

PlanScout

✓ The Time Horizon Advantage

Why Cash Flow-Based Planning, Not Age, Drives True Wealth



For decades, conventional wisdom in financial planning has dictated a simple, seemingly prudent approach: *as clients near retirement, their investment portfolios should become increasingly conservative.*

The rationale is to shield accumulated wealth from market downturns, mitigating the dreaded "sequence of return risk"—the danger of withdrawing assets at unfavorable times when markets are depressed, permanently impairing a portfolio's ability to recover and grow.

While the intention is sound, this age-based, "set it and forget it" asset allocation strategy is fundamentally flawed and outdated. It's a lazy rule of thumb that often leads to significant wealth erosion, particularly for clients entering or already in the distribution phase of their lives.



This white paper will demonstrate why aligning investments with the time horizons for needed cash flow – a strategy often called **bucket planning** – is a far superior wealth driver, minimizing sequence of return risk and unlocking greater long-term growth potential.

The Flaw in Conventional Wisdom: Why Getting Conservative Too Soon Costs You

The traditional approach advocates a gradual shift from growth-oriented equities to more conservative fixed-income investments as retirement approaches. The idea is to build a nest egg and then protect it.

However, this overlooks a crucial reality: **not all of a retiree's assets are needed immediately.**

Consider a 65-year-old client with 30 years of expected retirement. While they will need cash flow for immediate expenses, a substantial portion of their wealth may not be accessed for 5, 10, 20, or even 30+ years.

By indiscriminately allocating all assets more conservatively based solely on their age or proximity to retirement, these clients **miss out on decades of potential market growth** for funds that could withstand short-term volatility.





The flaw lies in the assumption that all assets face the same short-term liquidity demands. **This leads to:**

- **Lost Growth Opportunities:** Assets unnecessarily held in low-growth, low-volatility investments miss out on the long-term compounding power of the market, particularly equities.
- **Suboptimal Tax Efficiency:** A blanket conservative allocation may not consider the most tax-efficient withdrawal strategies, potentially leading to higher taxes over the retirement horizon.
- **Increased Longevity Risk:** By dampening growth, clients increase the risk of outliving their savings, especially in an era of increasing life expectancies.

Bucket Planning: A Cash Flow-Driven Revolution

Instead of focusing on proximity to retirement, PlanScout champions a cash flow-based financial planning strategy, specifically bucket planning.

This sophisticated approach involves segmenting a client's wealth into "buckets" based on when those funds are anticipated to be needed.

Each bucket is then invested according to its specific time horizon and risk tolerance for market drawdowns.



A typical bucket planning strategy might include:

Bucket 1

Short-Term Needs: 0-4 years

This bucket holds easily accessible, highly liquid assets (e.g., cash, money market funds, short-term bonds) to cover immediate living expenses and unforeseen emergencies. This minimizes the risk of selling growth assets during a market downturn. The investment objective is capital preservation and liquidity.

