The Longevity strategy can help to maintain your family's lifestyle throughout your retirement years. (UBS)

Warren Buffett says “Never risk permanent loss of capital”

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“One investment rule at Berkshire has not and will not change: Never risk permanent loss of capital,” wrote Warren Buffett, CEO of Berkshire Hathaway, in his 2023 letter to shareholders. This bit of wisdom is useful for investors big and small. When crafting a financial plan, it’s important to consider what you have and need in the short term, over your lifetime, and for your legacy, so that you don’t have to take unnecessary risks.

Over the weekend, Warren Buffett, CEO of Berkshire Hathaway, released his annual letter to shareholders. At one point in the letter, recalling the 2008 Global Financial Crisis, Buffett notes that "We did not predict the time of an economic paralysis but we were always prepared for one."

In our view, this is a good lesson for all investors: rather than trying to predict short-term market movements, build a portfolio that is resilient to the short-term disruptions that will occur from time to time. Historically, even the worst bear markets have been fully resolved within three to five years, especially for investors with a diversified, balanced portfolio.

With this in mind, and bearing in mind that every family's financial situation is unique, we recommend using a simple, intuitive process to build an investment strategy that fits your needs: the Liquidity. Longevity. Legacy. framework.

The Liquidity strategy is the most important starting point, representing the assets and borrowing capacity that you need to “keep the lights on” for the next three to five years, in case there is a bear market (20%+ drop in the stock market).

By separating the assets that you “have and need” from equity market risk, and putting them into cash and short-term bonds for example, the Liquidity strategy can provide a much-needed buffer against being forced to lock in temporary market losses in the rest of the family's portfolio.

During your working years, an emergency fund is often sufficient, since your paycheck will typically meet your general living expenses, but from time to time you will want to segment more assets ahead of large purchases like a home. In retirement, the Liquidity strategy will need to be sized to meet increased cash flow needs not met by other sources (e.g. Social Security).

The Longevity strategy can help maintain your family's lifestyle throughout your retirement years. It's designed and sized to include the assets you will utilize for the rest of your lifetime for living expenses and other financial goals. The 'shield' that a segregated Liquidity strategy provides can enable the Longevity strategy to implement a growth-oriented investment approach for the portfolio, with less concern over short-term volatility.

The final phase of the Liquidity. Longevity. Legacy. framework is the Legacy strategy, which consists of assets earmarked for improving the life of others during and beyond your own lifetime, both within your family and for philanthropic interests.

The Liquidity. Longevity. Legacy. approach to wealth management can help you more clearly understand where your money is—and why. The clarity it provides can help you focus on long-term needs and goals no matter what the markets are doing. It allows you to focus on what you have and plan for your needs, while aiming to keep your "keep the lights on" funds segregated from the day-to-day uncertainty of financial markets.

As Buffett notes, this type of caution will likely prove to be unneeded in most years "akin to an insurance policy on a fortress-like building thought to be fireproof," but allows you to protect against permanent damage and keep the rest of your portfolio fully invested throughout the market cycle.

For more information on pursuing what matters most, see UBS Wealth Way and talk with your financial advisor.

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*Liquidity. Longevity. Legacy. disclaimer
Time-frames may vary. Strategies are subject to individual client goals, objectives and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.