



OAKCREST INSIGHT

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PULLBACKS, CORRECTIONS, AND BEAR MARKETS

When the market drops, some investors lose the perspective that downtrends and uptrends are part of the investing cycle. When stock prices break lower, it's a good time to review common terms that are used to describe the market's downward momentum.

Pullbacks.

A pullback represents the mildest form of a selloff in the markets. You might hear an investor or trader refer to a dip of 5-10% after a peak as a "pullback."¹

Corrections.

The next degree in severity is a "correction." If a market or markets retreat 10% to 20% after a peak, you're in correction territory. At this point, you're likely on guard for the next tier.²

Bear Market.

In a bear market, the decline is 20% or more since the last peak.²

All of this is normal.

"Pullbacks, corrections, and bear markets are a part of the investing cycle."

When stock prices are trending lower, some investors can second-guess their risk tolerance. But periods of market volatility can be the worst times to consider portfolio decisions.

Pullbacks and corrections are relatively common and represent something that any investor may see from time to time in their financial life, often several times over the course of a decade. Bear markets are much rarer. In fact, between April 1947 and April 2022, there have only been 14 bear markets.³

A retirement strategy formed with a financial professional has market volatility factored in. As you continue your relationship with that professional, they will also be at your side to make any adjustments and help you make any necessary decisions along the way. Their goal is to help you pursue your goals.

Citations

1. TheBalanceMoney.com, 2024
2. Investopedia.com, March 24, 2024
3. Investopedia.com, December 5, 2023

TRADITIONAL VS. ROTH IRA

Traditional Individual Retirement Accounts (IRAs), which were created in 1974, are owned by roughly 41 million U.S. households. And Roth IRAs, created as part of the Taxpayer Relief Act in 1997, are owned by nearly 32 million households.¹

Both are IRAs. And yet, each is quite different.

Up to certain limits, traditional IRAs allow individuals to make tax-deductible contributions to their account(s). Distributions from traditional IRAs are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty. Generally, once you reach age 73, you must begin taking required minimum distributions.^{2,3}

For individuals covered by a retirement plan at work, the deduction for a traditional IRA in 2024 is phased out for incomes between \$123,000 and \$143,000 for married couples filing jointly and between \$77,000 and \$87,000 for single filers.⁴

Also, within certain limits, individuals can make contributions to a Roth IRA with after-tax dollars. To qualify for a tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½.

Like a traditional IRA, contributions to a Roth IRA are limited based on income. For 2024, contributions to a Roth IRA are phased out between \$230,000 and \$240,000 for married couples filing jointly and between \$146,000 and \$161,000 for single filers.⁴

In addition to contribution and distribution rules, there are limits on how much can be contributed each year to either IRA. In fact, these limits apply to any combination of IRAs; that is, workers cannot put more than \$7,000 per year into their Roth and traditional IRAs combined. So, if a worker contributed \$4,000 in a given year into a traditional IRA, contributions to a Roth IRA would be limited to \$3,000 in that same year.⁴

Individuals who reach age 50 or older by the end of the tax year can qualify for “catch-up” contributions. The combined limit for these is \$8,000.⁴

Both traditional and Roth IRAs can play a part in your retirement plans. And once you’ve figured out which will work better for you, only one task remains: open an account.⁵

Features of Traditional and Roth IRAs

	Traditional Roth	Roth IRA
Tax-deductible contributions	Yes*	No
Tax-deferred growth	Yes	Yes
Tax-free withdrawals	No**	Yes***
Income limit for 2024 contributions	Deduction phases out for adjusted gross incomes between \$123,000 and \$143,000 (married filing jointly) or between \$77,000 and \$87,000 (single filer) ⁴	Eligibility phases out for adjusted gross incomes between \$230,000 and \$240,000 (married filing jointly) or between \$146,000 and \$161,000 (single filer) ⁵
Distributions required at age 73?	Yes	No

* Up to certain limits

** Distributions from traditional IRAs are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty. Generally, once you reach age 73, you must begin taking required minimum distributions.

