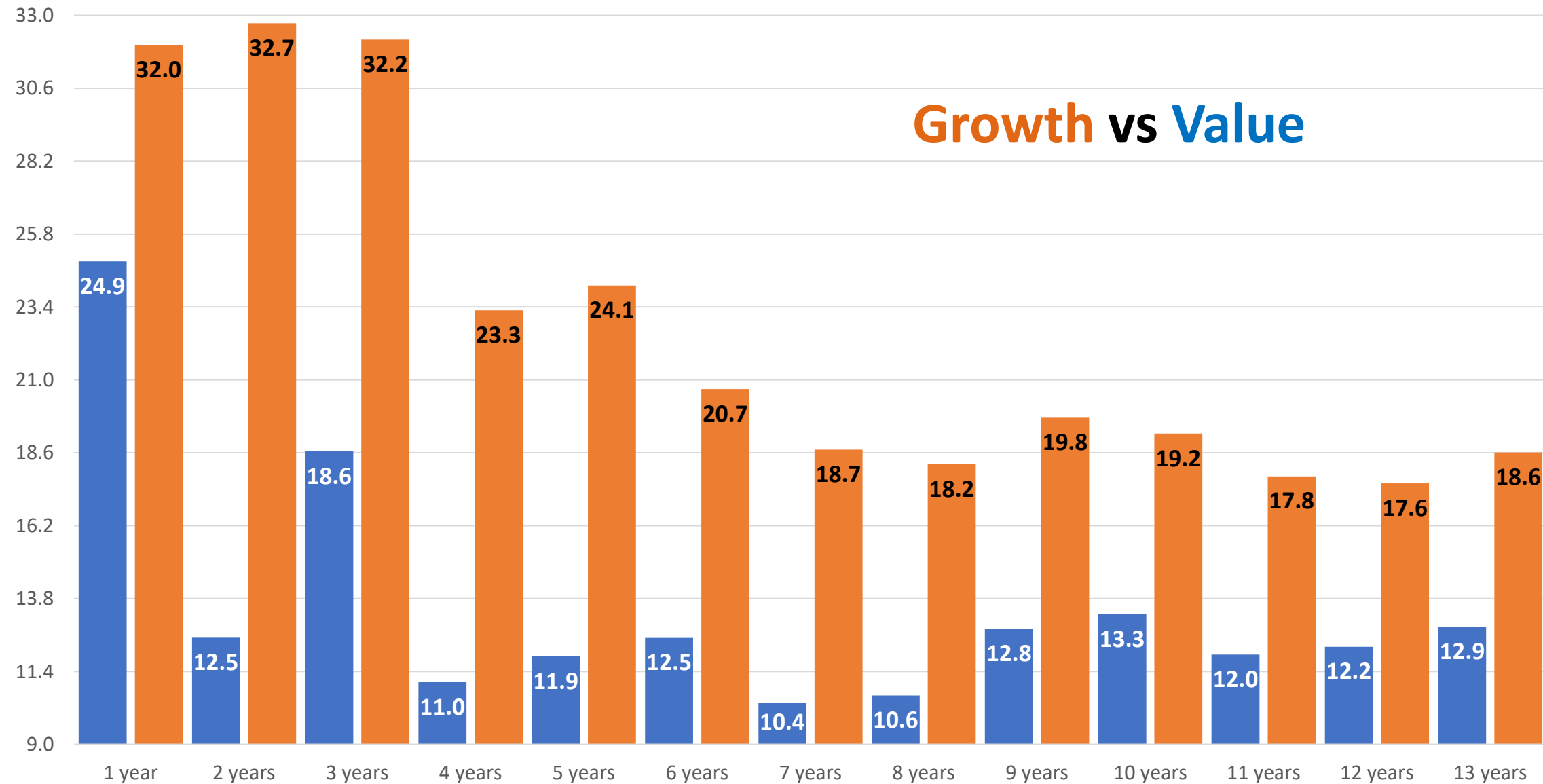


**Your account earned ZERO
over the last 9+ months,
net of fees**

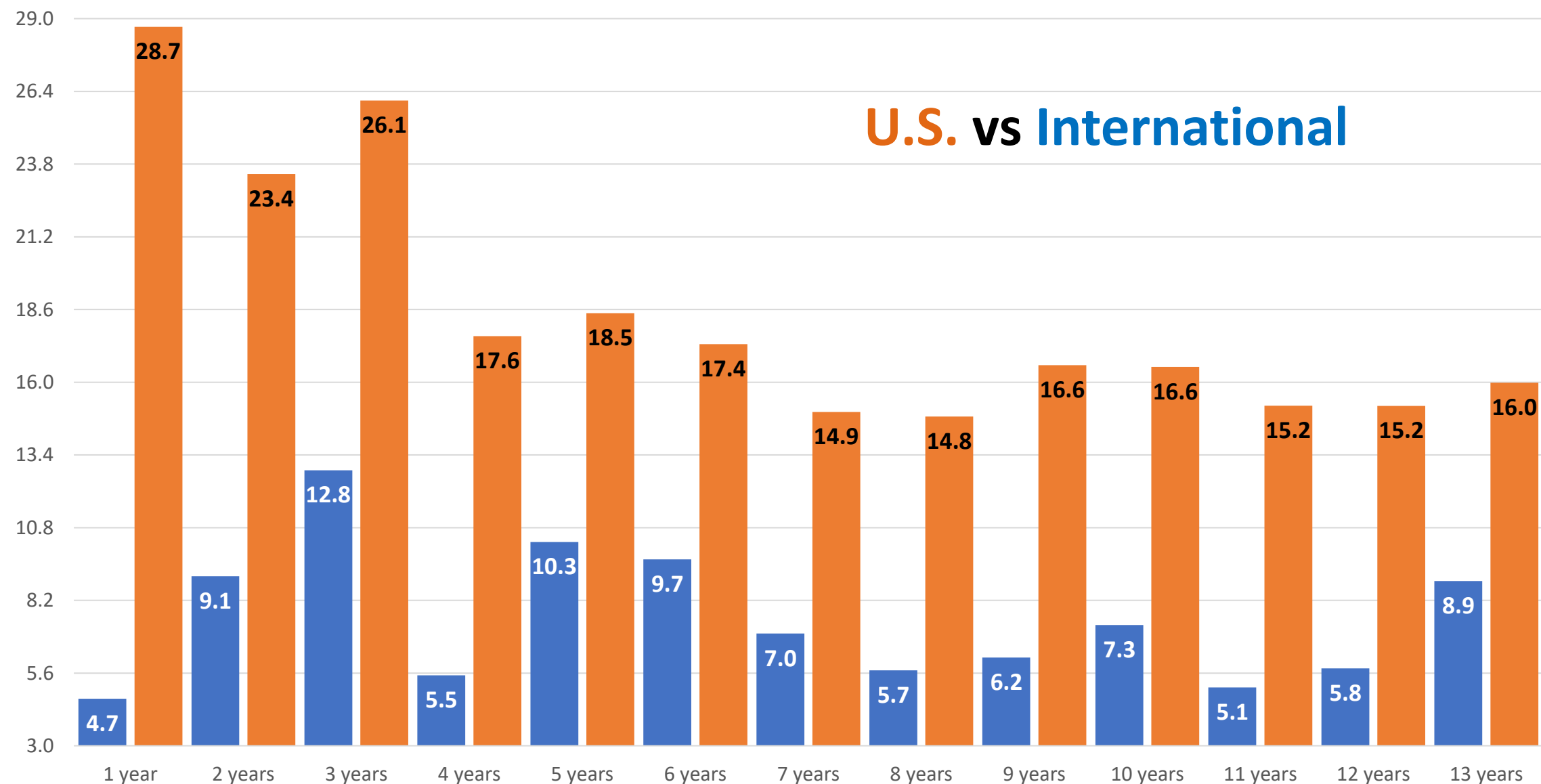
- Accessing only a small part of available information
- Hearing only those sources that confirm your existing
 - Fears
 - Perspectives
 - Recent experiences
- Reject or ignore conflicting views
- Make decisions without considering all available information . . . and associated implications
- Change defined by “*direction*” instead of “*speed*” often drives this dysfunctional behavior



