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Summer 2020

Consider a Roth IRA Conversion

There is not a lot of good news coming out of the economy lately, but one bright spot may be Roth IRA conversions. There are a number of reasons to consider a conversion this year.

1) Stock prices have fallen over the last few months.
If your IRA account value has gone down, the tax impact would be less. A lower IRA conversion balance = a lower tax cost. Although we cannot predict where stock prices will go in the near term, history suggests the market will recover. Convert when the market is down and your Roth benefits from any growth.

2) Your income could be lower in 2020.
With layoffs, reduced work schedules and salary reductions, you could be in a lower tax bracket which may reduce the tax cost of the conversion.

3) Current tax rates are low.
The Tax Cut and Jobs Act passed in December 2017 lowered rates for 2018-2025. But with the trillions of dollars being spent on the coronavirus pandemic, combined with the current deficit, it's possible tax rates may be higher in the future.

4) If you anticipate being in a higher tax bracket in retirement.
Often people contribute to an IRA or 401(k) assuming their tax rate will be lower in retirement, but that is not always the case. Two working spouses who max out their 401(k) or qualified plan, can easily end up with a large sum in tax-deferred accounts. With Social Security, required minimum distributions and pensions, you could end up in a higher tax bracket. Tax-free withdrawals from a Roth can be helpful if you expect to be in a higher tax bracket.

5) You want to leave a tax-free inheritance.
The SECURE Act took effect in 2020 and it requires inherited IRA owners to take out all the money from the IRA within 10 years of the original IRA owners'

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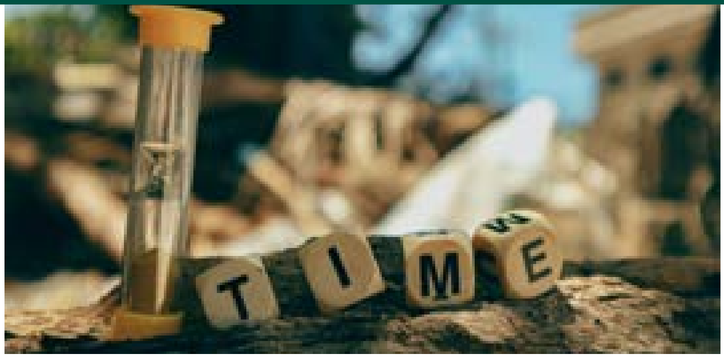
What's Inside:

Gregory M. Hanson,
President



Thinking of Timing The Market? Think Again

Volatility is back. The sustained rally that produced 30%+ gains in the S&P 500 in 2019 and continued into 2020 came to an abrupt halt in late February, when fears of the new coronavirus epidemic and its effects on the economy swept Wall Street and beyond. Markets across the globe plummeted and the Dow Jones Industrial Average dropped over 1,000 points in one day. More drops followed and volatility has ensued as investors try to grapple with the spreading epidemic and its potential impact on trade, travel, and the global economy.

The Futility of Market Timing

The situation presents a tempting scenario for would-be market timers - those who try to predict when stock prices will rise and fall. Should you sell before it gets worse? Should you buy while prices are down? What about parking your money in bonds until the epidemic runs its course?

While timing your purchases and sales to capitalize on the market's ups and downs may seem to make sense in theory, it's extremely difficult to pull off successfully. Typically, you can't accurately pinpoint a market high or low point until after it has occurred. If you move your money out of stocks during a low period, you might not move your money back in time. By the time you realize stocks are on an upswing, it may be too late to take advantage of gains.

In fact, history has shown that trying to time the market's ups and downs is a loser's game. Even the experts, with their analytical prowess and sophisticated computer models, cannot manage to consistently beat the market. A landmark study by CXO Advisory Group tracked more than 4,500 forecasts by 28 self-described market timers between 2000 and 2012. Only 10 were able to accurately forecast equity returns (as measured by the S&P 500) over 50% of the time, and none were able to predict accurately enough to outperform the market.[1]

Nobel Laureate William Sharpe calculated a market timer would have to be correct 74% of the time - on both the market decline and recovery - to outperform another investor who just lets their money sit in a passive portfolio of comparable risk. [1]

Dealing with crises such as the coronavirus epidemic requires patience and a level head. Here are some suggestions to help you weather the storm:

- **Don't panic.**
  Selling into a plunging market is often a sure way to lock in a loss. Talk with a financial advisor before you act. He or she can help you separate emotionally driven decisions from those based on your goals, time horizon, and risk tolerance. Researchers in the field of behavioral finance have found that emotions often lead investors to read too much into recent events even though those events may not reflect long-term realities. With the aid of a financial professional, you can sort through these distinctions and you'll likely find that if your investment strategy made sense before the crisis, it will still make sense afterward.

- **Consider Time in Market Instead.**
  Clearly, time can be a better ally than timing. Instead of trying to time the market, you may be better off with a well-coordinated investment strategy based on your personal risk tolerance and time frame. While past performance is no guarantee of future results, the stock market has always recovered from downturns.

