

# Financial *notes*

## INSIGHTS TO ORCHESTRATE FINANCIAL INDEPENDENCE

FROM THE OFFICE OF DR. SCOTT STRATTON, CERTIFIED FINANCIAL PLANNER (TM)

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Dear Scott,

Although November ended with a 5-day "Thanksgiving" rally, last month's market will be remembered as one of the harshest ever. In spite of all the gloom-and-doom in the news headlines, I am a firm believer in the resilience of the American people to not only survive, but grow and flourish. While we wait for the economy to rebound, there are things you can do as an investor to benefit from the decline in the stock market. This month, we look at two specific strategies for down markets, one for IRAs and one for taxable accounts.

### Tax Swaps

*Share the pain of the market decline with Uncle Sam.*

No one is happy when the market drops, but as an investor, you have to be prepared to deal with this inevitable reality. For investors in taxable accounts, we will be suggesting a number of "tax swaps" during the month of December.



A tax swap is when you sell one investment for a loss, and use the proceeds to purchase a different investment with a similar strategy. For example, we may sell one growth fund and buy another growth fund. You can then use the losses to offset any gains you have realized in your portfolio. If your losses exceed your gains, you can take \$3000 of the losses against your ordinary income. Any leftover losses can be carried forward indefinitely until they are used up.

A tax swap does not change your overall investment strategy, because you are remaining invested in the market. People are reluctant to take a loss, because they think that if you don't sell, that the loss isn't "real". They rationalize holding because the market "should come back eventually".

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*The best compliment you can give me is the referral of a friend or family member!*

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## THIS MONTH, SCOTT IS...

December is the time for holiday concerts, and this year I will be busy toting my trombone around the Metroplex. I'll be playing concerts at 6 nursing homes, 2 churches, plus 3 orchestra concerts. Happy Holidays and may 2009 be a better year for

In this market, almost everything is down. With a tax swap, we may be selling one fund that is down 40% and buying another fund that is also down 40%. This way, you still have upside potential, but you can at least realize a tax benefit in 2008 for the loss. With income tax and capital gains rates likely to increase in the next few years, having a loss carry-forward will be even more valuable than it is today.

peace on Earth!



## FDIC insurance increased to \$250,000

The Federal Deposit Insurance Corporation (FDIC) has increased the [deposit insurance coverage amount to \\$250,000](#) per owner. Before you buy long-term CDs, please be aware that this coverage will return to the old \$100,000 limit (\$250,000 for IRAs), on January 1, 2010.

## Roth Conversions

If your IRA is down this year, you may want to consider doing a Roth Conversion. In a Roth IRA, your investment is made with after-tax dollars and then grows tax-free for retirement. To convert a traditional IRA



into a Roth, you must pay the taxes now on your pre-tax contributions. If your IRA is down 30% this year, a Roth conversion is now 30% cheaper than it would have been a year ago.

Most IRA contributions are made with pre-tax dollars, in which case, the full amount of your conversion will be taxed as ordinary income. However, if you have made after-tax ("non-deductible") contributions to a traditional IRA, you would only owe taxes on any gains realized during the conversion. If you have a loss in your IRA, there will be no taxes on the Roth conversion, and I strongly suggest you do this if eligible. Why be invested in a tax-deferred account if you could be in a tax-free account?

Taxes on conversions can be substantial, so when the market is down, it's a much better time to make a conversion. Here are some of the key points to a Roth conversion:

1. To be eligible for a Roth conversion, your adjusted gross income (AGI) must be under \$100,000, single or married. In 2010, this income limit will be eliminated.
2. If you are under age 59 1/2, IRA funds withheld for taxes will be subject to a 10% early withdrawal penalty. I recommend

- you pay the taxes with money outside of the IRA.
3. You do not have to convert your whole IRA; you can do just a portion. You may want to only convert the amount remaining under your current tax bracket, and spread your conversion over several years.
  4. There are no required minimum distributions (RMDs) on Roth accounts. If you are retired and do not plan to withdraw your IRAs, a Roth conversion can eliminate RMDs, while the income taxes paid today reduce the size of your taxable estate. See page 163 of [my book](#) for the estate tax benefits of Roth Conversions.

*Please consult your CPA or tax advisor for full information and to determine if a Roth Conversion is appropriate for you.*

*Never ask of money spent  
Where the spender thinks it went.  
Nobody was ever meant  
To remember or invent  
What he did with every cent.*

**ROBERT FROST, "The Hardship of Accounting"**

As always, please feel free to call me anytime with any questions or concerns. I'm here to help! Thank you for your business.

Sincerely,

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