Providing Investment Returns While Maintaining Flexibility and Liquidity

There is a relationship with return, time, and liquidity of assets. For example, **usually** the longer you lock-in a Certificate of Deposit or the longer the holding the period on a bond - the higher the return on the investment. This is normally provided in exchange to the commitment they receive on utilizing your money for an extended period. By committing to a longer time horizon, and in exchange for a potentially higher return, you commensurately give-up some liquidity - withdrawal penalties that limit access is an example.

We recommend taking a four-tiered pooled asset approach. Each pool represents a holding period (bucket of money) for when you will need or want to have access to the money. Laddering these pools of assets provides the potential for higher overall return and yet provides liquidity as needed. The idea is based on the premise that the stock and bond markets have historically outperformed fixed income and short term investments over the long run. However, in order for the historically favorable returns to occur with stock and bond invested money, the investment needs to be held through a typical market cycle of 5-10 years. There is no assurance that this strategy will meet your goals. Investing involves risk and you may incur a profit or a loss. Generally, the higher the return the more risk an investment is subject to.

Pool A: This holding period is generally for money that may be needed over the next week to six months. Generally, these funds provide for emergencies, offset insurance deductibles and provide immediate access to money if you are out of work or become disabled. Short term needs require immediate liquidity. This bucket of money can be supported through money vehicles like “pass-through savings accounts”.

Pool B: This holding period is designed for money that may be needed over 6 months but less than 2-4 years. This pool still provides for relatively short term needs but allows the purchase of longer durations of CDs and bonds help to provide higher return. Very conservative asset allocation strategies can also be used to potentially earn a higher growth rate on the money.

Pool C: This pool of assets is designed for use during a 5 to 8 year period of time. This allows for investors to enter into a properly allocated portfolio of investments designed to provide return in five years. We know that the stock and bond markets cycle so this strategy allows a properly allocated investment strategy the time to develop and cycle through its ups and downs. By allowing a longer holding period you are allowing money to be invested for potentially higher returns in the market by exchanging less immediate liquidity due to the need to allow the market cycle to run its course. This asset pool eventually will shift part of its assets to Pool B (shorter term reserve) and receive assets from Pool D (longer term investment strategy).

Pool D: This long term holding pool is designed for 9 years and beyond. This timeline allows an investor to take a more assertive posture with this pool’s holdings. Remembering that the longer the investment holding period, the more opportunity for a properly designed portfolio to develop and react to the inherent market cycles. This pool of assets represents the best potential opportunity for long term growth and to outpace inflation by the largest margin providing true return for future use.

It is critical that each pool is designed with proper asset allocation balancing your investment temperament with the objective of the pool. Additionally, be sure to balance the tax issues of each pool. A longer holding period allows for potentially more benefit through tax – deferred investments.

Please call, email or write for more information on how to personalize this money strategy for you and your goals.

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