Consider This Program

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On This Show:

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Show Notes:

Topics Include:

- Cost Basis Analysis
- Retirement Tips
- Investment Strategy
- Roth Conversions

Cost Basis Analysis

Does cost basis also apply to the sale of a home? What is cost basis? It's what you paid for it after tax. Your IRA doesn't have a cost basis. If it's a tax deferred IRA, it is at zero. You have a cost basis on stuff that you've bought where you've already paid taxes, which could very well be a house.

If we're talking about a retail account, what happens to cost basis when you re-invest dividends? You're adding to that cost basis because you have to pay the tax on the dividend every year when it's earned. Let's say you have an asset that's really old. How do you determine cost basis? Try to go back and find brokerage statements. The best you can do is come up with what you believe is a reasonable value.

So can the IRS audit? They can, but the IRS has the same problem that we do. It's why every brokerage account gets transferred. When we move your account over your basis travels. One of the first things that our investment team does is to make sure that the correct basis is established.

Does your financial advisory firm track cost basis for people? They better. You are technically obligated. The Financial Enhancement Group will. What happens if you make a mistake on reporting your cost basis to the IRS? You have to amend your tax return if you made a mistake either to your favor or to your detriment.

Now, how would you determine cost basis if you inherited stock? If you inherit it, that means somebody died. Remember there's a difference between a gift and inheritance. If you inherited it, your basis is whatever the fair market value of the asset is that day. What are some of the options if you simply can't even determine what the basis is? Your CPA is going to help you come up with a fair and reasonable amount.

Retirement Tips

Is there anything on the horizon financially that would make retiring in the near future more risky? I really don't know as far as the outlook. Here's the thing that I think is most overlooked, we will always go toward the answers that we want to believe to be true.

Bill Gates said this in a famous quotation: “The world overestimates what can happen in 24 months and clearly underestimates what can happen in 10 years.” He was obviously talking about technology, but I would tell you from a retirement standpoint, that's profound. Most people live a lot longer than 10 years in retirement. If you have a spouse, that's probably the biggest one I would say people need to be cognizant of. Should we plan ahead for a correction? That's something to think about.

Economies and markets are never correlated. The market is a leading indicator of where the economy is headed, but to look at an economy and try to predict a correction in the market is dangerous. Ask yourself this question, could you stomach with the way your assets are invested today? Am I willing to lose this percentage of my assets if my money were in this type of portfolio?

The more conservative you become, the more fixed income you have. If you've lowered your assumption rate on growth, you tend to think that you're in a safer place. That's not always true. If you're thinking about retiring in 2020, should we move our accounts into something less risky? Risk by definition is when you get something different than what you expect. As long as you can live in that PR, it's okay.

Investment Strategy

There are a lot of different strategies that go out in the investment world. Some say you want to focus on things that produce dividends, some on capital gains. Some say you just want to make as much money as you can. Then there's others that say, I want to make money in particular areas. I can't give you the right answer for you, but we're going to break down a Wall Street Journal article that came out a few weeks ago. It said: When God is your portfolio manager.

Can you invest directly in a church? No, you cannot invest directly in a 501(c)(3). You can invest in missions. You cannot invest in a Not-for-profit because investing means you're growing; you're trying to earn profit. What exactly is faith based investing? “Faith-based” tends to have this notion that we're going to invest in companies that match our faith. How do you know what a company supports? Do you have to do your own research? Most individual companies will tell you their social policy.

When folks come to the Financial Enhancement Group, what if they have certain stocks that they want to keep? We have our own processes and ways. If it's in an IRA, it's not an issue because there's no taxes.

Roth Conversions

Is it better to convert funds to a Roth before or after you retire? December 22nd of 2017, they changed the tax code. We lost the ability to do Roth conversions with a recharacterization provision, meaning we could change our mind later on. What that means is if I decide to convert money in January of 2020, say $50,000, and I do it on my assumed tax rate of what I normally have, but all of a sudden something happens at the end of the year and I get a big bonus and my tax bracket is greatly increased, I'm going to pay taxes on that Roth conversion at a much higher tax rate that I intended to.

Now, you're almost historically always better to invest the sooner you can in a market. You're almost always better to invest sooner than later over the long term. Taxation is a big part of a Roth conversion. When you convert money out of an IRA, you're agreeing to pay taxes on that money today so that you don't have to pay taxes in the future.

Is there an age requirement for converting retirement funds to a Roth? There is not. You have to have retirement funds. You can never convert an inherited IRA. Why is it important to know your tax bracket before converting? You're going to pay those taxes now. Your tax rate is volatile over forces that you can control: the amount of income you make, the amount of assets that you sell in a given year, and the amount of money you pull out of an IRA or a 401K, but it's also subject to forces you cannot control: you getting laid off, you getting a huge bonus at the end of the year. You can't control how the IRS changes their tax code.

If you're under 59 and a half and you do a conversion, can you go ahead and take out some extra to pay the taxes?

I have never in my entire time of doing this seen where it made sense to use part of the money that I'm going to do the conversion on to pay the taxes on that. One of my rules was if a Roth conversion made sense, you had to have the cash to pay the taxes outside of the conversion. I would never tell somebody to take money out of an IRA, convert it, and use part of the money that they pulled out to pay the taxes. It just doesn't make sense.

Can you do that under 59 and a half without a penalty? Absolutely not, nor should you. How does the pro rata rule impact conversion? The IRS aggregates all of your IRAs.

If you're over 70 and a half but you're still working, you have the ability to do contribute to an IRA if you have earned income. Now whether that IRA is deductible is based on your income, your spouse's income, and your access to a retirement plan at work. So I put money into a nondeductible IRA every year. I have a 401k at work and my income is at a point where I'm not allowed to get it tax deducted. We do what's called the backdoor conversion where we immediately convert it into a Roth purely by the tax code. So even though I'm not eligible to contribute to a Roth IRA, I am able to use that tax code to contribute to a nondeductible area that becomes a Roth.