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# FINANCIAL*ink*

Your Money Management Newsletter

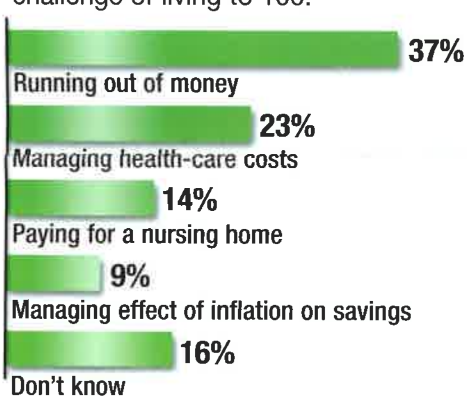
**Taranto Financial Services & CPAs**
1263 Route 31 • Lebanon, NJ 08833
(908) 730-7211 • Fax (908) 735-5524
Email: gtaranto@americanportfolios.com
www.TarantoAssociates.com

Gregory Taranto, *CPA*

## *Snap*SHOTS

### CENTENARIAN CHALLENGES

People age 45 to 70 were asked what could be the biggest financial challenge of living to 100.




Source: *The Wall Street Journal*, March 8, 2011

## *Up* FRONT

### 14 million

Estimated number of Americans who have errors on their credit reports because of medical collections.

Source: *The Wall Street Journal*, December 11, 2010

## *Quick* HITS

**Ninety-eight percent** of Americans with $150,000 or more in household income said they were willing to assume risk in pursuit of investment returns.[1]

**About 19.5 million** U.S. households owned a Roth IRA in 2010.[2]

**Economists estimate** that each one-cent increase in gas prices takes $1 billion out of consumers' pockets.[3]

**U.S. food prices** are expected to rise between 3% and 4% in 2011.[4]

**Forty percent** of online households surveyed had at least one computer virus infection since 2008.[5]

Sources:
1–2) Investment Company Institute, 2011
3) Yahoo! Finance, February 24, 2011
4) *The Wall Street Journal*, February 25, 2011
5) *Consumer Reports*, June 2010

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*Practical insights for your* **FINANCIAL GOALS**

# *What Kind of* **INVESTOR ARE YOU?**

**Most Americans seem to understand that to pursue financial gains through investing, they typically must assume some level of risk. For example, one survey of investors with household incomes above $150,000 found that 98% were willing to assume at least some risk in pursuit of investment gains (see chart).**

When you assume investment risk, it means you should be willing to lose money in pursuit of investment gains. Although losing money is exactly the opposite outcome you hope to achieve through investing, risk is an inherent aspect of investing. Broadly speaking, the more risk you are willing to assume, the greater your potential for investment returns.

Understanding your risk tolerance is an important part of determining what kind of investor you are. At one end of the risk spectrum is the conservative investor, who is usually interested in preserving principal and earning a steady income. At the other end is the aggressive investor, who is typically more concerned with growing principal, even if it means sustaining some investment losses along the way. Not sure where you fit? These factors may help you decide.

## COMFORT LEVEL

Everyone has a different comfort level when it comes to the potential for losing money on an investment. Although feelings are important and should be taken into consideration, making major decisions based on emotion could cause you to miss opportunities or take on too much risk. Remember that even the most conservative investments can lose value over time if they don't keep pace with inflation.

