Ranstrom Financial Planning Services

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Thoughts & Comments

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Bicycle Tour Postponed

In our last Thoughts & Comments, I mentioned that I planned to participate in a bicycle tour across the US in May and June. Unfortunately, something came up right before I was to leave and I was unable to participate this year. Hopefully, I will be able to do so next year. Obviously, I was disappointed in being unable to do something for which I have planned for years and trained since the middle of February. At the same, there are some interesting learning lessons.

Some believe planning guarantees an outcome which is not true. In my estimation, planning with a professional includes the likelihood of achieving a specific objective or a long-term lifetime goal or lifestyle such as a comfortable retirement. In my case, planning included:

- Assembling and working with an incredibly talented staff which would allow me to be out of the office for two months.
- Buying a netbook computer which is very light and easy to carry, and would allow me to be in contact with the office as long as there was a reasonable wireless connection.
- I normally work out five or six times a week. In February, I increased my workouts to about two hours on weekdays and normally at least three hours per day on weekends. In addition, while in Arizona meeting with clients, I frequently rode 50 miles or more.

In short, I thought I had planned, and more importantly, implemented a strategy which would lead to a favorable outcome.

I did one last thing; for the first time I purchased travel insurance. I bought it because this was a significant expense and one that I wished to insure. I always look at insurance from a risk management perspective. Is there an identifiable risk? Is it insurable? Can one afford to insure the risk? Finally, does it make sense to insure? In this case, given the cost of the tour, the cost of the insurance, and some of the identifiable risks—for example, crashing my bike and breaking a bone while training for the tour—I felt it was a risk I wished to insure. Incidentally, the reason I could not do the tour was totally unexpected, but the travel insurance paid the claim. I am not endorsing travel insurance, rather that part of the planning process is to assess and when appropriate implement reasonable risk management strategies.

Planning is what we do. Regardless of whether we are planning for a specific objective or a broad goal such as a comfortable retirement, our purpose is to help you achieve those goals and objectives. We cannot predict the future or guarantee a specific outcome, some things are totally unexpected, but we can promise we will do the best we can including directing our considerable talent and resources to help you reach your objectives.

One of the mottos I live by is "Learn from the past, plan for the future, and live for today." You will see it on our website, business cards, and brochure. For me personally, and for our clients, we try to learn from the past, apply this knowledge to help plan for the future and most important, enjoy today. Doing the first two does not predict or guarantee the outcome, but it does allow us to enjoy the current day knowing we have done our best in planning for tomorrow.

Conversion of Traditional IRA to Roth IRA

Regarding converting your Traditional IRA to a Roth IRA, as you may be aware, there is a change in the tax law for 2010 which allows Roth IRA conversions with no income restrictions. In addition, the taxes on the conversion can either be paid in 2010 or spread out equally between 2011 and 2012. Finally, though there are strict qualifications, there is the option to "undo" the conversion after it has been completed, a process called recharacterization. This means if the conversion from Traditional IRA to Roth was not beneficial, it can be undone. Generally, we believe that converting a Traditional IRA to Roth IRA is beneficial in two situations:

1. You believe you will be in a higher tax bracket after retirement. Though it is not possible to predict future tax brackets, it is our experience that most retirees will remain in the same tax bracket or change to a lower one after retirement. Though there is the possibility for an increase in tax rates and there are no guarantees for the future, I would expect tax rates to only increase for very high incomes and would be surprised to see an increase for middle and lower incomes.
2. You wish to pass your IRA account to your heirs totally tax free.
    - It is important to note that in either situation, the conversion generally makes sense if you can pay the taxes on the conversion from current cash and not from the IRA account being converted.

If you have questions regarding converting Traditional IRA funds to a Roth IRA or would like to review a comparative analysis based on current information and assumed tax rates, please let us know.

Perspective

There has been much discussion lately about the increasing deficit which is an important concern. I have been concerned about the deficit since 2003 and the consequences of increasing expenditures without offsetting revenues. At the same time, it is important to have perspective when considering numbers. For example, consider the following:

- The Gross Domestic Product (GDP) in 2009 was $14,256 billion. Comparatively, the GDP in 1989 was $5,482 billion. (Source: International Monetary Fund)
- The market value of the US stock market was $13.3 trillion at the end of 2009. (Source: BTN Research)
- Over the last 20 years (12/31/1989 to 12/31/2009) , the total assets of Americans tripled in value to $68 trillion. Total debts increased to $14 trillion for a net worth of $54 trillion. (Source: Federal Reserve)

Increased Need for Planning for Generations X and Y

With the demands the "baby boomers" are and will continue to make on our economy, I believe the generational groups behind them will have an increased need for planning and money management as I suspect the margin for error will be less. Getting off to a good start, managing cash flow and debt, and building assets will be very important for this group. Though all of us in our office will continue to work in this area, this is a specific area assigned to Courtney. With her educational background, work experience in both state government in Oregon and a publicly traded bank along with her age, she is ideally suited to help individuals and couples in their 20's, 30's, and early 40's get a good start on financial planning and money management.

If you have family members, friends or others that you believe may benefit from working with her, please call or send her an email with their name and address. She would be pleased to contact them with our services. There would be no fees or costs for an initial consultation. Also, we have clients in over 20 states and the combination of a virtual world along with Courtney traveling as I do, we are not limited to working with individuals in a specific area. In fact, we believe this is one of our advantages in that individuals and couples in this age group often change locations for both work and family related reasons. As you may know, we continue to provide information and services even if our clients change locations.

Again, at your suggestion, Courtney would be pleased to contact individuals and couples with information on our firm and services.

As always, if you have questions regarding your Portfolio or financial planning questions or concerns, be sure to let us know.