MONEY MATTERS

RE-THINKING INVESTMENT STRATEGIES FOR 2009

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As a result of having just experienced one of the most volatile periods in stock market history, and with continued uncertainty for the foreseeable future, the start of the new year is an excellent time to carefully evaluate your short-term and long-term investment strategies, as well as your overall financial goals.

The average individual taxpayer lost approximately 40% of their retirement funds during calendar 2008, which can be devastating when the saver realizes that they are not allowed any current tax break for losses in these funds. These losses can be even more troubling for those taxpayers who have experienced similar decreases in their home values.

As a result of the economic downturn and these value decreases, local residents are focused on replenishing their retirement funds and other assets.

Fortunately, the federal and state tax laws offer a variety of ways to keep more of your earnings and compound earnings on a tax-deferred or tax-free basis. Following are specific methods for fast-tracking the recovery of your 2008 losses:

1. To the extent your cash-flow allows you to, pay in the maximum amount ($16,500) to your employer-sponsored 401(k) plan, especially if your employer matches some percentage of your contributions. It is common for employers to match the first 2%, 4%, etc. of your wages that you earmark for retirement.

2. Speak with an investment expert to assist with the allocation of your investments between stocks, bonds and other investments. Generally, you will want to move more investment funds to bonds and money market funds as you get closer to retirement in order to reduce the volatile ups and downs that generally impact stocks more than bonds and money market funds. A re-allocation should be performed at least twice annually.

3. Different strategies will generally be employed for your qualified retirement accounts and your taxable non-retirement accounts. Since no capital gains tax rate benefits will ever be derived, and any losses on investments will generate no current tax benefit to the owner of a qualified retirement account, taxpayers should minimize placing a high proportion of highly speculative stocks in their qualified retirement accounts. They should also avoid placing ANY municipal bonds, real estate, oil properties, annuities and similar investments in such plans.

4. Even though these plans offer significant economic advantages through tax-deferred value increases, owners must remember that future withdrawals will generally recognize 100% of every dollar distributed as ordinary income – currently taxed at up to 35% for federal purposes and up to 10.3% for California purposes. Taxpayers having less than $100,000 of Adjusted Gross Income for 2008 can elect to convert their regular IRA to a Roth IRA, which will allow the owner to withdraw any amounts tax-free provided the money is left in for at least five years from the date of conversion. This strategy can be very valuable to any taxpayer that had low W-2 earnings or losses from operating businesses during 2008.

5. Note that with the challenging stock market, it is also worth exploring various insurance products for your non-retirement accounts, such as annuities, whole or universal life policies, etc., as these often offer guaranteed minimum investment returns and also have a number of tax-deferred investment build-up strategies similar to retirement accounts. ■