

# Leigh Baldwin & Co.

## *Investment Brokerage*

### **2022 Bucket Strategy**

As each year ends, investors, business owners, and households alike begin thinking and maybe even dreaming about what the new year will bring. Will 2022 be an artist's break out year, will "Buddy Buckets" shine in ACC basketball play, or will a household spend or save more. The latter begs to ask the question about budgeting and planning for the year ahead.

We advise clients to use a bucket strategy for budgeting based on their individual financial plan. As one example, the 20-30-50 model suggests 20% savings, 30% wants (think socializing and travel), and 50% fixed bills like housing. Regardless, of what model works best for your family, we would like to focus on the savings portion today. Using a bucket strategy, we advise clients to break out their savings into three distinct buckets.

#### **Cash Bucket** (*Rainy Day fund*):

Depending on a household's financial plan and investment phase the specific amount of cash we advise varies. However, an example may be 3 months of expenses for a young investor in the accumulation phase.

#### **Medium-Term Bucket:**

Comprised of an investment account or education planning (UGMA, 529 Plan, etc...). After your retirement bucket has been maxed out, this bucket can be used to invest the remainder of annual savings.

#### **Retirement Bucket:**

The retirement bucket includes employer-sponsored accounts like a 403(b) or 401(k) as well as individual retirement accounts like a Traditional or Roth IRA. We may advise clients to grow their Roth bucket as much as they can as we anticipate future tax increases.

As for global markets in 2021, what a year! The S&P 500 grew about 29%, the Dow Jones Industrial Average was up about 21% and the NASDAQ rose about 22%. International Equities struggled to keep up with their US counterparts in 2021 but still rose by about 7%. Unfortunately, Investment-Grade Bonds (represented by the Bloomberg Aggregate Index) detracted from portfolio performance losing about 2% on the year. As a former colleague once coined, 2021 showed "**diworsification**" as the S&P 500 was the best game in town.

As we look out into 2022, there are two major themes for investors – **inflation** and the **transformation from a pandemic to an endemic disease**.

Inflation may remain a concern for some time which could cause the Federal Reserve to raise interest rates faster than the market expects. Therefore, we have been aligning our portfolios to overweight companies that have quality earnings and pricing power to pass along price increases to the consumer. In terms of COVID-19, it appears to be more and more evident that COVID-19 may look more and more like influenza as an endemic disease and will remain a health concern into the future. As COVID-19 (depending on the variety of strains) becomes more common place, it may alleviate disruptions in everyday life. Therefore, families and investors may be able to finally take that long awaited vacation or be able to visit with family more often than in the previous two years. We believe this transformation will cause volatility in global equities, but an overall strong backdrop for increased corporate earnings in the years ahead. We want to wish everyone a healthy and a prosperous 2022 that fills all of your life's buckets! As always, you do the dreaming, and we'll do the math!

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