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## Good (Great) Ideas for 2011-2012

**1. Refinance now while the gettin' is good.**

Mortgage rates are at a low; the 10 year treasury is at a low and the Fed is easing long term rates. This may be the last chance for a long time to lock into a low rate. Call your lender, and see what you can do. If you are 'underwater' but like your house, it may be worth paying down to get the better rate. The payment rates on a 6% \$200,000 loan are way higher than a \$180,000 3.5% loan.

**2. Convert to Roth when the market is low.**

Roth IRAs are tax-free (if you follow the rules) and are not subject to required minimum distributions at age 70 ½. For many people, mostly those who will be in the same or higher bracket later, the Roth makes sense. It also makes sense when the market is down, since you can get the recovery of the market tax-free. Obviously, if you can contribute to a Roth, a contribution made in a down cycle is better than an up cycle. For people who reside in Michigan and were born after 1946 this year has added benefits.

**3. Look into Municipal Bonds.**

The municipal bond market has traditionally been a relatively safe tax-free income market. Boring but consistent and steady. The normal spread between municipal bonds and the 10-year treasury is about -.15%, or the munis pay about 85% of treasuries. Today, thanks to state and local budgets and some high profile commentators, the muni market is paying about 148% of 10 year treasuries. Higher yield and no taxes warrant consideration. Also consider that the interest rate coverage amongst municipalities is at about 5.5%, the lowest on recent record. Beware that not all municipalities are created equal.

**4. Look at an IRA Trust.**

Your heirs get to take your IRA over their lifetimes, but they don't have to. In fact, inherited IRAs are generally subject to creditor claims and can be taken by the beneficiary at any time. A solution is an IRA trust, where the beneficiary's interest is paid to a trust, subject to asset protection and restrictions. Want more fun? Have an IRA beneficiary trust on a Roth IRA, where the distribution flow is tax-free. Imagine that for the grandkids!

**5. Dividends: Show me the money!**

The current yield on bank accounts and government bonds is dismal, to say the least. However, dividend yields don't necessarily reflect the lower rates. Many corporations pay substantial dividends at a spread higher than almost any time in recent history. As a bonus, dividends are tax-advantaged (for now) and have a lower rate. Plus, unlike interest, dividends can grow. And if you fear the sanctity of dividends, consider that Bank of New York has paid a dividend since 1699 and DuPont since 1742. There were a few things that happened in the meantime.

**6. Segregate Roth Conversions.**

You can get a Roth two ways: contribute or convert an existing IRA. When you convert, you pay taxes on the amount converted. However, you can have as many Roth conversions as you like. So you could have one holding Apple Stock, and another holding a mutual fund, and another holding Ford stock. Why? You can recharacterize a Roth conversion to reverse the transaction. So if your fund goes down, send it back. If it goes up, keep the tax-free gain.

**7. Look at your income, not your account balance.**

A big mistake people in retirement tend to make is to look at their account balance as measurement of success. "I'm down \$80,000! I can't retire!" In reality, most people don't retire on their account balances; they retire on what their account balance earns. So if your income flow has stayed static or increases, you're probably still OK. Watch the income, not the balance.

**8. Look at your digital legacy.**

Quick, ask yourself this question: "how many passwords and pin numbers do you have? And who knows them besides you?" In this technological world, most of us have a digital legacy of online accounts and online assets. We need to preserve and protect those assets as well as our other assets. List your passwords and PINs, and keep the codes in a safe place.

**9. Ignore investment pornography.**

Humans have a tendency to remember most what is in front of them now (called 'recency bias') and what is accessible to them (called 'availability bias'). In other words, we tend to put more weight on what is current and what is easy to look at. The media compounds this with over running stories until it is in the forefront of our thinking. We look at cable, the internet and the media to see what is going on and everything is Greece, or gold, or defaults. Our plan is for 30 years, but we look at 30 days or sometimes 3 minutes of information to judge our path. Look at the reality and the long term, and if you can't resist the investment porn, don't look.

**10. Mind your estate.**

There are two things certain, and of death and taxes, we'll guarantee death. In that event, it only makes the best sense to do an occasional check on your estate. Documents up to date? Right people in the plan? Beneficiaries right? Any new assets? Any births, deaths or divorces? Keep the estate plan up to date to protect the legacy you built. If you wait until you need it, it's too late.

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