## TIME HORIZON

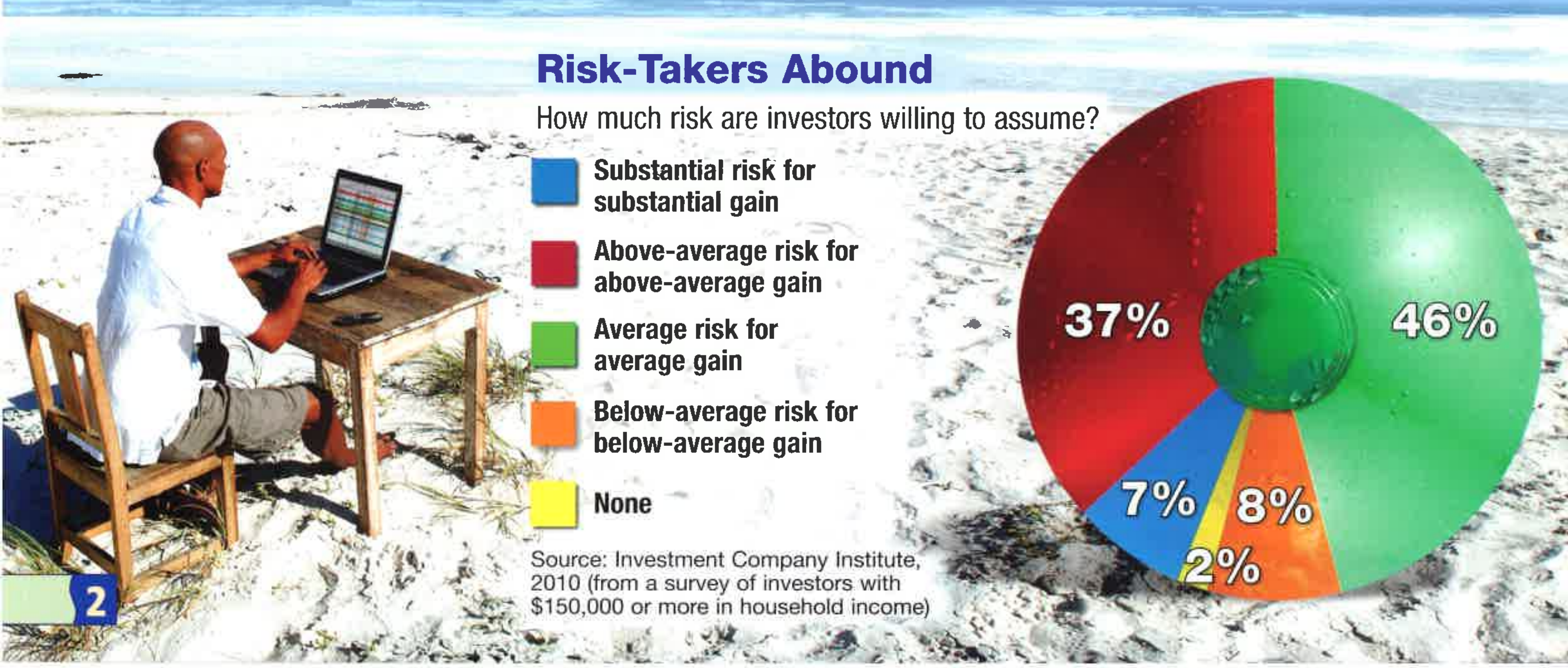
Your proximity to your financial goals can have a significant influence on your risk tolerance. In general, the more time you have to reach your goal, the more risk you may be able to assume. An individual who is 15 to 20 years from a major goal, such as retirement or sending a child to college, is typically in a better position to recover from investment losses than someone who is five years from a major goal. As you approach the date when you will need the money in your portfolio, it may be a good idea to begin shifting assets to more conservative vehicles to help avoid losses from which you may not have time to recover.

## NET WORTH

The size of your portfolio could also affect your risk tolerance. Consider two hypothetical investors: One has a $5 million portfolio and the other has $100,000 in a retirement account. Each makes a $50,000 investment in the same security. The millionaire is assuming far less risk because $50,000 represents only 1% of his portfolio. The other investor is facing a much larger risk by exposing half of his portfolio to the fate of a single security.

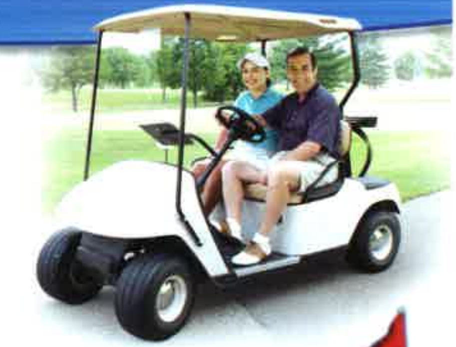
All investments are subject to market fluctuations, risk, and loss of principal. When sold, investments may be worth more or less than their original cost.

Determining how much risk may be appropriate for your portfolio typically requires you to consider more than just your feelings. Examining your overall situation may help you determine how much risk you want to assume to meet your long-term financial goals.




Source: Investment Company Institute, 2010 (from a survey of investors with $150,000 or more in household income)

# *Rising Popularity of* **ROTH IRA** *as Retirement Vehicle*

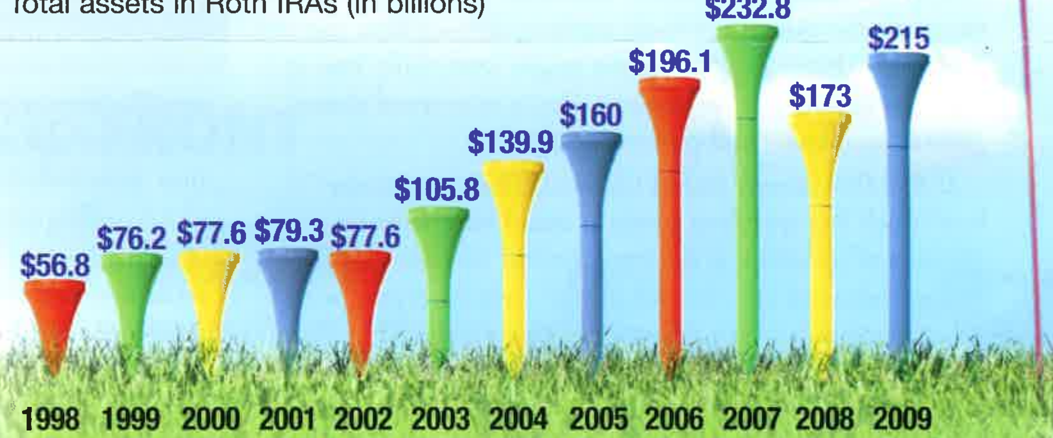


**Roth IRAs are quickly catching up to their older counterpart, the traditional IRA. About 19.5 million U.S. households owned Roth IRAs in 2010, compared with 38.5 million households who owned traditional IRAs. But the Roth IRA has been in existence only since 1998, while the traditional IRA has been around since 1974.[1]**

What's fueling the growth of this retirement vehicle? Americans may be attracted not only by the tax advantages offered by the Roth IRA, but by the flexibility it may offer.