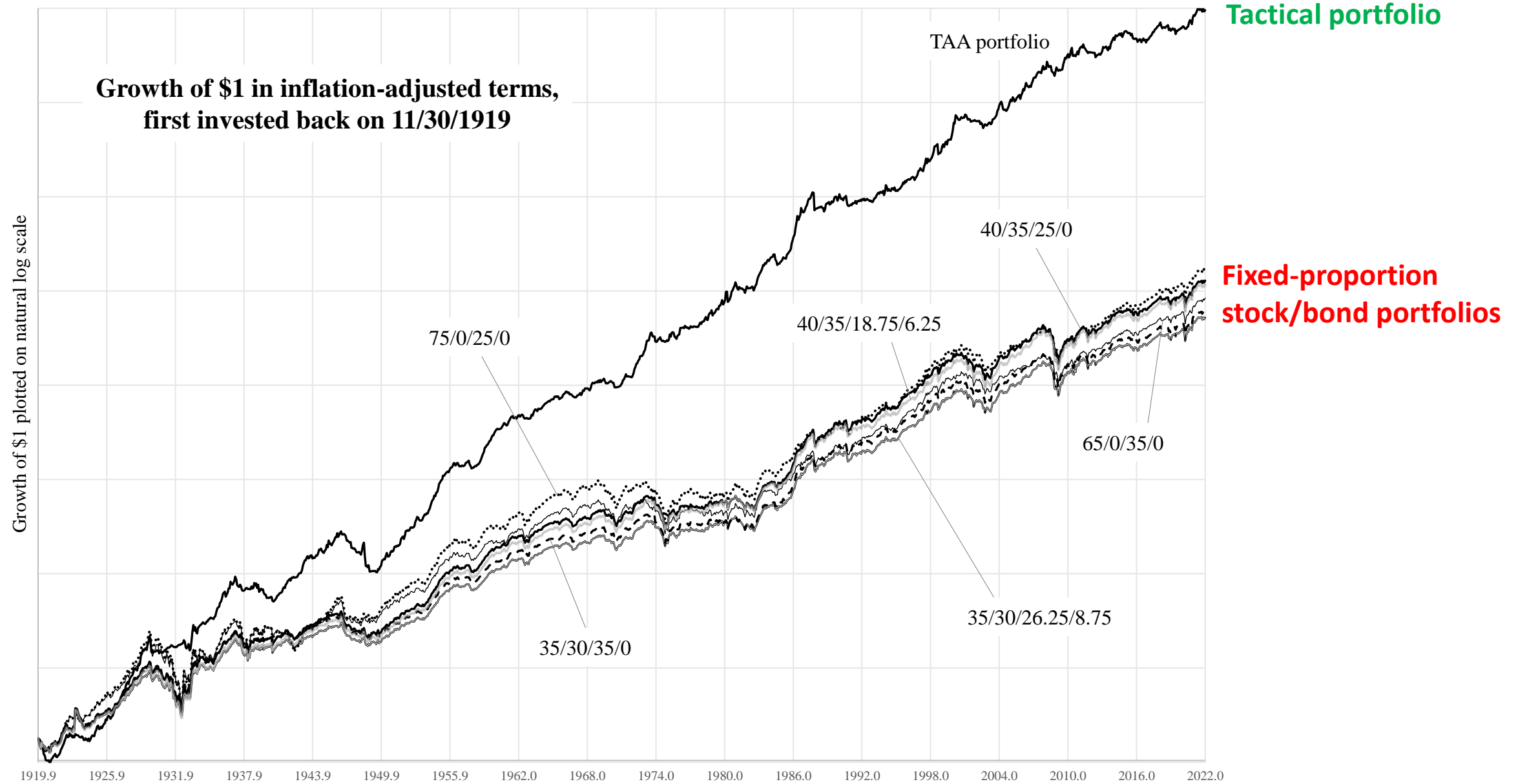
- Falsely thinking . . . that past returns from a Domestic portfolio will continue into the future