So think twice before trying to time the market's dips and corrections and work with your financial advisor to ensure that the investments you select are in keeping with your goals.

1. Index Fund Advisors, INC. (IFA.com) 2014. Based on a study by CXO Advisory, © CXO Advisory Group LLC

Greg's Corner

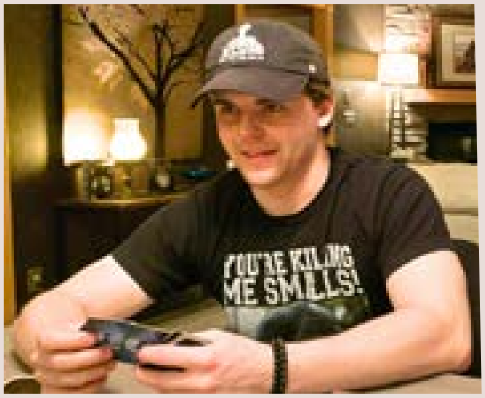
There's no easy way to put it, these are tough times and there is a lot of hurt out there. We're dealing with health issues, economic issues and social issues all at the same time. This certainly causes a lot of stress and anxiety for everyone. I hope you and your families are all doing okay.

Our youngest Tyler graduated from high school this year. He graduated with highest honors and received 2 scholarships for college from local organizations. There was no commencement ceremony, no prom and no spring or summer baseball. They did have online ceremonies for commencement and scholarship awards. It wasn't the ideal way to finish high school, but we tried to make the best of it.

Cal was on campus at Gustavus college until mid-March and then all the kids were sent home. They finished the year with virtual learning. His baseball season was also canceled. One positive for him was without 3-4 hours of baseball practice every day, he was able to spend more time on his studies and was on the Dean's list both semesters this year.

Tyler

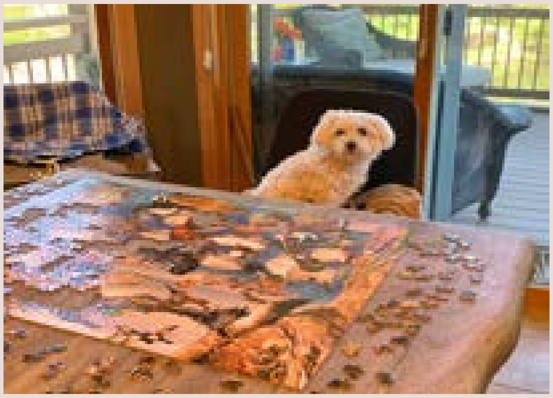
Lisa's job at school is to help kids one-on-one with reading. Once the schools closed there was really no way to do that virtually so she was out of a job. She decided to try delivering groceries to people that were homebound or uncomfortable going to the store so she's been working for Shipt. She really enjoys it.



Cal

I have also been working from home since mid-March and it has been going very well. I've been meeting with all of you over the phone or on Zoom. Zoom is kind of fun but it was a learning process for an old guy like me!

As a family, it's been fun having the boys around more and we've been doing lots of puzzles, playing board games and going on walks. It's a crummy situation all the way around, but please know that we're here for you and we'll continue to be here when you need us. Stay safe!



Ernie helping with the puzzle

Please Keep Us Updated

New baby? Starting a new job? Retiring soon?

Keep us informed of changes in your life that may affect your investment goals. Your portfolio may need to be modified to reflect these changes.

Thank You For Your Business

A lot of personal satisfaction comes from helping clients pursue their financial goals. If you have friends or relatives that need help with their finances, please keep us in mind. We promise to provide them with professional financial guidance and friendly customer service.

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11140 Hwy 55, Suite D
Plymouth, MN 55441
952-541-0020
apdwealth.com

Roth Conversion cont....

death. If you leave a large IRA to your beneficiaries, they will need to take out all the money within 10 years - and pay income taxes on the distributions.

6) You do not want to take RMDs at age 72.
Although required minimum distributions are not required for 2020, you can assume they will be required going forward. If you convert your IRA, a Roth IRA does not require distributions at any age. This allows you to leave it for your beneficiaries.

This all sounds good, but there are some important things to consider before doing a Roth IRA conversion.

1) Do you have the money to pay the tax bill?
Since a traditional IRA or 401(k) is tax-deferred and a Roth IRA is tax-exempt, income taxes on the converted funds must be paid the year the conversion is completed.

2) Do you anticipate needing the Roth IRA money soon?
If you need to open a new Roth IRA know that it is subject to the five-year rule. You must have held the Roth for 5 years to withdraw earnings penalty free.

3) Have you checked with your tax advisor?
Roth IRA conversions are final. In the past you had the opportunity to "undo" the conversion. This is no longer allowed. Once the money has been converted, it cannot be reverted back to a traditional IRA.

The bottom line is there is no one-size-fits-all when deciding on a Roth IRA conversion. We do not give tax advice so it is important you consult with your tax adviser before doing a Roth IRA conversion .