

PORTFOLIO WATCH



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Fee **FO** Only

Ways To Tap Your IRA And Avoid A Penalty

Retirement money is for...retirement. For some people, that would be considered a long-term investment. For others, "long-term" is not as long as it used to be, and still others are thinking "long-term" became "right now" a long time ago. If you're over 59½, you don't have to worry much about IRA penalties. At this point, the government simply wants its money back in the form of taxes. However, there are situations where, *as a last resort*, younger investors would like to tap into their IRA accounts. The IRS doesn't really mind this, either, because they typically get a 10% penalty bonus on top of the income taxes. This article describes a few ways to avoid this 10% penalty, although describing how to do it should not be taken as an endorsement.

Education

You can use IRA money to pay college expenses for you, your children, grandchildren, or spouse(s). Education expenses include tuition, fees, books and supplies.

First Time Home

This exception to the IRS withdrawal rules is limited to \$10,000 per lifetime (so be sure to keep track). The definition of "first home" is a little strange. Even if this is your second or fifth home, you are considered a first-time buyer if you haven't owned a home in the last 2 years. Also, the buyer can be you, your child, grandchild, or even your parents (great Father's Day gift idea).

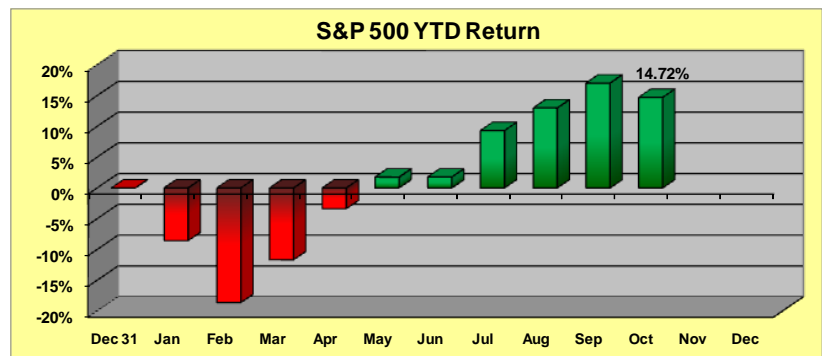
Hardship Withdrawals

Nobody wants to qualify for a Hardship Withdrawal, but here are the allowable circumstances:

Unreimbursed Medical Expenses – Must exceed 7.5% of adjusted gross income

Medical Insurance Premiums – If you have been receiving unemployment payments for at least 12 weeks.

2006 return: 13.62% 2008 return: -38.49%
2007 return: 3.53%



Disability – The IRS definition of disability is very strict and requires the proven inability to do ANY work.

Equally Substantial Distribution (72t withdrawal)

This is probably the most interesting withdrawal method. By setting up a payment schedule of equal payments until you reach age 59½ or for 5 years (whichever is longer), you can begin receiving payments from your IRA at any time. The IRS has three specific ways to calculate how much the payments need to be, and a violation of any of the rules (which are somewhat complex) will result in a 10% penalty for the entire amount received.