*** To qualify, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½.

Citations

1. ICI.org, February 2023

RETURNS (AS OF 04/30/24)

ASSET CLASS	INDEX	4 WEEK	YTD	1 YEAR	3 YEAR
US Large Cap	S&P 500 TR	-4.16%	5.57%	20.78%	6.39%
US Large Cap	Dow Jones TR	-5.00%	0.34%	10.90%	3.74%
US Small Cap	Russell 2000 TR	-7.09%	-2.62%	11.58%	-4.50%
International	MSCI EAFE NR USD	-2.93%	1.98%	6.38%	0.18%
Taxable Bonds	Barlcays US Agg Bond TR	-2.48%	-3.20%	-1.49%	-3.53%

2. IRS.gov, 2024. In most circumstances, once you reach age 73, you must begin taking required minimum distributions from a Traditional Individual Retirement Account (IRA). You may continue to contribute to a Traditional IRA past age 70½ as long as you meet the earned-income requirement.

3. Up to certain limits, traditional IRAs allow individuals to make tax-deductible contributions into their account(s). Distributions from traditional IRAs are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty. Generally, once you reach age 73, you must begin taking required minimum distributions.

4. IRS.gov, 2024

5. The Tax Cuts and Jobs Act of 2017 eliminated the ability to "undo" a Roth conversion.³ Investopedia.com, December 5, 2023

TAX EFFICIENCY IN RETIREMENT

Will you pay higher taxes in retirement? It's possible. But that will largely depend on how you generate income. Will it be from working? Will it be from retirement plans? And if it does come from retirement plans, it's important to understand which types of plans will be financing your retirement.

Another factor to consider is the role Social Security will play in your retirement. When do you plan to start to take Social Security benefits? If you have a spouse, when do they plan on taking benefits? It's critical to answer key Social Security benefits questions so you have a better understanding of how it will affect your taxable income.

What's a pre-tax investment? Traditional IRAs and 401(k)s are examples of pre-tax investments that are designed to help you save for retirement.

You won't pay any taxes on the contributions you make to these accounts until you start to take distributions. Pre-tax investments are also called tax-deferred investments, as the money you accumulate in these accounts can benefit from tax-deferred growth.

For individuals covered by a retirement plan at work, the tax deduction for a traditional IRA in 2024 is phased out for incomes between \$123,000 and \$143,000 for married couples filing jointly, and between \$77,000 and \$87,000 for single filers.¹

Keep in mind that once you reach age 73, you must begin taking required minimum distributions from a traditional IRA, 401(k), and other defined contribution plans in most circumstances. Withdrawals are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty.

What's an after-tax investment? A Roth IRA is the most well-known. When you put money into a Roth IRA, the contribution is made with after-tax dollars. Like a traditional IRA, contributions to a Roth IRA are limited based on income. For 2024, contributions to a Roth IRA are phased out between \$230,000 and \$240,000 for married couples filing jointly and between \$146,000 and \$161,000 for single filers.¹

To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawals can also be taken under certain other circumstances, such as the owner's death. The original Roth IRA owner is not required to take minimum annual withdrawals.

Remember, this article is for informational purposes only and is not a replacement for real-life advice, so make sure to consult your tax, legal, or financial professionals before modifying your retirement strategy.

Are you striving for greater tax efficiency? In retirement, it is especially important – and worth a discussion. A few financial adjustments may help you manage your tax liabilities.

Citations

1. IRS.gov, 2024

DOES YOUR CHILD NEED TO FILE AN INCOME TAX RETURN?

As parents, we encourage our children to work, so they can learn important values about work and independence. At what point, if at all, do children need to file an income tax return for the money they earn?

The IRS does not exempt anyone from the requirement to file a tax return based on age, even if your child is declared as a dependent on your tax return.¹

Your dependent children must file a tax return when they earn above a certain amount of income.

Dependent children with earned income in excess of \$14,600 must file an income tax return (for the 2024 tax year). Dependent children with unearned income of more than \$1,300 must also file a return. And if the dependent child's earned and unearned income together total more than the larger of \$1,300, or a total earned income up to \$14,150 plus \$450.²

These thresholds are subject to change, so please consult a professional with tax expertise regarding your individual situation.

Here's an example. Kyle is a 20-year-old college student who's claimed as a dependent by his parents. He received \$400 in unearned income and \$5,500 for a part-time job on campus. He does not have to file a tax return because both his unearned and earned income fall below the thresholds. Kyle's total income of \$5,900 is less than his total earned income plus \$450.

Even if your child earns less than the threshold amount, filing a tax return may be worthwhile if your child is eligible for a tax refund.

If you decide to prepare a separate return for your child, the same reduced standard deduction rules detailed above will apply.

Citations

1. The information in this material is not intended as tax or legal advice. It may not be used for the purpose of avoiding any federal tax penalties.

2. Investopedia.com, April 15, 2024

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