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Since a Roth IRA conversion is such an important topic in 2010, I will not be contributing an article to this quarter's newsletter. Rather, I will be turning my section over to Karen, who has written an excellent article on Roth IRA conversions. This topic needs the space necessary to discuss the major implications that should be considered when analyzing whether or not a Roth IRA conversion is for you.

Best Regards,
Brian

Should I convert to a Roth IRA?

By Karen Spence

Hmmm ... that's a good question, and the answer is ... "that depends". You love that answer don't you!! Well, it really does depend!

Starting this year, anyone can convert a Traditional IRA to a Roth IRA, including those with adjusted gross incomes of more than \$100,000. This opens up the Roth IRA conversion window to people who were previously excluded ... which is why you are all hearing so much about Roth Conversions now.

So ... what is a Roth IRA conversion? A Roth IRA conversion is the term for moving funds from a Traditional IRA (pre-tax) to a Roth IRA (post-tax). Since, generally speaking, the funds are moving from pre-tax to post-tax, you have to pay taxes on the funds being moved.

But, let's remember the key differences between a Traditional IRA and a Roth IRA. With a Traditional IRA, you contribute pre-tax money and it grows tax-deferred until you withdraw it. When taking a withdrawal, you are taxed on your pre-tax contributions as well as the gains. You also have to start taking distributions at age 70 ½ whether you need the income or not ... Uncle Sam wants his taxes! In contrast, with a Roth IRA, you contribute post-tax money and it grows tax-free ... period. When you withdraw money from a Roth IRA, you don't pay any taxes ... not even on the gains and you don't have to take distributions at 70 ½ unless you want to ... Yippee!

Hence the dilemma ... pay taxes on contributions now OR pay taxes on contributions and gains later?

It's a tough decision. Here are just a few things to consider:

Do you think your tax bracket is going to be higher when you retire?

If you believe that you will be in a higher tax bracket when you retire OR if you believe tax rates are going up, a Roth IRA Conversion may make sense for you. A Roth IRA conversion removes the dependency and uncertainty of future tax rates.



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When do you expect to start taking withdrawals?

If you don't plan on taking withdrawals for the next 5 years OR don't plan on taking withdrawals at age 70 ½, then a Roth IRA Conversion may make sense for you. The longer you plan on leaving the money in the Roth IRA, the more a conversion makes sense. Keep in mind that having to take required distributions from your IRA at 70 ½ may push you into a higher tax bracket ... which takes us back up to question #1.

Do you have a potential estate tax liability?

If you have a potential estate tax liability, converting to a Roth IRA may reduce that liability. If you die holding a regular IRA, the entire IRA may be included in your estate even though part of it will end up going to the IRS as income tax when your beneficiaries take distributions. In the case of a Roth IRA, you have already paid the income tax, so your estate is smaller even though you are effectively passing the same amount of wealth to your heirs.

Can you pay the income tax with "outside funds" (non-qualified liquid assets)?

And this is the KICKER, if you can NOT pay to taxes from "outside funds" — meaning you have to use IRA money to pay taxes on the rollover, especially if it includes an early withdrawal penalty, then the math for a Roth IRA conversion will probably not work out.

On the other hand, if you have the money readily available — without using any of the money that's in your IRA now or in 2011 or in 2012 — you're in good shape to consider a rollover. The IRS is offering a one-time opportunity to spread the taxes due on Roth Conversions in 2010 out over 2011 and 2012. The math looks even better if you use an investment vehicle designed to offset the taxes in the years following the conversion.

Is your IRA account balance down relatively speaking?

With the market drop in 2007 and 2008, the taxes due on a conversion are less than they would be had the market risen. This is just another thing to consider. If your account is down and you convert it now, the gains as it recovers in a Roth IRA will be tax-free.

Do you need creditor protection?

Many states provide some measure of creditor protection to regular IRAs (although they aren't necessarily completely insulated). For reasons having to do with the way state bankruptcy laws are written, there's some question whether the same protections are available to Roth IRAs. So, if you have a reason to be concerned about creditor protection, you should consider this issue before performing a Roth IRA Conversion. And the issue is even more important if the money you're planning to roll to a Roth IRA is currently in an employer plan, protected by federal retirement law (ERISA).

So, as you can see, it really does depend! The change in Roth IRA Conversion tax rules opens a new opportunity in 2010, but the Roth IRA Conversion opportunity isn't necessarily for everyone. Please don't be led down a path that may not be in your best interest. There are many factors to consider. We developed a model to analyze each client's specific needs, tax situations, and long-term goals to determine if it is in their best interest. Call us at 817-717-3812 if you would like for us to run the analysis for you.