Roth Conversion

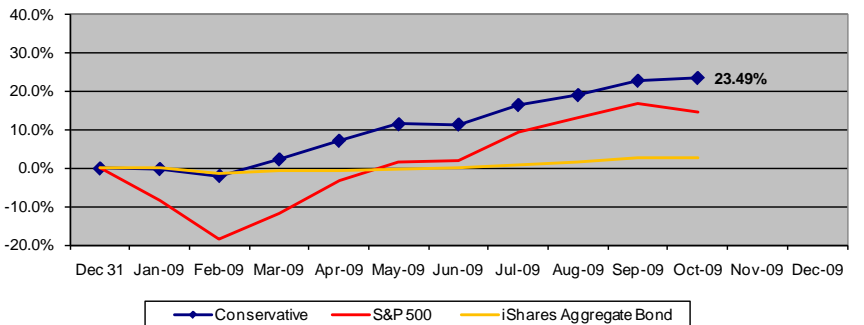
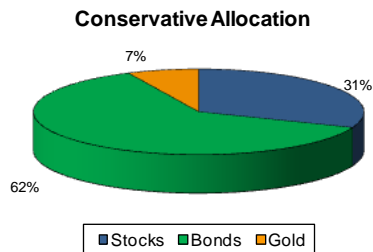
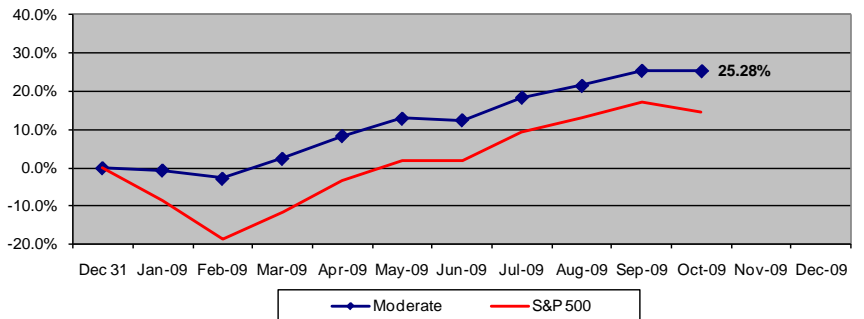
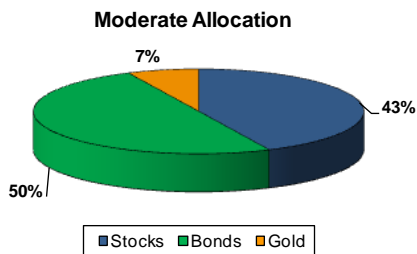
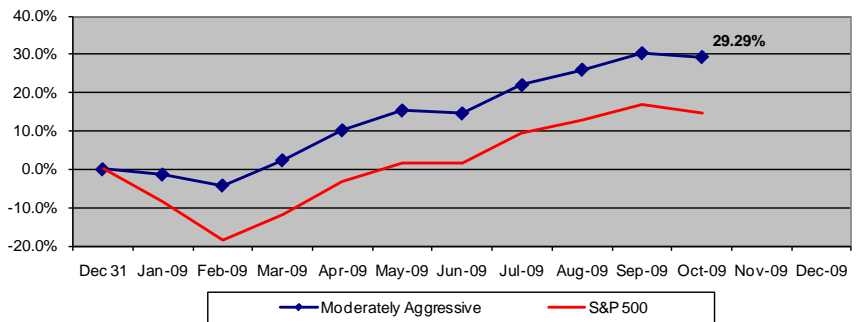
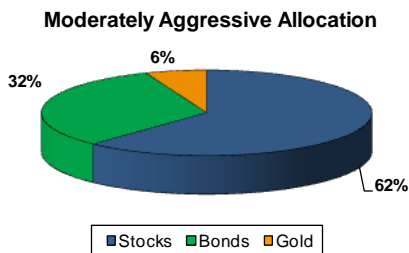
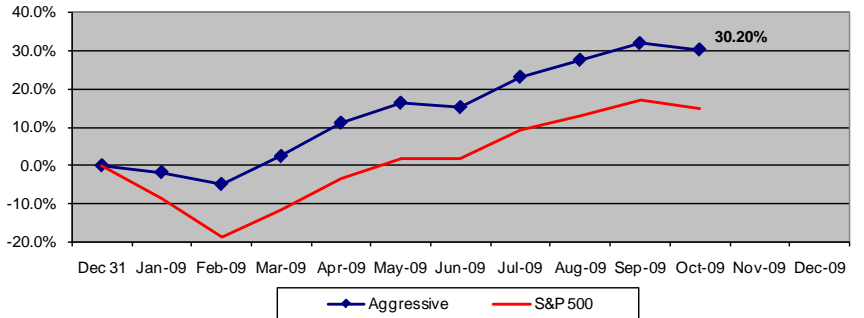
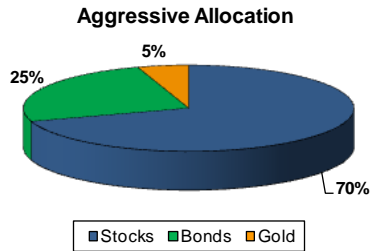
I've talked about this quite a bit in past newsletters. Beginning in 2010, anyone can convert a Traditional IRA to a Roth IRA. The amount of the rollover will be taxed at ordinary tax rates, but the money and any growth will then be shielded from any future taxes.

