

Automated Allocations

The Strategy That Adjusts…
Automatically.

Video Script
Video 11
Withdraw Funds, Raise Cash

We've now covered nearly all the features of the Automated Allocations App. There are just two more items on the Action Menu we haven't discussed: Withdraw Funds and Raise Cash. Neither is something we would ordinarily encourage. After all, Automated Allocations is designed to put your investment capital to work over time. But this is the real world. Circumstances change, unexpected expenses come up, and sometimes money needs to be taken out of an investment account. That's why the App includes both options.

Before we look at how they work, there's an important distinction to understand. Withdrawing cash that's already available in your portfolio is one thing. Selling shares to raise additional cash for a withdrawal is quite another. Both actions affect the portfolio, but AA handles them very differently.

Let's start with Withdraw Funds. When you withdraw existing cash, AA initiates a temporary adjustment to the portfolio called dampening. The App maintains the existing buy and sell price targets but reduces the number of shares involved in future transactions. A notice reading "Dampening Engaged" appears on the App's menu to remind you that this temporary adjustment is in effect. The dampening remains in place until the first regular AA sell transaction. At that point, the temporary dampening ends, and AA resumes its normal calculations using the remaining portfolio.

Now, let's look at Raise Cash. This operation allows you to sell a specified number of shares to generate additional cash. Unlike Withdraw Funds, Raise Cash initiates a permanent dampening of the portfolio. This is a much more substantial adjustment. The App recalculates future transaction quantities more conservatively to reflect the shares sold and the change in the portfolio. And importantly, this dampening does not end with the next sell transaction. It remains part of the portfolio's calculations going forward. No "Dampening Engaged" notice appears on the menu because this isn't a temporary condition.

There's one more situation we need to discuss. Suppose you don't have enough cash available for a withdrawal. You first use Raise Cash to sell shares, and then use Withdraw Funds to remove the cash. In this situation, the Raise Cash operation has already permanently dampened the portfolio. The subsequent withdrawal does not initiate a separate temporary dampening operation, and no "Dampening Engaged" notice appears.

There's also a potential tax distinction. Selling shares in a taxable account may create a taxable gain or loss, while withdrawing cash already held in the account generally doesn't create a new taxable sale.

So, the important thing to remember is this: Withdraw existing cash, and AA makes a temporary adjustment. Sell shares to raise cash, and AA makes a permanent, more conservative adjustment. Neither action is without consequences. Removing funds or selling shares outside AA's normal trading instructions changes the portfolio and can affect its future results. But, the App is designed to account for those changes and continue providing direction.

Let's return to our test portfolio, walk through both operations, and see how Automated Allocations responds.

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? For 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 raise cash transaction, AA is already in a permanent dampened 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.