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Things You Control

Make IRA Contributions – But not everyone!

Financial markets and hence portfolio returns are unpredictable. But two life-events are not: your retirement and taxes. Luckily, you can improve your odds of more retirement funds and take advantage of tax laws by contributing to your IRA by mid-April.

You can contribute up to $6,000 for 2021 ($7,000 if you were age 50 or more as of December 31, 2021) to your IRA by April 15, 2022 (For most taxpayers).

You can contribute to a traditional IRA, a Roth IRA, or both, as long as the total contributions don't exceed the annual limit and meet the IRS eligibility tests. You may also be able to contribute to an IRA for your spouse for 2021, even if your spouse didn't have any 2021 income.

But!

There are many investors who have accumulated large retirement savings and are in their Retirement Transition years. For them it may make sense to review if adding to their IRAs remains valuable. The basic premise of retirement savings is: It's a way to accumulate a nest egg and to defer paying taxes till you start withdrawing from these accounts. Conventional wisdom bases this premise on the notion that tax rates will be lower after you retire. While this is largely true, it may not be so for those who have accumulated a sizable portfolio. And, evaluating the IRA strategy that is appropriate for you is something you control. I am available to discuss our thinking if you are curious.

Investors focused on reaching their financial goals (e.g. a comfortable retirement) need to address about a dozen activities that can determine how successfully they reach their goals. These activities range from things they control (e.g. how much they save) to things they simply do not (the future returns on their investments). Our observation is that successful investors have learned to spend their efforts on things they control.

Note: These comments are not to be regarded as tax-advice; please check with your tax advisor for your specific situation.

Why Things You Control are Important

In Investing (as in Life) we can: hope, worry or plan.

I believe that when we hope or worry, we are largely looking at the future and are focused on things we do not control. We hope the markets will get higher and we will make money. Or we worry that markets will collapse and we may lose all our money. And yet, deep down in our hearts, we know that whether our thoughts are optimistic or pessimistic they simply do not influence future outcomes.

We can also look at the future plan-fully. When we do this we tend to focus on the things that we do control. And, by picking activities that are in our control and that are important to our future we have a far better chance of achieving our goals. Of course, life holds few guarantees! So, for example, while we all hope that our favorite stock pick will be a high performing stock, not implementing a properly diversified portfolio is plainly irresponsible to our financial well-being.

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Our Financial Planning Principles

Without a Purpose, accumulating money can become a soul-less task. A financial plan gives your savings a purpose.

It's OK to be broke when you are young - not so when you are old: Studies show that people typically tolerate risk and uncertainty better when they are younger.

Getting down from Mount Everest is as important as getting up: Pay as much attention to consuming your money after you retire as you do to accumulating it before you retire.

Planning is life-stage dependent: The principles of saving and investing money in your early years are very different from the techniques that you use in retirement to generate a reliable income stream.

Financial confidence comes from being on top of your taxes, protecting yourself from risks, having a clear picture of your investments and debt, and specific targets for saving and spending.

Achieving financial independence requires a careful balancing of Income, expenses, taxes, and savings. This balancing act (planning) is not intuitive, nor can it be done well on the back of an envelope, but effective plans do give more peace of mind.

Identify your true risks (in contrast to investment volatility, labelled as risk, or uncertainty) and take action to manage them using the correct risk management tools. Pick the right tools for the job - investments won't manage the risks you face, risk products (insurance) won't deliver the growth and flexibility you need.

Taxes remain important even after you retire. However, in retirement your investments become the principal source of your income and hence drive your taxes.

In matters of health: it's your body but your doctor knows better how your body works. So it is with your money: A partnership with an advisor will help you to reach your financial goals - you save, they help your savings grow. Together you can get there faster.