

Be Smart About Your Tax Windfall

Written by Rob Copeland

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With April approaching, it's time to talk about tax windfalls—and how to use them wisely.

There are really two sources of extra cash that may be coming your way. First, you may be seeing more take-home pay because of withholding adjustments in the wake of the new tax reform law. Second, you may be anticipating a nice fat tax refund from the IRS in a few weeks.

Without a plan for what to do with this extra money, there's a good chance that you'll spend it impulsively. That's why now is the time to review your retirement plan and your investments to make sure you're saving enough.

Here's why doing so is important. The last thing you want in retirement is to realize that you don't have enough income to support the standard of living that you take for granted right now. Reviewing your retirement plan will allow you to confirm that you're saving enough so that you can retire comfortably—or how much of a shortfall you need to fill.

In addition, it's an opportunity to manage the risk in your investment portfolio. Your investments should seek to balance growth and safety. But even if you've worked with an advisor to strike the right balance, changing markets can destroy that balance.

The past few years have been great for stocks, and less good for bonds. As a result, if you originally had a 50/50 balance of stocks and bonds, those faster-growing stocks might now represent, say, 70% of your portfolio, while bonds' value is now just 30%. That's a far riskier mix of investments than was originally intended.

To restore your original allocation, you'll need to bring the ratio of asset types back into balance. And one way to do that is to use your tax windfall to buy more of the asset type that's under-represented. By the way, if your goals have changed, a retirement review is also the right time to adjust your investments to reflect that.

If your retirement plans are on track, it might be wise to set extra cash aside in an emergency

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fund. You don't want to find yourself in a situation where you need to turn to credit cards or, much worse, raid a retirement account, to cover unexpected expenses. If you're all set on your emergency fund, it might make sense to invest extra money in taxable investment accounts.

The bottom line: Tax season is a good time to get together with your financial advisor for an annual review of your retirement plan and your investments. If your advisor hasn't reached out to you in a while, pick up the phone and give him or her a call. You're paying the person to look out for your money, after all. If you don't have an advisor who can do that for you, please give me a call.