Bucket 2

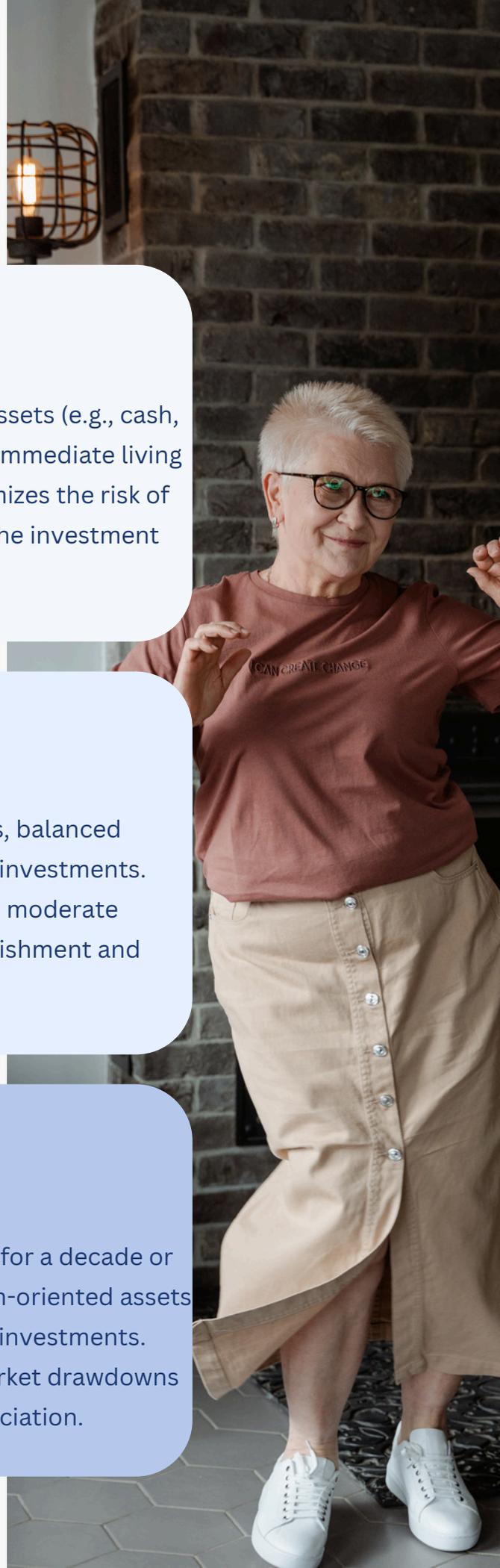
Medium-Term Needs: 5-10 years

This bucket might hold a mix of high-quality bonds, balanced funds, or other moderate-growth, lower-volatility investments. The goal is to provide a steady income stream and moderate growth, acting as a buffer if Bucket 1 needs replenishment and equity markets are down.

Bucket 3

Long-Term Growth & Legacy: 10+ years:

This bucket, holding assets that won't be touched for a decade or more, can be invested more aggressively in growth-oriented assets like diversified equities, real estate, or alternative investments. These assets have ample time to recover from market drawdowns and are positioned for significant long-term appreciation.





Minimizing Sequence of Return Risk *Through Strategic Allocation*

The beauty of bucket planning lies in its direct attack on sequence of return risk. By ensuring that immediate and near-term cash flow needs are met by stable, low-volatility assets, **clients avoid being forced to sell assets from their growth-oriented buckets during market downturns.**

This allows the long-term assets ample time to recover and continue compounding, preserving the portfolio's overall longevity and growth potential.

Research on market drawdowns suggests that while significant downturns can occur (e.g., 20%+), **historical data indicates recovery periods vary but generally allow for recovery over several years.**

By having a multi-year cash reserve in the short-term buckets, clients gain the flexibility to "ride out" market volatility in their long-term growth assets, only rebalancing or replenishing the short-term buckets when market conditions are favorable.



The Inheritance Horizon: Why Legacy Assets Demand Growth

Another critical oversight of conventional wisdom is the failure to properly consider inheritance.

Many clients, particularly those who are financially comfortable, intend to leave a portion of their wealth to heirs. This future distribution often lies decades away, yet these assets are frequently allocated too conservatively.

Studies consistently show a significant percentage of affluent individuals plan to leave an inheritance.

For example, a recent survey revealed that 76% of high-net-worth individuals plan to leave an inheritance, with a third intending to leave at least 50% of their assets to heirs.

The average age of inheritance receipt has increased, with data suggesting it's now closer to 51. This implies that many clients will be passing on assets that won't be received by their heirs for 15, 20, or even 30 years from the client's current retirement age.

If a client intends for assets to be passed down in 15+ years, **why should those assets be invested as if they are needed next year?**

Such assets, particularly those earmarked for a distant legacy, should be aggressively invested for long-term growth.

Failing to do so represents a colossal missed opportunity for compounding, diminishing the ultimate legacy.

A high-quality, cash flow-based financial plan, augmented by robust tax planning, empowers advisors to identify these long-term legacy assets and allocate them appropriately, ensuring maximum growth while minimizing tax drag for both the client and their heirs.



Beyond Lazy Rules of Thumb *with PlanScout*

Reliance on a client's proximity to retirement as the sole determinant for asset allocation is a rudimentary and often detrimental practice.

It's a "lazy rule of thumb" that fails to account for the nuanced realities of cash flow needs, market cycles, and intergenerational wealth transfer.



PlanScout empowers financial advisors to move beyond these outdated paradigms. Our platform facilitates the creation of high-quality, cash flow-based financial plans that meticulously align investments with specific time horizons and anticipated cash flow requirements.



The PlanScout Approach:

✓ **Minimizes Sequence of Return**

Risk: By creating dedicated short-term liquidity buffers, clients are protected from forced sales during market downturns.

✓ **Maximizes Long-Term Growth:**

Assets not needed immediately are strategically allocated to growth-oriented investments, leveraging the power of compounding over decades.

✓ **Optimizes for Legacy:**

Assets intended for future generations are invested with their distant time horizon in mind, ensuring a more substantial inheritance.

✓ **Enhances Tax Efficiency:**

Integrated tax planning ensures that withdrawals and distributions are managed in the most tax-advantageous manner.





In an increasingly complex financial landscape, a nuanced, **data-driven approach to asset allocation is no longer a luxury but a necessity.**

PlanScout provides the tools and framework for advisors to deliver this superior level of planning, transforming their clients' financial futures by truly aligning investments with life's real time horizons, thereby becoming one of the biggest drivers of wealth.

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