On A Personal Note

- We are so proud of Dylan!!! Just last week Dylan had his first experience with middle school final exams and he did a wonderful job. He studied so hard and made amazing grades on his final exams. He learned that if you study very hard the grades will come. Way to go Dylan!!!
- Karen and her family are excited to announce that they are adding a new chocolate lab puppy to their family in February. This will be their first dog so if you have any pointers let Karen know!
- Jackie's son began playing basketball and is doing great! He can dribble and make a basket with one hand!

We at Virtus Wealth Management thank you for your patronage. Without you we would not exist. It has been very satisfying over the years to watch as you reach your financial goals and knowing that we had some small part.

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Roth Conversion – Part 2

There is another, lesser known, opportunity for investors to take advantage of the Roth IRA Conversion rule change. Brian mentioned this in his Virtus View earlier this month, but I'm going to highlight it again.

Current tax laws limit contributions to Traditional and Roth IRA's to \$5,000 per year with a catch up of \$1,000 if you are over 50. The amount of the Traditional IRA contribution that is deductible (making it a pre-tax contribution) is reduced at a significant rate based on your income level and plan available through your employer. The after tax Traditional IRA contribution limit stays the same regardless. The amount of Roth IRA contribution (which is always after tax) is reduced at a significant rate based on your income level.

Here's the opportunity: An investor can contribute after tax dollars into an IRA and then immediately convert that into a Roth IRA with minimal, if any, tax implications. For example, if an investor contributes \$5,000 into an after tax IRA, has that money move into a low interest bearing money market fund, and then immediately converts that into a Roth IRA, the tax implication will only be the amount of interest earned on the money market funds for a very limited period. For this strategy to work as described the investor cannot have non-Roth IRAs that have balances in them.

Thus, one could possibly contribute \$5,000 into a Roth IRA in 2010 (plus an additional \$1,000 catch up if over 50) and also contribute more into the Roth IRA by just first putting the funds into an after-tax IRA and then converting it back into the Roth. This does not even include the opportunity, if it is right for your specific situation, to convert existing Traditional IRAs into a Roth IRAs.

See ... there are Roth IRA Conversion opportunities everywhere ... but again, we need to take a look at your specific situation to see if which ones are right for you! Please let us help you take a look.

Disclosures:

In order for the earnings of a Roth IRA to be free from federal income tax the account must have been held for five taxable years starting with the first contribution (or upon conversion into) the Roth IRA **and** until the account holder reaches 59 ½, dies, becomes disabled or uses the withdrawal for first-time homebuyer expenses (up to a \$10,000 lifetime limit). Contributing to a retirement plan is an important decision in which the investor should consider their tax and financial situation before making a long term choice. An investor may wish to employ the help of a financial or tax professional to assist them in making this decision.

L.E.A.R.N. 2010

Thank you to everyone who attended L.E.A.R.N. in 2009!!! During our annual planning meeting, we decided to continue with LEARN in 2010. Yeah! We will have our meetings quarterly instead of bi-monthly, and we will continue to meet at Timarron alternating between lunch and dinner.

Last year, we focused on learning about various alternative assets ... this year we will focus on more core, basic components of investing.

L.E.A.R.N 2010 Schedule

Month	Title	Topics
March 9th (Dinner) 6:30 PM	"Back to Basics"	Investment and Wardrobe Basics (Do Over!)
June (Lunch)	"Arrange It!"	Fixed Income and.... Flower Arranging
September (Dinner)	"Decorate It!"	Equities and.... Interior Decorating
December (Lunch)	"Secure It!"	Social Security and... hmmm... TBD

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Holiday Clothing Drive

Thank You Thank You Thank You!!!!

By Amy Tillotson

We cannot say Thank You enough for your generosity in donating towards our clothing drive to benefit GRACE; our drive was a huge success. Our donation boxes were overflowing and GRACE was very excited to receive the donations. Through your generosity we were able to fill the clothing closet at GRACE and help many families in need during the holiday season. In all we received:

32 complete shirt/pant sets
9 shirts
8 winter coats
6 multi packs of socks
5 pair of Pajamas
5 dresses
5 pairs of pants
3 pair of shoes
1 swim suit
1 blanket

Thank you to everyone who donated at the Christmas party, at our office, and at one of the many donation boxes we had located throughout Southlake, Grapevine, and Lewisville. We appreciate your generosity to support a good cause!

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