THE FINANCIAL EDGE

ALLOCATE · CAPITAL ALLOCATION FRAMEWORK

FOUR WEALTH BUCKETS™

The central question
Given where we are today, where should the next dollar of financial capacity go?

A practical framework for deciding where your future financial capacity should go

Tony Dimitriadis
CPA Accountant
AD Partners | Accounting & Advisory

WHY IT MATTERS

Success creates choices

As a business becomes more successful, the financial question changes. It is no longer simply how to earn more. It becomes how to use the financial capacity success creates.

The Four Wealth Buckets™ provide a disciplined way to decide how capital should be used across four competing purposes: strengthening the business, enjoying life today, building long-term financial independence, and creating future legacy and impact.

Use the companion Excel Four Wealth Buckets Allocation Tracker for the capacity calculation and the allocation percentages. Use this workbook for the thinking, conversations and decisions behind the numbers.

Important
This is a strategic allocation framework—not an investment model. It helps you decide WHAT deserves capital and WHY. The later Wealth Allocation Planner determines HOW, WHERE and WHEN implementation should occur.

The Four Wealth Buckets™

01 OPERATING CAPITAL Maintain, strengthen and grow the operating business.	02 LIFESTYLE Support the life the family deliberately chooses to live today.
03 LONG-TERM WEALTH Build financial independence outside the operating business.	04 LEGACY & IMPACT Create benefits beyond the family's immediate financial independence.

THE METHODOLOGY

The five rules

1. Allocate capacity, not wishful cash.
Provide for tax, commitments and essential liquidity before allocating capital.

2. Purpose determines the bucket.
The asset, entity or structure does not determine the bucket. Its intended purpose does.

3. Every dollar being considered gets a job.
The allocation of available financial capacity should total 100%.

4. There is no perfect percentage.
Appropriate allocation depends on circumstances, priorities and stage of life.

5. Allocation should change when life changes.
The framework is dynamic. Review it when business, family or financial circumstances change.

STEP ONE

Establish available financial capacity

Financial Capacity is the positive cash or capital reasonably available for deliberate allocation after meeting current tax obligations, committed operating requirements, essential family commitments and essential liquidity needs. If those requirements exceed available cash, the shortfall should be addressed before any bucket allocation is implemented.

Capacity Bridge	Amount
Cash/capital potentially available	$ _____
Less: tax provision	$ _____
Less: committed operating requirements	$ _____
Less: essential family commitments	$ _____
Less: essential liquidity top-up	$ _____
CAPACITY SURPLUS / (SHORTFALL)	**$ _____**
AVAILABLE FINANCIAL CAPACITY FOR ALLOCATION	**$ _____**

If the capacity bridge produces a shortfall, stop. Resolve the funding, commitment and liquidity position before allocating capital across the Four Wealth Buckets™.

Before You Allocate

Have we provided appropriately for tax? Yes / No

Is essential business liquidity protected? Yes / No

Is essential family liquidity protected? Yes / No

Has the amount available for allocation been reviewed with our accountant/adviser? Yes / No / Not applicable

Tax is not a fifth bucket
Tax is an obligation that should be provided for before financial capacity is allocated.

BUCKET 01

Operating Capital

Capital retained or directed toward maintaining, strengthening and growing the operating business.

What may belong here

- Working capital and appropriate business reserves
- People, capability and productivity
- Technology and equipment
- Marketing and growth investment
- Acquisitions and strategic opportunities
- Business debt reduction

The bucket question
Is this capital genuinely required by the business—or has the business simply become the default place where wealth accumulates?

Our current thinking

Current Priority	Why does this deserve capital now?	Outcome we are trying to create
Low / Moderate / High / Very High		

BUCKET 02

Lifestyle

Financial capacity deliberately used to support the life the family wants to live today.

What may belong here

- Discretionary family lifestyle
- Principal residence priorities
- Travel and experiences
- Education and personal priorities
- Significant lifestyle purchases
- Home mortgage reduction

The bucket question
Are we consciously choosing the lifestyle we fund—or simply allowing lifestyle to expand with income?

Our current thinking

Current Priority	Why does this deserve capital now?	Outcome we are trying to create
Low / Moderate / High / Very High		

BUCKET 03

Long-Term Wealth

Capital directed toward building financial independence outside the operating business.

What may belong here

- Investment property
- Shares, ETFs and managed investments
- Superannuation contributions
- Investment-company or family investment assets
- Long-term cash/income assets
- Investment debt reduction

The bucket question
Is business success being deliberately converted into wealth that can ultimately exist independently of the business?

Our current thinking

Current Priority	Why does this deserve capital now?	Outcome we are trying to create
Low / Moderate / High / Very High		

BUCKET 04

Legacy & Impact

Capital intentionally directed toward creating benefits beyond the family's immediate financial independence.

What may belong here

- Intergenerational wealth
- Support for children/family
- Family legacy assets
- Philanthropy and charitable giving
- Community or social impact
- Other long-horizon objectives

The bucket question
What do we eventually want our financial success to make possible for people or purposes beyond ourselves?

