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## THE FRANKENMUTH GROUP of Oppenheimer & Co. Inc.

### DIVERSIFICATION IS MORE THAN INVESTMENTS

*“ I live below my means. I contribute 15% of my income. I buy and hold. I own a diversified portfolio of investments.”*

All the above can be great attributes to growing wealth but there is often a huge factor that is overlooked. Think about when you go on a road trip from point “A” to point “B”. If anyone is like me they often, either by curiosity or simply from being directionally challenged (me!), load their destination in a GPS to see what route is most efficient. Why do we do this? To save our resources - i.e. gas/time.

Unfortunately, this level of care is not always used when it comes to investing. Yes, you may have a diversified portfolio of investments but do you have a **TAX** diversified portfolio?

Taxes are inevitable much like using gas (unless, of course, you own an electric vehicle) but they are similarly manageable. In general, many types of retirement accounts are pre-tax (IRA, 401(k), 403(b), etc.) meaning your taxable income may be reduced when you contribute but you would have to pay ordinary income taxes on qualified withdrawals. A Roth account is after tax meaning you don't get to deduct contributions from your income but all future growth and qualified distributions are tax free.

Without knowing your unique situation it's tough to say what tax strategy or combination of strategies may be best. But below are some scenarios to consider. These decisions often depend in part on your current and future income along with your current and future tax bracket.

- Should I make contributions to a Roth IRA or Traditional IRA? Roth 401(k) or Traditional 401(k) or a combination?
- Under certain income circumstances contributing directly to a Roth IRA may not be eligible, but would a “backdoor” contribution to a Roth IRA make sense?
- Given your current tax situation, does it make sense to convert some pre-tax money (IRA, 401(k), etc.) to a Roth, pay taxes now, and let future gains grow tax free?

Again, each situation is unique but it is important to understand what options could be of benefit to you. Much the same as in growing wealth, time plays a significant role in taxes and the strategies available. What you don't want to have happen is get to a point where you have a large tax burden that, with proper planning, could have been avoided. We often work with a client's CPA or tax advisor in order to help position them in a favorable manner when it comes to tax planning.

—Rob Swarts, AWMA®