- Falsely thinking . . . that Growth's dominance over Value will continue into the future



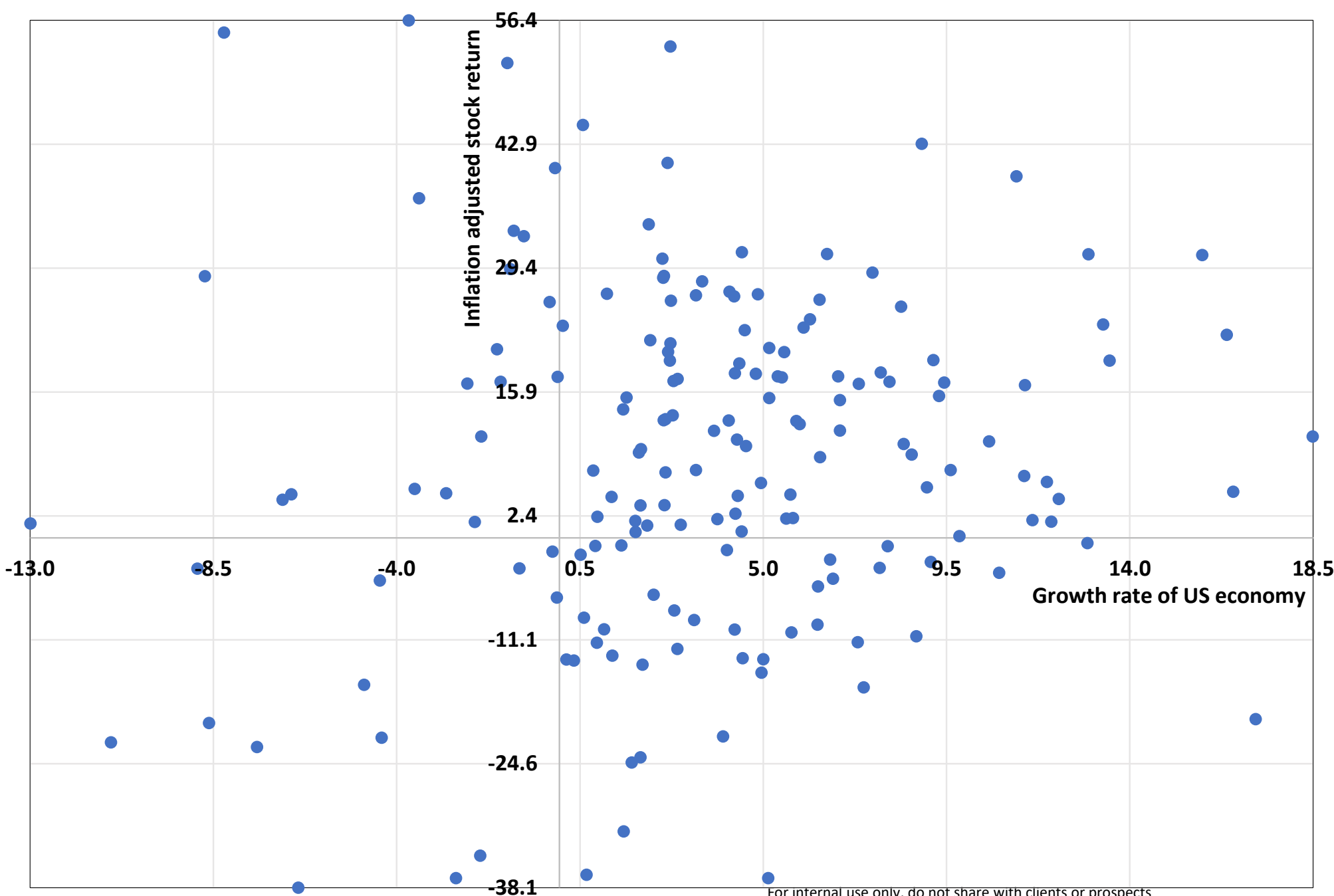
• Falsely thinking . . . that U.S. dominance over International will continue into the future



