

IRAs and an Opportunity for Tax Arbitrage

✘ The new tax law provides a few incentives for taking advantage of Roth IRAs and similar types of retirement accounts. It also preserves the contribution limits in effect prior to this year for both tax-deferred and aftertax accounts. Roth IRA conversions, however, can no longer be undone.



I bring this up now because you currently have the chance to take advantage of a little tax arbitrage. Contributions to a traditional individual retirement account attributable to the 2017 tax year can be made up to April 17, 2018. The contributions are deductible, though income limits apply to those who are covered or have a spouse who is covered by retirement plan at work.

In 2018, many taxpayers will see their marginal tax rates decline by a range of two to four percentage points. Some will see an even bigger drop in their marginal tax rates because the income brackets have widened. The differential in tax rates allows a taxpayer to deduct an IRA contribution at the higher tax rate on their 2017 tax return and then convert the same dollar amount at the lower 2018 tax rate. (Roth IRA conversions are taxable events.) The net savings is money in their pocket.

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AAll Model Portfolio Update

No changes were made to [the Model Shadow Stock Portfolio](#) last month.

The Model Shadow Stock Portfolio, which is a real-money portfolio of micro-cap value stocks, lost 2.9% in January. The Vanguard Small Cap Index fund ([NAESX](#)) added 2.8% for the month, and the DFA U.S. Micro Cap fund ([DFSCX](#)) added 2.0% in January.

Since its inception in 1993, the portfolio has a compound annual average return of 15.7% versus the Vanguard 500 Index fund's ([VFINX](#)) gain of 9.7% per year on average over the same period. Over the same period, the Vanguard Small Cap Index fund ([NAESX](#)) posted an average annual gain of 10.4%.

More on AAll.com

- [Tax Uncertainty and Traditional Versus Roth IRAs](#) - Roth IRAs are preferable for those with high or low incomes; workers with moderate incomes should use both types of accounts.
 - [IRA Rollover Chart: Rules Regarding Rollovers and Conversions](#) - This helpful chart shows which types of retirement accounts can be rolled over or converted into another type.
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Highlights from this month's *AAll Journal*

- [The Individual Investor's Guide to the Top Mutual Funds 2018](#) - Our annual mutual fund guide is fully updated. The online version of this guide has information on nearly 1,600 funds.
 - [Prioritizing HSA Contributions and 401\(k\) Contributions](#) - It can make sense to contribute to a health savings account before contributing to a 401(k) plan if certain conditions are met.
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AAll Sentiment Survey

Bullish sentiment rebounded to a four-week high and to the top of its typical historical range, while bearish sentiment fell to a four-week low. [More about this week's results.](#)

This week's results:

- Bullish: 48.5%, up 11.5 points
- Neutral: 30.1%, up 2.1 points
- Bearish: 21.4%, down 13.6 points

Historical averages:

- Bullish: 38.5%
- Neutral: 31.0%
- Bearish: 30.5%

Take the [Sentiment Survey](#).

What's Trending on AAI

1. [The Individual Investor's Guide to the Top Mutual Funds 2018](#)
 2. [Achieving Greater Long-Term Wealth Through Index Funds](#)
 3. [Stock Market Retreats and Recoveries](#)
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The Week Ahead

The U.S. financial markets will be closed on Monday, February 19, in observance of Presidents Day.

I will speak to our Chicago chapter about investing at the intersect of value and momentum on Saturday, February 24.

The earnings calendar lists 54 S&P 500 companies as being scheduled to report, including Dow Jones industrial average components Home Depot Inc. (**HD**) and Walmart Inc. (**WMT**). Both retailers will report on Tuesday.

The week's economic reports will be the February Purchasing Managers' Index (PMI) composite flash, January existing home sales and the January Federal Open Market Committee (FOMC) meeting minutes, all of which will be released on Wednesday.

Four Federal Reserve officials will make public appearances: Minneapolis president Neel Kashkari on Wednesday; Atlanta president Raphael Bostic on Thursday; New York president William Dudley on Thursday and Friday; and Cleveland president Loretta Mester on Friday.

The Treasury Department will auction \$28 billion of two-year notes on Tuesday, \$15 billion of two-year floating rate notes (FRNs) and \$35 billion of five-year notes on Wednesday and \$29 billion of seven-year notes on Thursday.

Local Chapter Meetings

AAII Local Chapter Meetings offer you a variety of presentations from expert speakers who will give you their view on the world of investing. A bonus of attending a Chapter Meeting near you is the opportunity to meet other AAI members who share your interest and enthusiasm for investing. You can even share the Chapter experience with your family and friends by inviting them to attend Chapter Meetings with you!

[Upcoming Meetings »](#)