

Financially InKlein'd™

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Super-Size Your IRA

In the world of investments, there is a hierarchy of tax-favored vehicles. Although it currently doesn't exist and probably never will, the ideal investment vehicle would include each of the following six income tax attributes:

1. Nontaxable growth
2. Tax deduction for all additions regardless of age, income, and participation in other types of plans
3. No limit on additions
4. Nontaxable withdrawals
5. Ability to withdraw funds at any age without premature withdrawal penalties
6. No minimum withdrawal requirements.

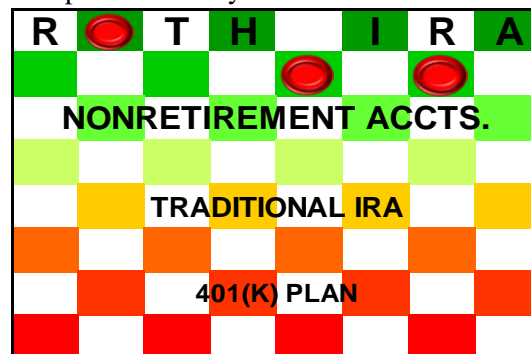
One of my favorite investment vehicles, the Roth IRA, offers three out of six of the foregoing benefits: nontaxable growth, nontaxable withdrawals, and no minimum withdrawal requirements.

While you generally must wait until age 59-1/2 to begin withdrawing funds from Roth IRA's, this is typically not a problem for most people.

In addition, while you are unable to take a deduction for, and there's a limit on, the amount of Roth IRA contributions, you have the ability to make tax-deductible, and potentially sizeable, contributions to other types of retirement plans, e.g., traditional IRA's, 401(k) and other pension plans, that can be transferred into a Roth IRA subject to a limitation on one's income.

Roth IRA Conversion Strategy

Whenever possible, you should look for opportunities to transfer assets from less to more tax-favored investment vehicles in order to maximize your portfolio longevity. Furthermore, you should be much more inclined to act on such opportunities when market values are depressed as they are now.



A strategy that I am currently reviewing and implementing with several clients is an often underutilized, yet potentially extremely powerful, planning technique, namely, conversion of traditional IRA's into Roth IRA's.

If your income is \$100,000 or less, you qualify to convert part, or all, of your traditional IRA's into Roth IRA's. Upon doing this, you will achieve the following three potential benefits:

- Avoid future taxation on the value of IRA's converted into Roth IRA's
- Reduce income tax liability on IRA distributions
- Avoid age 70-1/2 and older minimum distribution requirement

Window of Opportunity

There is currently a window of opportunity to obtain a fourth, and potentially significant, "bonus" benefit — the chance to leverage currently depressed stock market prices into potential permanently untaxed future growth.

The best way to illustrate this is by example. With the Dow Jones Industrial Average closing at 8,379 this past Friday, down 40% from its October 1, 2007 high of 14,088, it is not unusual for an IRA that was valued at \$300,000 a year ago to be worth 60% of this amount, or \$180,000, today.

By converting the IRA in this example to a Roth IRA, while you would incur income tax on the current value of the IRA, or \$180,000, you would permanently avoid taxation on the recovery of the \$120,000 decrease in value, assuming that the decrease is temporary.

There is a potential fifth benefit to be realized by doing a Roth IRA conversion in 2008 — less income tax liability upon conversion should income tax rates increase in future years.

Conclusion

While the ideal investment vehicle is currently nonexistent, assuming you qualify, use of the Roth IRA conversion technique is one of the best investment opportunities available today. When leveraged by current depressed stock market prices, it makes a lot of sense.