- False thinking . . . that past brilliant success of fixed-weight stock/bond portfolios will continue into the future

- React to news without adequate examination
- Overestimate importance . . . or even veracity of news
- Overvalue a new trend or an idea as popularized in the news . . . for example
 - Innovation stocks
 - Crypto
 - How many times the Fed will raise rates
- Allow the irrelevant and unimportant to displace the relevant/important
- Undue attention to popular news sources often drives this dysfunctional behavior

Media response . . . 95% of the news is wrong or irrelevant



Years when stock returns were **POOR**¹ . . . the economy grew 2.5%

Years when stock returns were **HIGH**² . . . the economy grew 2.6%

LESSON . . . Don't get hung up on media reports about the U.S. economic growth

1. "POOR" is defined as less than +0.75% after inflation has been subtracted out

2. "HIGH" is defined as more than +26% after inflation has been subtracted out

- Frequent down years
 - 26.4% of the years are **NEGATIVE**
- Volatility
 - -44% was worst ever calendar year
 - ⅓ of time . . . return is less than 3.99%
 - ⅓ of time . . . return is more than 18.96%
- Bear markets
 - Average bear . . . -41% spread over 1.65 years
- Large attractive returns . . . but only when you bring the required patience to the table
 - 9.09% per year . . . *before inflation*

- Frequent down years
 - 17.4% of the years are **NEGATIVE**
- Volatility
 - -13% was worst ever calendar year
 - ¼ of time . . . return is less than 0.94%
 - ¼ of time . . . return is more than 7.86%
- Bear markets
 - Severe and long-lasting
- Large attractive returns . . . but only when you bring the required patience to the table
 - 4.89% per year . . . *before inflation*

Bear markets for inflation-adjusted U.S. bonds since 1845

	Cumulative percentage return, unannualized	Duration in years	Start date	End date	Volatility, annualized standard deviation of monthly returns	Percentage of monthly returns that were POSITIVE	Annualized return during BEAR market
	-22	2.67	Mar 1863	Nov 1865	6.1	31	-9.1
	-50	11.42	Dec 1908	May 1920	4.8	41	-5.9
	-31	16.58	Jan 1941	Aug 1957	3.3	45	-2.2
	-40	16.33	May 1965	Sep 1981	6.4	45	-3.0
	?	?	Jul 2020	?	?	?	?
Median BEAR market	-35	13.87			5.4	43	-4.5
Mean BEAR market	-36	11.75			5.1	40	-5.0

- **Client**

- Behavior modification
- Patience
- Making “time” your friend
- Breaking the dysfunctional/slavish focus and reliance on benchmark comparisons
- Encourages measurement of what really matters
 - What do I need to earn
 - How much time do I have to earn it
 - Is this reasonable/logical given today’s valuations and opportunities

- **Investments**

- Different investments have radically different “maturation cycles”
- Size of the investment opportunity is often directly associated with the length of the maturation cycle

- Time Segmentation Investing
- YOUR GOALS
 - Every goal . . . has a specific time destination in the future
- INVESTMENTS
 - The best investment solution . . . for each time destination is different
- PATIENCE
 - Investors . . . must bring the required patience to any investment . . . giving it the time it requires to sprout, grow, mature, and eventually be harvested

But what if you had a different objective

- An objective that strongly aligned with your real world needs

Time Segment	Used for needs that are this far in the future	Required Return (measured net to the investor, and only at the final Destination)	Destination (number of years in the future at which seek to have earned at least the Required Return)
1	0 - 5 years	3%	2½ years
2	6 - 10 years	4%	7½ years
3	11 - 15 years	5%	12½ years
4	16 - 20 years	6%	17½ years
5	21 and greater years	7%	22½ years