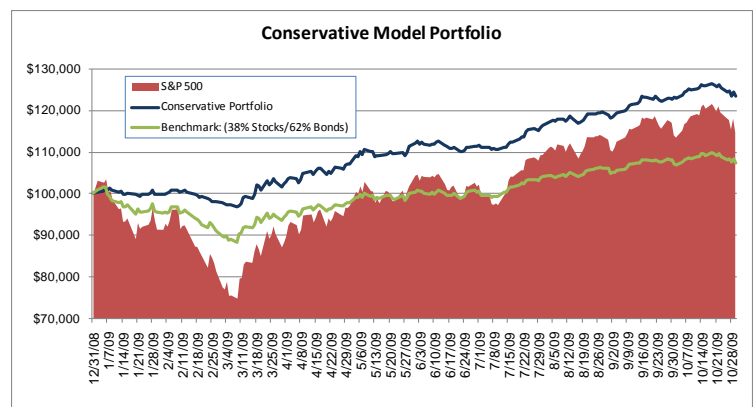
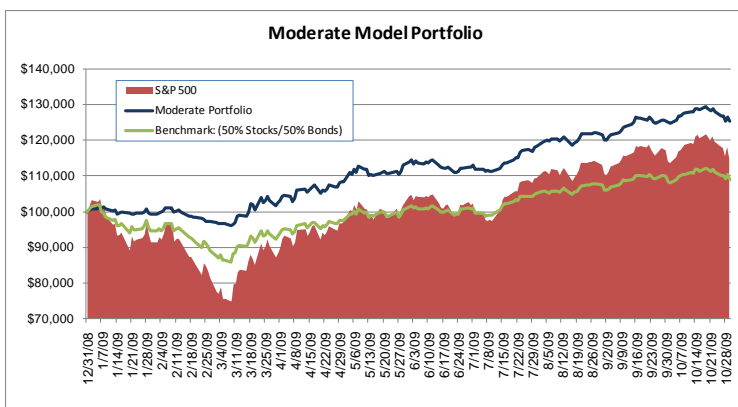
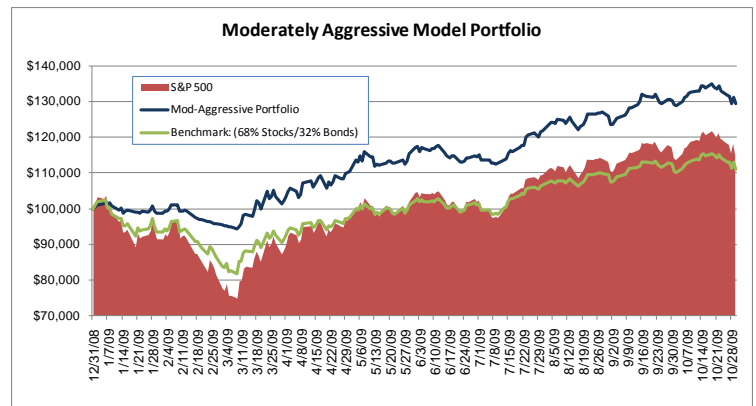
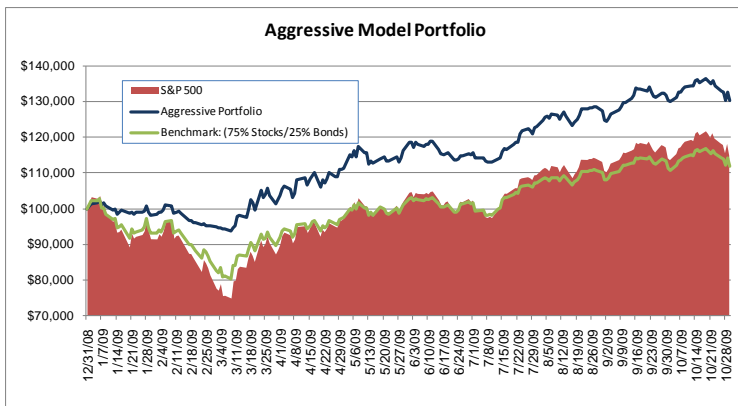
Tax-Free Withdrawals

Unfortunately, "tax-free" and "IRA" do not usually end up in the same sentence, and all of the exceptions listed above still require the payment of income taxes. As I've stated before, money inside a Traditional IRA should be viewed as two buckets: one bucket belongs to you, and one bucket belongs to the government. At some point, the government will want its money back. However, advisor fees for the IRA are not considered a distribution. Therefore, by paying the advisor expense with money inside of an IRA, you are taking care of an expense with money that has not been taxed (yet), and avoiding any taxes on the withdrawal. Although many people are enamored with the idea of "tax-deferred growth", paying advisor fees with IRA money is actually one of the only truly tax-free situations the IRS offers.

Model Portfolio Performance

The following allocation models and Year-To-Date performance graphs represent the preferred investments in Veripax Financial Management's target portfolios. Investment allocation for each model is determined based on time horizon and risk tolerance. In most cases, individual client portfolios will contain slightly different investments and allocation mixes based on individual financial goals, investment priorities, and tax considerations. The Model Portfolios invest primarily in Exchange Traded Funds and no-load bond funds.





Benchmarks: The Benchmark for each of the above graphs utilizes the Russell 1000 Index for stocks and Total Bond Market Index for bonds. The ratio of stocks and bonds in each Benchmark matches the ratio of the associated VFM model portfolio.

Portfolio Construction: Each Model Portfolio consists of up to 8 stock sectors, 7 bond sectors and gold. Buy/Sell decisions are based on VFM's proprietary algorithm and are consistent across all portfolios. Each Model Portfolio and the associated Benchmark are rebalanced quarterly.

Portfolio Comments

October was only the second down month in the last 8, but the S&P 500 did end the month 1.98% lower than where it started. This wouldn't be all that concerning if the S&P 500 was not already up 55% from its low point for the year, and that news such as the economy actually growing for the first time in over a year was only able to boost the market for a day. This will need to continue to be watched closely.

Although the Aggressive and Moderately-Aggressive portfolios had slight losses last month, they both fell less than the S&P 500 and slightly less than their benchmarks. The Moderate portfolio was essentially flat, and the Conservative portfolio actually had a small gain. So the end result is that all portfolios increased their leads on both the S&P 500 and their respective benchmarks.

After a very quiet several months, a little flurry of buying and selling took place in the last week. The Real Estate sector sat out most of the month in cash, which ended up being a good move. It began moving up in the last week and hit a buy point on October 29. Small Caps have been much weaker than the overall market, and the sector hit the sell criteria early in the day on October 30. In the last week, both the Financial and Basic Materials sectors have been moving above and below their 8% sell thresholds, but not triggering a sell. As a preview for next month, these two sectors were sold on November 2. That's more activity than I would like, but there's quite a bit of uncertainty in the market right now and volatility has increased significantly.

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