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More practical tips for surviving volatile stock market

Even though we're in the midst of one of the worst bear markets in recent history, it doesn't mean you should give up on investing. Stock price declines create opportunities to invest, rebalance and diversify long-term positioned portfolios.

A year ago, I offered 10 tips for surviving the choppy markets. Here are 10 more:

1. Consider converting your IRA to a Roth IRA, if you qualify. Anyone with modified adjusted gross income of less than $100,000 a year (individual or joint income) can convert a traditional IRA account to a Roth IRA. Higher-income Americans will get the same break in 2010 if Congress doesn't reverse current law. You must pay income tax on the amount you are converting, but with a Roth IRA you won't pay tax when you finally need to withdraw your money and profits.

2. Look to take tax losses. For example, if you have a large cap fund with a $10,000 loss, you could sell the fund and buy a similar fund and capture the tax loss, which could be used to possibly offset future gains. The IRS limits investment losses to $3,000 a year (in excess of your gains), but additional losses can be carried over to future years.

3. Think about contributing to a Roth 401(k) if your company offers one. The deferral limits for employee contributions are the same as for the non-Roth 401(k) – $16,500 if you are younger than 50 and $22,000 if you are older than 50. In addition, when you retire you can roll over your Roth 401(k) balance to a Roth IRA and be exempt from required minimum distributions from your Roth 401(k).

4. High net-worth individuals should look at this as an opportunity to reduce their estate taxes by giving away assets to children or grandchildren. Each parent or grandparent can gift their children or grandchildren $13,000 each per year, tax free. By reducing your estate, you also reduce the future estate tax burden on your heirs.

GUEST OPINION
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5. Make sure your retirement withdrawal rate is still reasonable. Given the declines in the market during the past year make sure you are still withdrawing on the order of 4 percent to 5 percent of your portfolio value if you plan to spend the next 30 years in retirement and have a diversified balanced portfolio.

6. If you are self-employed, older than 50, have very few employees and have a large income then you should consider a defined benefit plan. A defined benefit plan allows you to save much more than any other type of retirement plan. For example, if you are 52 years old and make $200,000 per year, then you could contribute about $130,000 to a defined benefit plan, plus $22,000 in employee contributions to a 401(k) plan as compared to about $54,000 in a 401(k) plan (with employer and employee contributions).

7. Think about refinancing your house. The volatility in the stock markets around the world has fostered a drop in interest rates, which has lead to another wave of refinancing. If your current interest rate is around 5.75 percent or higher, then you should consider refinancing your current mortgage. To see if it is worthwhile, you compute the closing costs divided by the monthly saving to calculate the breakeven point. Typically, it is worthwhile if you can breakeven in two years or less.

8. Even in down years, you need to make sure your investment portfolio remains balanced. Compare the balance between stocks and bonds and then perform a slow rebalance over the next year – perhaps quarterly – to get back to your target. Look to see if your 401(k) has an automatic rebalancing option.

9. Consider a dollar-cost-averaging strategy over the long haul. Dollar cost averaging is the systematic process of investing the same amount of money on a periodic basis whether the market is up or down. It will provide you opportunities to buy stocks on discount and stem losses when the market recovers.

10. Consider using professionals for your wealth-management needs. All high net-worth individuals should have an expert team they trust. They should be using a financial adviser for their investment and wealth-management needs. They should also be using and accountant or CPA for their taxes. In addition, they should have an estate planning attorney to review their will and legal documents. These three professionals should all be coordinated so they can design the best wealth-management plan for the client.

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