Bucket approach - traditional concept



Bucket 1
Years 0 to 5
100% bonds



Bucket 2
Years 6 to 10
"25% stocks"



Bucket 3
Years 11 to 15
"50% stocks"



Bucket 4
Years 16 to 20
"75% stocks"



Bucket 5
Years 21 and Greater
100% stocks

Bucket approach - traditional concept

- With my own SMALL group of clients
- I use between 1 and 4 buckets, never 5



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Bucket approach - Two extra possible buckets



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Excess bucket
"??% stocks"



Mad money account
"??% stocks"

Bucket approach - Two extra possible buckets



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Excess bucket
"??% stocks"



Mad money account
"??% stocks"

- With my own SMALL group of clients
- I don't use the "Excess bucket," but it is a brilliant powerful idea
- I do use the Mad money account bucket
- And I always phrase it as an "extra bucket"



Bucket A



Bucket B



Bucket C



Bucket D



Mad money account

- *“If your plan is for 1 year, plant rice. If your plan is for 10 years, plant trees. If your plan is for 100 years, educate children.”*

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There are two different types of investments

- **Journey**

- Virtually all investments offered by commercial investment managers are Journey portfolios
- Hedge funds are a notable exception but then true hedge funds are not available in the retail space
- Commercial success for Journey portfolios is generally based on
 - A sexy story
 - Earning more than some comparative benchmark over the last 1-, 3-, 5-, and 7-years . . . even if this means delivering a loss

- **Destination**

- It is generally not economically attractive for Commercial investment managers to offer Destination portfolios
- Commercial success of Destination portfolios require a different and challenging “sales-story”
- Adoption of Destination portfolios is generally found among **advisors operating as fiduciaries**

So can you pick any old investment for each bucket?

- **NOPE !!!**
- You've got to pick an investment with a high probability of earning at least the minimum required return

- Price matters
- Expected return
- Time required for a successful harvest
- How close we are to the next
 - Stock bear market
 - Economic recession
- Will we have a bond bear market
- Have interest rates been pushed down to a 3,000 year low . . . do you think this might matter?

Of course Price matters

- Example
- There's a bond . . . It pays \$100 in interest every year
- Does it matter what you pay for it when you buy it?
 - \$10,000
 - \$1,000
 - \$2,000
- Yay
 - You end up earning 1%, 10%, or 5% forever
- And yep Stocks are exactly the same

What are the issues . . . When picking an investment for each bucket

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Challenged . . .

- Investment grade bonds, Treasuries, TIPS
- Growth stocks
- Technology & innovation stocks
- U.S. stocks

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Huge differences

- Bank CD
- Tactical Asset Allocation portfolio
- Small cap stocks
- Venture capital

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- 
- Buy&Hold stocks do terrible during bear markets
 - Small cap does terrible during recessions, especially so with the high concentration of Zombies in SmallCap

