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THE BUCKET STRATEGY:

A SMARTER WAY TO INVEST DURING RETIREMENT

BUCKET 1
INCOME

- For the next 2–5 years
- Focus on stability and income
- Cash and income investments

BUCKET 2
BALANCED

- 5–10 year time horizon
- Moderate growth with moderate risk
- Balanced and diversified funds

BUCKET 3
GROWTH

- 10+ year time horizon
- Focus on long-term capital growth
- Growth and equity investments

WHY IT WORKS

- Protects income in market downturns
- Gives investments time to recover and grow
- Helps beat inflation and preserve purchasing power
- Provides peace of mind

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The Bucket Strategy: A Smarter Way to Invest During Retirement

One of the biggest fears retirees face is running out of money.

After spending decades building wealth, retirement introduces a new challenge: converting your savings into a reliable income while ensuring your capital lasts for the rest of your life.

Many retirees make the mistake of viewing their retirement investments as a single pool of money. However, a more effective approach is often the **Bucket Strategy**, a retirement planning method designed to balance income needs, investment growth, and market risk.

What Is the Bucket Strategy?

The Bucket Strategy divides your retirement savings into separate "buckets", with each bucket serving a specific purpose and time horizon.

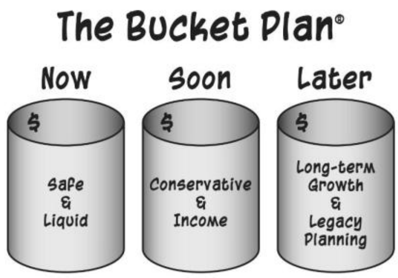
Rather than investing all your retirement capital in the same way, different portions of your portfolio are allocated according to when the money will be needed.

Typically, the strategy consists of three buckets:

Bucket 1: Income and Cash Needs

This bucket contains money needed for your immediate income requirements over the next two to five years.

The objective is stability and accessibility rather than growth.



Investments may include:

- Cash investments
- Money market funds
- Income funds
- Fixed deposits
- Conservative income portfolios

This bucket provides your monthly retirement income and acts as a buffer during periods of market volatility.

Bucket 2: Medium-Term Growth

The second bucket is designed to replenish Bucket 1 over time.

These funds are generally not required immediately and can therefore accept a moderate level of investment risk.

Investments may include:

- Balanced funds
- Multi-asset funds
- Moderate-risk unit trusts
- Diversified income and growth portfolios

The investment horizon for this bucket is typically five to ten years.

Its purpose is to provide growth while remaining relatively stable during market fluctuations.

Bucket 3: Long-Term Growth

The third bucket is invested for long-term capital growth.

This portion of the portfolio may not be required for ten years or longer and can therefore tolerate greater short-term volatility.

Investments may include:

- Equity funds
- Global equity portfolios
- Offshore investments
- Growth-oriented unit trusts

The objective of this bucket is to generate returns that exceed inflation and help ensure your retirement capital continues growing throughout retirement.

Why the Bucket Strategy Works

The Bucket Strategy helps solve one of the biggest retirement risks:

Being forced to sell investments during a market downturn.

Imagine a retiree whose entire portfolio is invested in growth assets. If the market falls by 20%, they may still need to withdraw income every month.

This means they could be forced to sell investments at depressed values, locking in losses and reducing future growth potential.

With a Bucket Strategy, income can continue to be drawn from the short-term bucket while growth investments are given time to recover.

This can significantly improve the sustainability of retirement capital.

A Practical Example

Let's assume a retiree has R6 million available for investment and requires an income of R25,000 per month.

Their portfolio could be structured as follows:

Bucket 1 – Income Bucket

R1.5 million

Purpose:

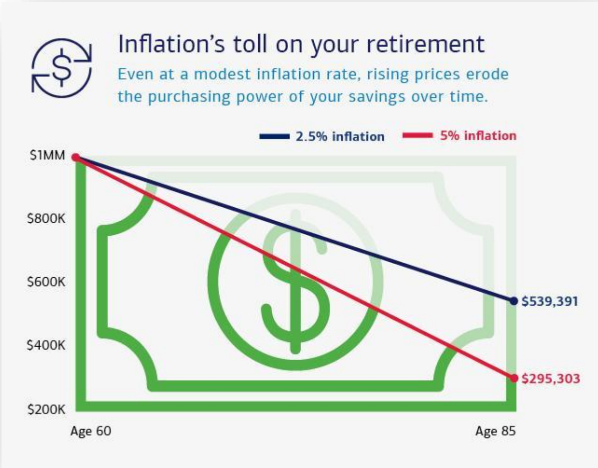
- Provide monthly income
- Cover approximately five years of withdrawals
- Protect against short-term market volatility

Bucket 2 – Balanced Bucket

R2 million

Purpose:

- Generate moderate growth
- Replenish the income bucket when required



Bucket 3 – Growth Bucket

R2.5 million

Purpose:

- Long-term growth
- Combat inflation
- Support future income requirements

Over time, profits from the growth buckets can be transferred into the income bucket as required.

Managing Inflation

One of the greatest threats to retirees is inflation.

A monthly income of R25,000 today may need to be:

- R33,000 in ten years
- R44,000 in twenty years

Without sufficient exposure to growth assets, retirees may struggle to maintain their purchasing power.

The Bucket Strategy addresses this by ensuring that a portion of the portfolio remains invested for long-term growth, even after retirement.

The Emotional Benefit

Retirement investing is not only about numbers.It is also about peace of mind.

Many retirees become anxious when markets fall because they fear their income may be affected.

Knowing that several years' worth of income is already set aside in a dedicated income bucket often provides significant comfort during periods of market uncertainty.

This can help investors remain disciplined and avoid emotional investment decisions.

There Is No Perfect Formula

Every retiree's circumstances are different.

The appropriate size of each bucket depends on factors such as:

- Age
- Health
- Income requirements
- Risk tolerance
- Investment objectives
- Other sources of income
- Estate planning considerations

A retiree receiving a substantial pension may require a different structure to someone relying entirely on their investment portfolio for income.

Final Thoughts

Retirement investing is no longer about simply growing your wealth, it is about creating a sustainable income stream while protecting your capital against inflation, market volatility, and longevity risk.

The Bucket Strategy offers a practical and effective framework for achieving these objectives.

By separating short-term income needs from long-term growth investments, retirees can often enjoy greater financial security, more predictable income, and increased confidence that their money will last throughout retirement.

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