FINANCIAL PLANNING
MARKET OPPORTUNITIES

Recently, the domestic and international markets have experienced volatility due to the economic concerns regarding the Coronavirus as well as an oil price war between Russia and Saudi Arabia. Acumen's Portfolio Management Committee (PMC) has been conferring daily amidst this market volatility and have made adjustments to allocations when observations evolve into convictions. One topic the PMC is addressing during these daily conversations is regarding when to buy into the market. Acumen's PMC recognizes the potential for opportunity during market corrections and is diligently monitoring for equity mispricings.

Acumen's financial planners see correlated opportunities to capitalize on current market conditions through IRA contributions and Roth conversions. In our January 2020 article, titled "Roth Conversions", we explained the strategy and tax benefit of performing Roth conversions. This process converts tax-deferred IRA assets into a forever-tax free Roth IRA. In this article, we discuss the main benefits of performing Roth conversions during current market conditions including a reduction in taxes paid on the conversion[1] and potential for growth.

1. Reduction in Taxes Paid on Conversions

Very simply stated, if the value of the potential conversion of a traditional IRA has decreased, the taxes paid on the conversion of that amount to a Roth IRA will decrease. Paying taxes on a conversion when the account is at a lower value reduces both the tax liability and also allows the converted amount to grow tax free forever in a Roth IRA when the market rebounds. While Acumen's PMC looks for investment opportunities, Acumen's financial planners analyze income figures to stay within the bounds of the appropriate and lowest tax rate found to be optimal for conversions. In addition to the advantage of converting with a lower traditional IRA account value, Acumen believes today's individual tax rates are relatively low compared to what they may be in the future. From a tax perspective, now is an opportune time to perform Roth conversions. The Tax Cuts and Jobs Act of 2017 provided a cut to individual tax rates and effectively doubled the standard deduction but these changes sunset (or end) in 2025. With no legislative action, tax rates will revert back to 2017 rates. Meaning in 2026, these rates could be 7.9% higher in aggregate and the standard deduction is set to be halved as well.

2. Potential for Growth

Whether through a Roth conversion or a contribution into a 401k, traditional IRA, or Roth IRA, Acumen sees current market conditions as an opportunity to "buy low" and enjoy future growth. Since its inception, the stock market's history shows an overall upward trajectory with some of its highest periods and years of growth following directly after negative performances. Acumen does not believe timing the market is anywhere near as effective a strategy as time in the market. The impact of time in the market can benefit from entering at a lower price point and active asset allocation.

The Roth versus traditional IRA consideration is a complex one Acumen's financial planners must take time to assess with each client. Having a traditional IRA or making traditional IRA or 401k contributions may be an appropriate strategy for some and Roth conversions are not necessarily an appropriate strategy for everyone. While growth is favorable and can be expected as a long-term investor, growth in a traditional IRA has the potential to create substantial future tax liability without proper tax planning. Although one receives a tax deduction for making contributions to a traditional 401k or traditional IRA, the funds will be taxed when distributions are made. As of now, an individual is required to start drawing a percentage of their traditional IRA assets at age 72. This requirement is known as Required Minimum Distributions, (RMDs) and are taxed and count towards annual adjusted gross income.[2] The more growth realized in an IRA equates to a higher IRA balance and a higher IRA balance means a higher RMD amount. Although a higher RMD amount may seem like a positive with no downside, a combination of potentially higher future tax rates and additional income through pensions, social security, and RMDs may result in a traditional IRA account owner being pushed into a higher tax bracket. The resulting tax rate applied to income could reduce the effectiveness of the growth that was experienced in the traditional IRA account. Conversely, a Roth IRA does not have RMDs and its distribution will not be taxed when taken. Essentially, this means a Roth IRA account holder (and their beneficiary) will fully capture and enjoy the growth of the Roth IRA without ever having to pay taxes on the distributions.

Market detriments, such as the Coronavirus or an oil price war, are out of our control. Acumen doesn't believe in dwelling on those factors out of our control but believes in the value of making opportunistic and deliberate changes within our control at optimal times for a better financial future. In line with our belief, investment management and financial planning must be cohesive for an optimal approach. We believe investment opportunities can also open doors for financial planning strategies. Most of all, we believe in being transparent and the adherence to the fiduciary standard of recommending and doing what is in the best interest of our clients.

For these reasons, we encourage you to reach out to our team if you have any questions or would like to further discuss the strategies outlined in this communication to help you plan and protect your legacy.

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1. A reduction in taxes only applies to a value which has decreased due to market conditions. This does not indicate a conversion of the same value in an up market and down market will yield a different tax liability.

2. RMDs sent directly to charity do not count as income and will not be taxable to the account holder or qualified charitable organization.

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