Boulder County
BUSINESS
REPORT

Section A | Oct. 16 - 29, 2009

Ten financial planning tips for 2010

WHATEVER THE SHORT-TERM FUTURE,

there are fundamental investing approaches you can take to ensure long-term success.

As we enter the final quarter of 2009, many investment portfolios have been on a rebounding trend, but questions remain whether this will be a strong recovery, a double-dip back to the downside or a stagnant market.

Whatever the short-term future, there are fundamental investing approaches you can take to ensure long-term success.

1. Take tax losses — If you are like most investors with a taxable account, you still have losses on the books that you can use to offset any recent or future gains.

2. Diversify — Make sure your total portfolio is diversified. This includes all your assets.

3. Strategically locate your assets — Depending on the account the tax treatment can be significantly different. IRA's and 401 (k)'s are taxed at your marginal rate; taxable accounts are taxed at capital gains rates and your marginal rate. Roth IRA's and Roth 401(k)'s are tax free. If you strategically located assets in a tax efficient manner you could save a lot in taxes.

4. Give your self a raise — If your company is matching contributions, sign up for your company's 401 (k), it's free money. For example, if matching is 100 percent on the first 3 percent of your salary contributions and 50 percent on the next 3 percent — then contributing 6 percent of your pay, yields the company matching with 4.5 percent of your pay, or 75 percent of your contributions.

5. Consider a Roth 401 (k) — A new option for many 401 (k) plans are Roth contributions. If you contribute to a Roth 401 (k), you don't get a tax break on your contributions, but your contributions grow tax free for the rest of your life. With the threat of higher taxes this may be a great option. There are no income limits for the Roth 401 (k), if your company has that option, then anyone can contribute.

6. Set up your own retirement plan — If you are self employed you can set up your own retirement plan such as a 401(k) and contribute up to $49,000, or $54,500 if you are over 50 in age. If you want to contribute more, consider a defined benefit plan where you can contribute 100,000 or more and get a tax deduction for the contribution. The contribution numbers depend on income.

GUEST OPINION
Robert J. Pyle

7. Convert your IRA to a Roth IRA in 2010 — There is a special planning opportunity in 2010 where people can convert their IRA to a Roth IRA and this is regardless of income. If you expect 2010 to be a low-income year and you have enough money in a taxable account to pay the taxes, then consider this option. Remember, you will have to pay taxes on the conversion amount, but the money will then grow tax free for the rest of your life.

8. Refinance your house — Interest rates are still relatively low and refinancing now could save a lot of money in the future.

9. Update your will — With the drop in the market there could be many estate planning opportunities that are overlooked.

10. Understand the cost of the free adviser — Many investors manage their own investments and it ends up costing them dearly. The Dalbar Quantitative Analysis of Investor Behavior 2009 study shows that the average stock fund investor earned an average return of 1.87 percent while the S&P 500 returned 8.35 percent during the last 20 years, ending Dec 31, 2008.

The average individual investor underperformed the index by 6.48 percent and underperformed inflation by 1.02 percent. On an initial $50,000 investment this equates to lost earnings of more than $176,200 over the 20-year period. So seek out a professional adviser, and you most likely will come out ahead in the long run.

Robert J. Pyle is president of Boulder-based Diversified Asset Management Inc., an investment adviser registered with the Securities and Exchange Commission. This column reflects the writer's views and is not a recommendation to buy or sell any investment. It does not constitute investment advice. To contact Pyle, call 303-440-2906 or e-mail rpyle@diversifiedassetmanagement.com.