Automated Allocations

The Strategy That Adjusts... Automatically.

Video Script
Video 11
Withdraw Funds, Raise Cash

There are two more items on our action menu we haven't yet discussed. While we cannot condone or encourage either, again, in the real world, they are necessary.

In this video, we'll review the Withdraw Funds and the Raise Cash menu selections. It is important to understand that deviating from the recommendations of Automated Allocations in any way, will affect the results achieved by the user. It is also important to understand that the Automated Allocations App has been designed, as we have seen before, to adjust… automatically.

When the Withdraw Funds mode is implemented, the AA app will enter a dampening operation. When in use, a reminder saying dampening engaged will be posted on the header. While keeping the same buy and sell points that the portfolio would have had without the withdrawal, in an effort to preserve the funds that are left, the dampening will buy a smaller number of shares at each buy point. The original sell points are also kept intact, with the number of shares being progressively lowered. The first sell transaction after the withdrawal will remove the dampening, and the previous buy and sell targets will be restored, although with smaller share quantities.

The Raise Cash transaction sells a number of shares specified by the user. The only reason to do this would be to increase the cash on hand so a withdrawal can be made. Similar to the Withdraw Funds action, entering a transaction using the Raise Cash mode attempts to keep the original projected buy and sell points the portfolio had previous to the Raise Cash transaction. Again, the share quantities will be lower.

The Automated Allocations App has been designed to minimize the amount of intrusion experienced by the user due to these portfolio crushing events. Let's walk through these operations, and see the results…

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Here we have two exact copies of the same test portfolio. The one on the left will be our standard. We called it By The Book. The one on the right will be the one that will have a withdrawal. We chose this portfolio because of the numbers… $221,000 in shares and $178,000 in cash. Let's go up and hit the Withdraw Funds button.

Entering a withdrawal is just like everything else. We enter the date and the current share price. Now, we have decided we're going to withdraw $78,000. Enter that next and mash the enter.

The dampening engaged reminder is up there, and comparing our next buy and next sell boxes, they're basically the same, but the number of shares on the buy has already started down. While we're here, let's enter the first buy into our portfolio. We need the date, the next buy price, $80.46, and 174 shares.

Now we'll go over to our standard portfolio and get it caught up. We just need to enter the next buy for this one according to what it says. The only difference is the number of shares is 233. Get that entered.

Now we can compare the two portfolios and look at that. The buy and sell prices have remained the same, and like we said, the number of shares to trade on the withdrawal portfolio is going down.

We've got to keep moving. Let's get the next buy entered on this portfolio. The next buy is at $75.29. And let's see, 194 shares. OK, now we scoot over to the buy the book portfolio. And we enter in the next buy; everything is the same except this one says 262 shares.

OK, let's do a quick compare. The next buy and next sell boxes look right. This portfolio spent basically $28,000 and the By The Book spent $38,000. So, the dampening has already preserved $10,000 in cash for us.

We've got to keep moving. Let's do one more buy on both portfolios. Get the date. This one is $70.45... and 215 shares. Now, let's go over to the other one. We've got to get the By The Book portfolio caught up. We've got the date, the price is the same, $70.45, and this one is telling us 294 shares. Looking at our next buy and next sell boxes, they are staying aligned. Now, we should check the results of the dampening.

It looks like the By The Book has spent $59,000 to just under $44,000 for the one that's dampened. Over $15,000 preserved. That sounds good.

Notice, we still have the dampening engaged message on the header. Now it's time for our first sell after the withdrawal. Let's get that entered on this portfolio first. How about we compare the two portfolios? The price is the same, but there's quite a difference in the number of shares.

Well, let's see what happens. This one is $102.55 and 135 shares. Now, we've got to go over to the By The Book portfolio. This is basically the same information except for the number of shares sold. $102.55 and 254 shares. There, let's take a breath and look this over.

Looking at the next buy and next sell points, they are very close, just pennies off. The number of shares is just a few lower on the dampened one, and that will actually continue. Up in the Header, notice our dampening engaged reminder has been turned off. Let's scroll these down a bit so we can take a good look… And there we have it. We took out about 44% of the cash that was in the portfolio. Automated Allocations adjusted and went into dampening mode to save precious cash. In this situation, AA tries to lower the impact to the portfolio and the user.

While we don't like the idea of taking cash out of the portfolio, the Automated Allocations App provides the best way to do it. What about a case where the user has a serious need for cash and a portfolio with equity assets and little cash? mFor this situation, the Automated Allocations App has the Raise Cash mode. Let's look at that next.

We're going to use a portfolio that started in 2020. We've deleted several entries to set up a scenario of equity value in little cash. Just like before, we have the By The Book on the left and our Raise Cash on the right. Just looking at both portfolios, we can see all the data is identical. The next buy and sell data, everything.

Let's look at the current position. We have over $173,000 in share value and only $21,000 in cash. Now, for some reason, this user just has to have $50,000. Despite all advice to the contrary, they're going to do a Raise Cash transaction. We'll just have to go up here and like every other thing we do, we enter the date first, then the price, $80. With that in, we realize we're on the trade menu.

We've got to go to the Raise Cash button and let's see what's behind this door. It looks like we have some new information boxes. The Market Value is based on the share price we just entered. The Shares Necessary is a little calculator. We enter the Cash Goal. It calculates the number of shares we need to sell. We put in our cash goal of $50,000 and our little calculator tells us we need to sell 625 shares. We enter that, press the enter, and we're taken back to the trade menu.

We've sold our shares and raised the $50,000. Let's compare the next buy and sell data. We have the same targets and similar to the withdrawal funds transaction, the shares to trade are lower.

The next step is to withdraw the cash we just created. A couple days later, after the trade has cleared, we can transfer the funds to wherever for whatever was necessary. This will be a Withdrawal entry, just like we did before. We enter the date, the price, and the $50,000.

Our next buy and sell targets are holding up and notice there is no dampening engaged reminder. If a withdrawal immediately follows a raised cash transaction, AA will not go into the dampening mode.

The last step to make sure we haven't totally messed up our portfolio is to enter a new transaction and make sure our portfolio with the raised cash entry is still tracking the untouched original portfolio. That's the next sell entered here. Now we go over to the original. Everything is the same. The date, the sell price, the number of shares is different. 211 on this one. Almost there. There we go. Now we can see the portfolio that had the raised cash and withdrawal transaction have the same next buy and sell points, just a couple pennies off. The number of shares is lower, which makes perfect sense. With less cash available, it can no longer afford the transaction size that it had before. In this video, we have demonstrated two methods of removing funds from an Automated Allocations portfolio, the Withdrawal and the Raise Cash, two more tools the Automated Allocations App provides.
Enjoy.