Our current thinking

Current Priority	Why does this deserve capital now?	Outcome we are trying to create
Low / Moderate / High / Very High		

SPECIAL CASES

Special treatment rules

Debt Reduction

Debt reduction is an action, not a separate wealth bucket. Allocate it according to the purpose of the debt.

Debt / Action	Typical Bucket
Working-capital or business debt reduction	Operating Capital
Home mortgage reduction	Lifestyle
Investment-property or investment debt reduction	Long-Term Wealth
Debt linked to legacy assets	Legacy & Impact, where appropriate

Cash Reserves

Cash also follows purpose: business reserves generally belong to Operating Capital; personal emergency reserves support Lifestyle; investment cash awaiting deployment belongs to Long-Term Wealth.

Structures

A company, trust, SMSF or 'bucket company' is not itself a Wealth Bucket. These are ownership structures or implementation vehicles. Purpose determines the bucket.

STEP TWO

Where did the money go?

Estimate how the financial capacity you actually allocated over the last 12 months was used. Precision is less important than revealing the pattern.

Bucket	Last 12 Months $	Historical %
Operating Capital	$ _____	____ %
Lifestyle	$ _____	____ %
Long-Term Wealth	$ _____	____ %
Legacy & Impact	$ _____	____ %
TOTAL	$ _____	100%

Reflect

Which bucket received the greatest share?

Which bucket received less attention than we expected?

Was this allocation deliberate—or simply what happened?

What does the pattern say about our priorities?

STEP THREE

Design the next 12 months

Now decide how the next 12 months of available financial capacity should be deliberately allocated.

Bucket	Historical %	Next 12 Months %	Indicative $	Shift
Operating Capital	____ %	____ %	$ _____	____ pp
Lifestyle	____ %	____ %	$ _____	____ pp
Long-Term Wealth	____ %	____ %	$ _____	____ pp
Legacy & Impact	____ %	____ %	$ _____	____ pp
TOTAL	100%	100%	$ _____	

There is no perfect allocation
The purpose is not to make the four buckets equal. It is to ensure the allocation reflects the life and financial position you are deliberately trying to create.

THE TEST

The four-bucket allocation test

Purpose
What are we trying to achieve with this capital?

Priority
Why does this deserve capital now rather than another bucket?

Capacity
Can we allocate this amount without weakening another important part of our financial architecture?

Consequence
What becomes possible if we make this allocation—and what are we choosing not to do?

Apply these questions particularly to material changes between last year's allocation and the next 12 months.

STEP FOUR

Read the allocation shift

The most useful insight may not be the final percentages. It may be the change between what happened previously and what you now intend to do.

Bucket	Increase / Reduce / Maintain	Why?
Operating Capital		
Lifestyle		
Long-Term Wealth		
Legacy & Impact		

Boardroom Discussion

Are we reinvesting in the business because it remains the best use of capital—or because that is what we have always done?

Is our Family Balance Sheet becoming less dependent on the operating business?

Are we postponing lifestyle indefinitely in pursuit of a future we have never defined?

Does our allocation reflect our current stage of life?

What are we deliberately choosing not to fund?

STEP FIVE

Our Four Wealth Buckets™ decision

Bucket	Next 12 Months %	Indicative $	Strategic Intent
Operating Capital	____ %	$ _____	
Lifestyle	____ %	$ _____	
Long-Term Wealth	____ %	$ _____	
Legacy & Impact	____ %	$ _____	

Our most important allocation change

_____

_____

Why it matters

_____

_____

NEXT STAGE

From buckets to implementation

The Four Wealth Buckets™ deliberately stops before implementation. A strategic decision that more capital should move toward Long-Term Wealth, for example, does not by itself determine whether that capital should go to superannuation, property, shares, a trust, an investment company or debt reduction.

Buckets decide WHAT and WHY.
The Wealth Allocation Planner determines HOW, WHERE and WHEN.

Four Wealth Buckets™ Output	Wealth Allocation Planner Question
Desired bucket allocation	What exact amount will be implemented?
Strategic purpose	Which asset, debt or investment should receive it?
Indicative dollars	From which entity/source will funds come?
Priority	When should implementation occur?
Allocation decision	What tax, structure, liquidity and financing issues need review?

ANNUAL REVIEW

Annual Four Wealth Buckets™ review

Review the framework annually—or earlier when circumstances materially change.

☐ Has business capacity changed?

☐ Has family wealth changed?

☐ Has business dependency changed?

☐ Have lifestyle priorities changed?

☐ Has our stage of life changed?

☐ Have new opportunities emerged?

☐ Has our definition of success changed?

The annual question
Does last year's allocation still make sense for the future we are now trying to create?

Next review date

_____

WEALTH ALLOCATION PLANNER

Turn the allocation decision into specific actions—how, where, when and who.

Financial Edge Principle
Every dollar being considered should have a purpose. The objective is not equal buckets. It is conscious allocation.

FIND THE FULL RESOURCE SET

All seven Financial Edge resources and their Excel companions are free to download at **thefinancialedge.com.au**.

To discuss a Financial Edge Review™, contact AD Partners on (03) 9349 3499, email **admin@adpartners.com.au** or visit **adpartners.com.au/contact**.

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