

Don't Have Imaginary Investing Buckets? You Might Want to "Get" Them



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Can I let you in on a secret?

I'm horribly, helplessly disorganized.

Currently, my desk contains three computers, a gnome from last Christmas, six batteries, an old envelope, a notebook and a flashlight. There's a half-empty mug of tea hanging out on my floor right now, left over from yesterday. My sloppiness drives my husband crazy.

However, I try harder in one area: Organizing my finances. And

making sure my writing looks and sounds organized. (See? I can make an effort.)

If you're a trader or investor, your colleagues, family and friends might assume you're efficient, organized, and extremely good with money. The truth is, you might actually know a lot, but how organized are you, really? Are you a secret disaster behind the scenes?

Have you actually put together a concrete plan for much you're putting away into various financial buckets? Let's go back to basics for a second, because even wise traders and investors need to reevaluate their methods.

What's a Financial Bucket?

A financial bucket helps you organize your money into manageable categories. It's imperative to allocate the right amount of money toward the right buckets. Every amount you allocate to each bucket will look different as well. You probably don't want to allocate the exact same amount that you're saving for retirement to your short-term goals, so it's a good idea to decide how much to allocate into those buckets and how you want to divide your money into those buckets.

Seems basic, yes. But are you doing it?

Let's go over a few financial buckets.

Everyday Expenses

What do you spend your money on every day for basic necessities like food, your mortgage, utilities, car payments and other basics?

The most important part of this category involves analyzing whether you're overspending in this part. Are you living below your means? How do your everyday expenses mesh with the income you're bringing in? Do you need to increase the amount you're

earning or decrease the amount you spend every month? Keep track of your expenses for one month and figure out whether you see repeated patterns in your spending. It's an eye-opening experience, that's for sure. I did it once and it immediately curbed my love of going out to eat.

How will you allocate and organize your everyday expenses?

Emergency Fund

I know, old news, right? You know you need an emergency fund. In fact, having an emergency fund might seem like such a tired concept that you might feel tempted to skip right over it altogether.

You shouldn't, though.

How much should you save in your emergency fund? The amount looks different for everyone. It depends on your lifestyle and monthly expenditures. You can aim to put away three to six months' worth of expenses.

Once you figure out how much money that three-to-six month amount entails, put all your effort toward filling that bucket.

It bears asking: How much will you need to fill your emergency fund bucket, and how will you do it?

Retirement

Your retirement bucket, arguably the most important bucket of all, needs careful attention. Americans aged 65 and older spend an average of \$48,885 per year, or \$4,073.75 per month, according to the Bureau of Labor Statistics.

To live comfortably in retirement, you'll need an annual income of at least 70% to 80% of what you were earning before you retired, according to the book "More Straight Talk on

Investing” by Jack Brennan with John Woerth.

When you draw on your retirement savings, you’d better have enough to survive on for 30 years. Most experts recommend withdrawing about 4% in the first year, but you might have to withdraw more in subsequent years of your retirement due to inflation.

Make sure you get your company match and contribute as much as you absolutely can. If you can fill that bucket up to the \$19,500 maximum salary deferral for this year. Check the limits each year so you can save up to the max, and don’t forget about the catch-up contribution if you meet the age requirements. Those aged 50 and older can add \$6,500 as a catch-up contribution.

So, how will you fill your retirement bucket? How much money will go in there?

College

I don’t think anything strikes more fear in parents’ hearts than hearing how much college costs. Tuition, room, board and fees cost an average of \$44,306 for private nonprofit and for-profit organizations and \$18,383 for public institutions (\$24,623 for all institutions) during the 2018-2019 school year, according to the National Center for Education Statistics. Naturally, that amount has jumped since then.

How do you plan to fill your college bucket?

- **529 plans:** Consider these tax-advantaged means of saving for college. These plans, sponsored by states, allow you to keep your money exempt from federal income and capital gains taxes as long as you use the money for qualified school expenses. You may want to consider putting a 529 plan in your name for the best possibility of receiving federal financial aid. Putting the account in your child or children’s names will affect their

eligibility for federal financial aid.

- **Education savings accounts (ESAs):** You can contribute up to \$2,000 per year on behalf of your child (under 18 years of age). You can choose from a wide range of financial products for your ESA. However, you may face income restrictions: You can't contribute if you make \$110,000 as a single person or \$220,000 if you're married filing jointly.
- **Uniform Gift to Minors Act (UGMA) and Uniform Transfer to Minors Act (UTMA) accounts:** These custodial accounts for minors give you an opportunity to open an account at a financial institution and invest as much as you want for your beneficiary or beneficiaries. However, you won't tap into the same tax benefits as a 529 plan. The main drawback to UGMAs and UTMA is that your child takes control of the assets when he or she reaches the age of majority. In other words, he or she could do the responsible thing (pay for college) or spend it on a six-month long party on a Caribbean island.

Notice that I put the retirement bucket ahead of the college bucket. It's important to fill your retirement bucket first. Your kids can always take out a loan to go to college, but you can't take out a loan to retire.

How will you fund your college bucket?

Short-Term Goals

What short-term goals do you have? Do you need to direct money toward a bucket for trading and investing? An exciting vacation that you've always wanted to take? Do you like to give to your church or a civic organization?

Whatever your short-term goals, you may want to dedicate some "bucket money" toward them. You may want to get even more specific with these individual buckets. For example, you may want to allocate money to go to vet costs for a new puppy, for

a family member who needs seed money to start a business, etc. These buckets can go far and wide.

What short-term goal buckets do you need to add? And for that matter, what other buckets can you think of that didn't make it onto this list?

Get Your Imaginary Buckets in Order

Now, add up your buckets. Make sure you allocate the right amounts (in the right percentages). It'll make you feel great to get organized!

If you're anything like me, you can confidently say that at least you've managed one area of your life well. (My house, on the other hand, is a different story.)

<https://www.entrepreneur.com/article/380672>