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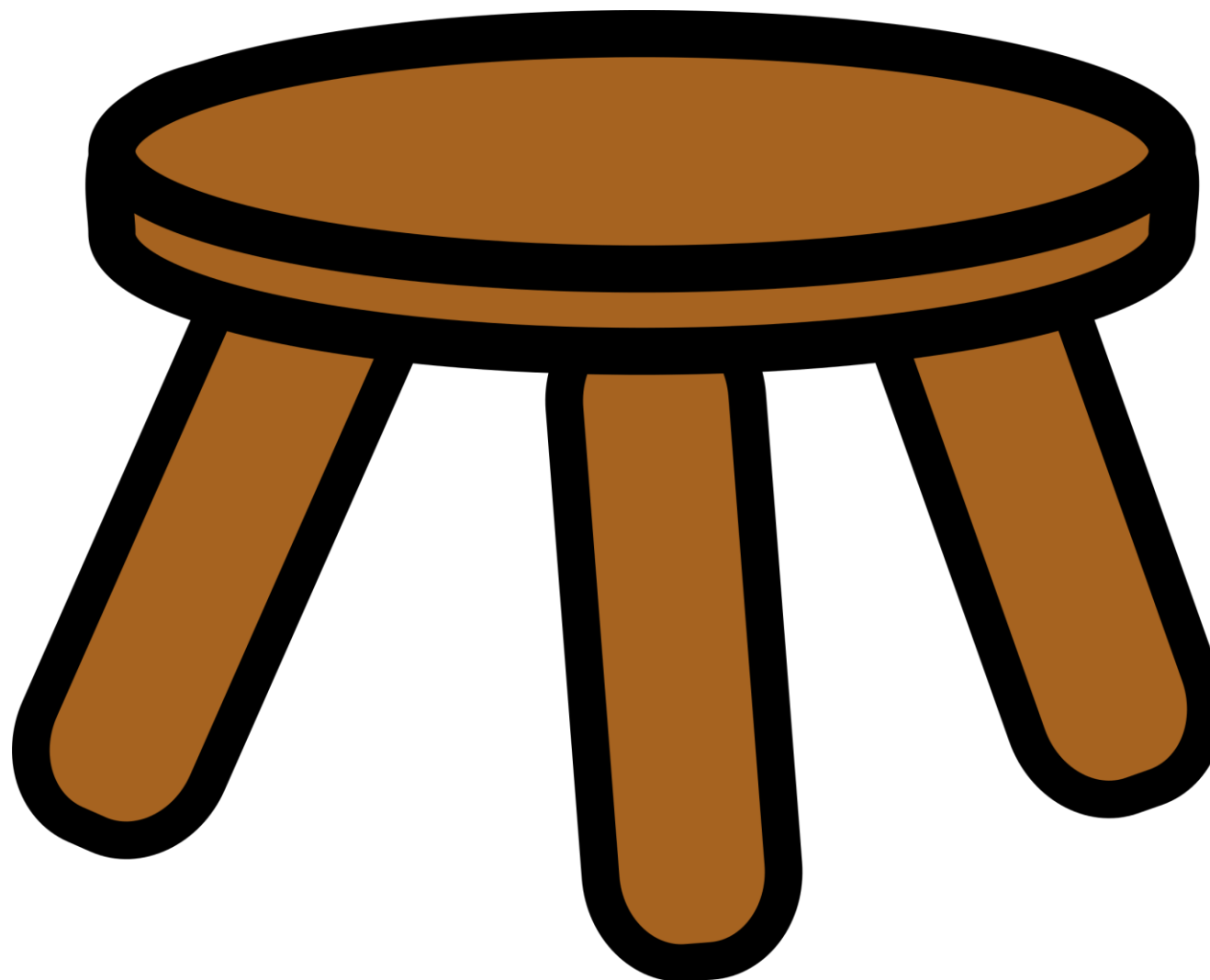
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- 
- Traditional bonds do terrible during bond bears
 - Instead use
 - Short ladders
 - Tactical Asset Allocation bonds

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A game changer

- All returns are ratcheted down
- Have to go further afield
- Have to give up liquidity
- BUT . . . Avoid sexy stories

Buckets



**Always
adapting
and evolving**

**Forward-looking
investments**

For internal use only, do not share with clients or prospects

What's "buckets" really all about

- Controlling the client's behavior
- Controlling the advisor's behavior
- Making time your friend
- Recognizing that different investments require different amounts of time to be successfully harvested
- **Matching**
 - Patience
 - Client's usefor the funds
 - Type of investment utilized

Has nothing to do with

- Beating a benchmark
- Comparing yourself to a benchmark
- Just making a whole bunch of money

And it still leaves you with the problem of identifying an investment that will work

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Qualitative outlook on why tactical asset allocation is very vital today

Friday

March 18th

11:00 a.m. EASTERN

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