## Growing Trend

Total assets in Roth IRAs (in billions)




Source: Investment Company Institute, 2011 (2005–2009 amounts are estimates)

### CONSIDER THE TRADE-OFFS

**Taxes.** The main difference between a Roth IRA and a traditional IRA is that Roth IRA contributions are made with after-tax dollars, whereas contributions to a traditional IRA may be tax deductible. The difference when you withdraw your money, however, is that qualified distributions from a Roth IRA are free of federal income tax if you've satisfied the requirements. By contrast, distributions from a traditional IRA are taxed as ordinary income. (Roth IRA distributions may be subject to state income taxes.)

**Eligibility.** Anyone under the age of 70½ with earned income is eligible to contribute to a traditional IRA. There are no age limitations associated with a Roth IRA, although you must have earned income in order to contribute.

Income eligibility restrictions are associated with both types of IRAs. Eligibility to contribute to a Roth IRA phases out at higher modified adjusted gross income levels: $107,000 to $122,000 for single filers and $169,000 to $179,000 for married couples filing jointly in 2011. Although there are no income limits to contribute to a traditional IRA, investors who are active participants in employer-sponsored retirement plans cannot deduct their contributions if their modified AGIs exceed $66,000 for single filers or $110,000 for joint filers.

**Contribution limits.** There is a $5,000 annual contribution limit to all IRAs combined in 2011. Investors age 50 and older may make an additional $1,000 catch-up contribution.

**RMDs.** Traditional IRAs are subject to annual required minimum distributions (RMDs) that must begin after you've reached age 70½ (the first distribution must be taken no later than April 1 of the year after you turn 70½). However, no RMD rules apply to Roth IRAs. Thus, if you don't need the money, you can leave Roth IRA assets to your heirs, who can also benefit from tax-free distributions. Failing to take an RMD may result in a 50% tax penalty on the required amount that was not withdrawn. Beneficiaries of either type of IRA are required to take RMDs (based on their own life expectancies).

**Withdrawal considerations.** Withdrawals from either type of IRA prior to age 59½ may be subject to a 10% federal income tax penalty. Exceptions to the penalty include the owner's death, disability, and a qualified first-time home purchase ($10,000 lifetime maximum). Regular Roth IRA contributions (not earnings) can be withdrawn at any time for any reason without any tax liability or penalty. For a tax-free and penalty-free withdrawal of earnings, qualified Roth IRA distributions must meet the five-year holding requirement and take place after age 59½.

If you are looking for a way to help manage your income tax liability in retirement and possibly leave a tax-free legacy to your heirs, you may want to consider a Roth IRA.

1) Investment Company Institute, 2011

# *Making It on a* **MILLION BUCKS**

Among Americans who have calculated how much they need to save to afford a comfortable retirement lifestyle, two out of three believe they will need less than $1 million.[1]

Since the concept of modern retirement took hold in the 20th century, being a millionaire retiree has never really been the status quo. But these days, a million dollars might not be enough to maintain even a modest retirement lifestyle. How far would a million dollars go in retirement? The answer might surprise you.

## HOW LONG COULD IT LAST?

If a hypothetical 60-year-old retiree had a $1 million portfolio that earned a conservative 5% average annual return, she could theoretically withdraw $50,000 every year (equal to the annual earnings) without dipping into the principal. Although a 5% return might seem fairly low, it could be realistic for an investor who is concerned about generating income and preserving capital.

If $50,000 doesn't sound like much today, consider how much less spending power it could have after 10 or 20 years of inflation. If the hypothetical investor increased her withdrawals by 3% each year to help keep pace with inflation her $1 million would be exhausted by the time she reached age 86. These hypothetical examples are used for illustrative purposes only and do not represent the performance of any specific investment. Fees, expenses, and taxes are not considered and would reduce the performance described if they were included. Actual results will vary.

Accumulating $1 million for retirement may still be a worthwhile goal, but as you can see, it may not afford the retirement lifestyle you might expect for a millionaire. A retirement-needs calculation that considers your intended retirement age, expected sources of retirement income, and other variables may help give you a realistic idea of how much it could take to help fund the lifestyle you envision.

1) Employee Benefit Research Institute, 2011

## Cheaper by the Decade

How much money would someone need to save each month to accumulate $1 million?

Based on an 8% average annual return

| | 10 years | 20 years | 30 years |
|---|---|---|---|
| **Monthly contribution** | **$5,465** | **$1,700** | **$675** |
| **Total amount contributed** | **$655,800** | **$408,000** | **$243,000** |

This hypothetical example is used for illustrative purposes only and does not represent the performance of any specific investment. Fees, expenses, and taxes are not considered and would reduce the performance shown if they were included. Actual results will vary.



*Investment risk might seem scary, but don't let it paralyze you. Understanding your personal risk tolerance may help you make more sound decisions in pursuit of your financial goals.*

*Working toward a better financial future,*