In a recent blog series, I explained a three bucket approach to financial planning. I believe that everyone needs to have three buckets. In that blog series, I identified the specifics of each bucket. In this blog I am going to review the bucket which is the antidote to “Lazy Dollars” and explain how you can make those dollars go to work for you.

The reason this concept is hard is because people get very comfortable when they have a chunk of cash on hand. It gives them a sense of security because the “number” of dollars is not at risk. However, the purchasing power of those dollars is eroding a little each day. Do you remember just a few years ago when $20 filled up your car’s gas tank. How much gas will that same $20 buy now? Or do you remember when a really nice new car cost around $10K. Hello??? One more question: did you pay more for your last car than you did for your first house? (If you are over 50 the answer is probably yes.) That is the loss of purchasing power or what economists call inflation.

A lot of times when new clients come in to speak with me they typically have a large amount of cash on hand. Sometimes that cash has been sitting there for years. I try to get across the concept of purchasing power risk and tell them there is an antidote for those lazy dollars. It is what we call “Bucket Two”.

Bucket two is what I call the financial goal bucket (or maybe the dreams bucket). The timeframe for this bucket should be at least one year out and could be 2 to 5 to 10 years. Basically anything that you are saving for that you can’t pay for out of your normal cash flow, and that has at least a one year time horizon or longer should be saved for in bucket two. If you’re married, I encourage you to sit down with your spouse and map out your financial and life goals as well as large expenditures that you know will occur over the next several years of your life. Attach a dollar figure to these goals and expenses as well as a timeframe to reach them. Once you have done
that, the action steps can be identified and appropriate bucket two investments can be chosen to match each timeframe.

Examples in bucket two might include saving for your next car purchase (remember, cars don’t last forever). Do this by making car payments to yourself so you don't have to make car payments to the bank or car dealer. (See my “Buy Two Cars, Get One Free” Blog). I say “let the markets pay for part of it”. Education funding for your kids and possibly grandkids usually falls into bucket two. Other examples might include adding a sunroom to your home or purchasing a larger home. What about saving for the down payment for your first home? It could be that Hawaiian vacation you’ve always wanted to take, or any other major purchase that you can't cover out of your normal cash flow.

This bucket can also hold undesignated savings that you don't have a current need for – your “Lazy Dollars”. In this bucket your money is invested and working for you with the expected timeframes in mind, but is available when you need it without penalty. Several different types of investments could be used in this one bucket to match the timeframe for each goal.

Bucket two is where I suggest you keep the 6 months worth of income that you have saved to use in case you lose your job. Remember, that is a "what if" that may never happen so you don't want “lazy dollars” just sitting around. That's why I don't believe this money should be kept in cash in bucket one earning next to nothing. Even if you lose your job, you're not going to take out 6 months worth of income the first day. You may get some severance, and you will begin looking for another job almost immediately. At the end of the month you may have to pull out some of this cash to fund your expenses for next month if you've not yet found a job but you can dollar cost average this money out of the market as needed. If it turns out you don’t use all 6 months worth, then the rest of the money is still working for you.

So to summarize, bucket two is the bucket where you can put your “Lazy Dollars” to work. The investments used are determined based on the timeframe and amount of the goals or expected future expenses. Remember this can include everything from a future car purchase or college education for your kids to that dream vacation you’ve always wanted to take. This money is also available without any penalty although it is subject to the market risk of the particular investment chosen.