



Michael J. Damon, CPA

# Perspective

FEBRUARY 2015

## There are other types of IRAs, which include:<sup>3</sup>

- **Spousal IRAs** give non-working spouses a way to save for retirement.
- **Education IRAs** help to pay qualified college expenses.
- **Rollover IRAs** offer a penalty-free way to preserve the tax advantages of assets in an employer's retirement savings plan.
- **Simplified Employee Pension (SEP) IRAs** give employers or self-employed individuals a retirement plan option.
- **Savings Incentive Match Plan for Employees (SIMPLE) IRAs** also give employers or self-employed individuals a retirement plan option.
- **Individual retirement annuities** are similar to IRAs; however, contributions are invested in an annuity contract offered by an insurance company custodian. Savings can be converted into retirement income through the annuity.

## What's In Your IRA?

43 million Americans have about \$7.3 trillion tucked away in IRAs.<sup>1,2</sup>

Individual Retirement Accounts (IRAs) share some traits with the Room of Requirement at Hogwarts. Harry Potter fans will recall that when the Room of Requirement opens, it is equipped to meet the needs of the person seeking it. IRAs are equipped to meet diverse needs, too, but the person opening the account needs to understand the options available.

You've probably heard of Traditional IRAs, which offer pre-tax contributions and tax-deferred growth, and Roth IRAs, which offer after-tax contributions and tax-free distributions as long as certain requirements are met.

You have until April 15, 2015, to make a contribution to your current IRA or open a new IRA. Depending on the IRA, you may be able to set aside a significant amount of money and reap some tax benefits.

### Where will I find money to save?

There are many different places you can find money to invest in your IRA. For instance, you can:

- **Set up an automatic transfer.** Send money from your checking account to an IRA account every month or every quarter.
- **Invest your tax refund.** In 2014, the U.S. government refunded about \$306 billion. That's \$2,792 for every tax return filed. If you receive a refund, consider investing it in an IRA.<sup>4</sup>
- **Roll over a retirement account.** About one-half of Traditional IRAs were opened with rollovers from employer-sponsored retirement plans.<sup>1</sup>

Contact us to learn more about IRAs, and about which type may best suit your needs. ■

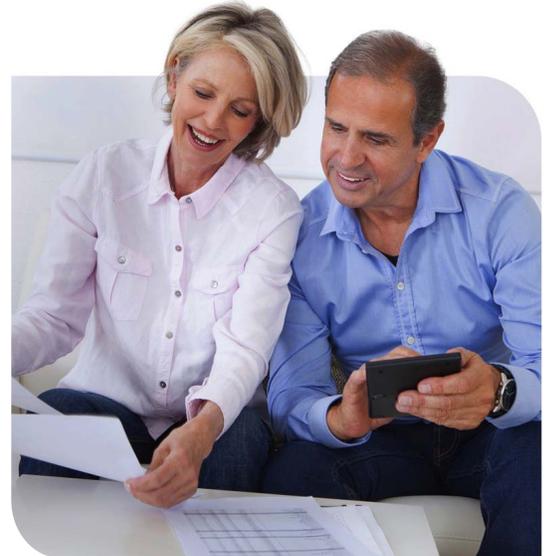
None of the information in this document should be considered as tax advice. You should consult your tax advisor for information concerning your individual situation.

<sup>1</sup> Investment Company Institute, *The Role of IRAs in U.S. Households' Saving for Retirement*, 2014, January 2015.

<sup>2</sup> Forbes.com, *The IRA at 40: Has it Lived up to its Promise?*, January 14, 2015.

<sup>3</sup> Investopedia.com.

<sup>4</sup> CBSnews.com, *Here's what to do with your tax refund*, January 27, 2015.



## What Is the Ideal Investment Portfolio?

That's easy. The ideal investment portfolio is one that maximizes returns and minimizes risk. Of course, building that portfolio isn't quite so simple.

Economist Harry Markowitz won a Nobel Prize for his work on portfolio theory, which began with his dissertation at The University of Chicago. He introduced the idea that performance of a diversified portfolio could be optimized for a given level of risk. In his Nobel lecture, Markowitz said:

*"...Diversification is a common and reasonable investment practice. Why? To reduce uncertainty!... It seemed obvious that investors are concerned with risk and return, and that these should be measured for the portfolio as a whole... Since there were two criteria—expected return and risk—the natural approach for an economics student was to imagine the investor selecting a point from the set of Pareto optimal expected return, variance of return combinations, now known as the efficient frontier."<sup>5</sup>*

Markowitz's Modern Portfolio Theory (MPT) didn't become well-known until the 1990s, when institutions and investors began to adopt his ideas. MPT offered a theoretical framework for building portfolios that included four basic steps:

- 1. Security valuation:** The process of determining how much an investment is worth.
- 2. Asset allocation:** Assigning investments to asset categories (stocks, bonds, and so on).

**3. Portfolio optimization:** Determining the weight of investments in a portfolio to achieve a specific objective.

**4. Performance measurement:** Evaluating how well a portfolio has performed relative to expectations.

Contact us to review your portfolio, in order to help meet your long-term goals. ■

### What is The Efficient Frontier?

The Efficient Frontier is at the core of MPT. It's a tool that evaluates the risk and return of various combinations of assets—to show investors the best possible return that can be expected from a portfolio, given a specific level of risk. The Efficient Frontier is often shown as a chart.<sup>6</sup>



Source: Investopedia.com

<sup>5</sup> Nobelprize.org, *Foundations of Portfolio Theory*, December 7, 1990.

<sup>6</sup> Investopedia.com.