



Debbie Oswald

Your Practice

Making the most of turbulent markets

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Recent market performance has challenged all types of investment portfolios. The unprecedented market volatility and decline of financial assets has prompted all of us to take a closer look at the decisions we make.

Here are some suggestions for how you can make the most of your investments in these difficult times.

Take Advantage of RMD Waiver

Even if you're not retired and 70½ years old, you might benefit from the Worker, Retiree, and Employer Recovery Act, signed into law late last year. The act suspends the required minimum distribution (RMD) from individual retirement accounts (IRAs) for 2009. In addition to IRAs, the RMD waiver applies to all defined contribution plans, including 401(k), 403(b), and 457, regardless of your total retirement account balance.

This suspension helps taxpayers who have inherited IRAs, as well as retirees, who may have to sell assets at depreciated values in order to take the RMD. If you've inherited an IRA from someone who was receiving an RMD prior to death, you are required to take annual distributions over your life

expectancy, but in 2009 you can elect to waive the RMD, too.

If you are retired and you attained age 70½ in 2008, and had deferred your first distribution to 2009, you will still be required to take this first distribution by April 1, 2009. However, you can defer taking your second distribution until 2010. Although you are not required to withdraw the amount of your calculated RMD, you are still able to withdraw funds from your retirement plans if you wish. This year's waiver really provides individuals added flexibility for tax planning.

Gift More Shares Now, Reduce Estate Taxes Later

With asset prices depreciated, the number of shares that you can gift to your children or others has increased. The annual gift tax exclusion for 2009 is \$13,000. If you gift shares now, whether to individuals or charities, when the market rebounds, the appreciation on those assets will be outside of your estate.

For example, if you owned a stock that was previously worth \$100/share you could have gifted 130 shares to an individual this year. If that same stock is worth \$50/share today, you can now gift twice as many shares. Essentially this is a powerful time to reduce the holdings in your estate to minimize estate tax at your death.

Harvest tax losses

Consider selling some of your holdings that are worth less now than when you purchased them. Selling holdings at a loss creates a "realized loss" for tax purposes. You can use an investment tax loss to offset any appropriate capital gains from sale of investments, real estate, or the portion of mutual fund distributions attributed to realized long-term gains.

Once you have used losses to offset gains, you may deduct up to \$3000 of losses from taxable income every year. Under current law, you can carry the remaining balance forward to future years until the loss is depleted.

Convert to a ROTH IRA

The year 2009 may be a great time to consider converting non-ROTH IRAs (traditional, SIMPLE or SEP IRA) to ROTH IRAs. With the depreciation of asset prices, the tax implications of a ROTH conversion have been minimized. ROTH IRAs offer the advantage of tax-free growth, no RMD, and transfer to beneficiaries income tax-free. However, tax on the converted amount is subject to regular income tax in the year of conversion, so you do need to be prepared to cover the taxes due.

In 2009, you must have modified adjusted gross income of \$100,000 or less. The 2006 Tax Increase Prevention and Reconciliation Act waives the income limit beginning in 2010. ROTH conversions in 2010 have the added benefit of spreading

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the income tax liability over 2011 and 2012. Keep in mind that there are special withdrawal rules that apply to ROTH conversions, so be sure to get a complete understanding of these before converting your IRA.

Diversify Your Portfolio

Take a closer look at your portfolio holdings to determine which ones best suit your goals. With the value of most financial assets down, this is a good time to realign your portfolio or invest in holdings that were out of your reach a short time ago. Look to make the most of mispricing in the market. Over the long term, the market has exhibited an upward trend, so reposition your portfolio for the future. In general, the longer you have until retirement, the

more aggressive you can afford to be. But do keep a mix of stocks, bonds, cash, and other asset classes. If we've learned anything from the last few months, it's that there is no such thing as a truly "safe" investment, which is why diversification pays off.

Conclusion

The US stock market has experienced 32 "bear" markets since 1900, which is an average of 1 every 3 years. Each time the market has recovered and grown to new heights. Take advantage of the current tax provisions and make sure your portfolio is poised to participate when the market rebounds. As always, please consult your financial planner and tax advisor for specific advice on the ideas presented here.

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