Eight Moves Investors Should Make in 2012

A New Jersey-based wealth advisory firm has some suggestions for investors for the coming year, reminding everyone to "keep the faith" in equities and to not invest based on emotions or day to day market behavior. Another reminder for everyone is to be wary of the change in tax legislation for 2013.

The following are suggestions that investors should be aware of for 2012. Some of them are:

Proactively Prepare for the Possible Change in Estate Tax in 2013 – Unless Congress gets involved, estate law will return to a $1 million exemption and a 55% tax rate. The current federal exemption through 2012 is $5 million. Therefore, 2012 is a valuable time to arrange your estate plans accordingly and consider making substantial gifts. Think about taking advantage of the historically low interest rates to provide low-interest loans to adult children, as well as funding grantor retained annuity trusts (GRATs), installment sales to intentionally defective grantor trusts, or outright gifts of up to $5 million ($10 million per couple).

Take Advantage of Roth IRA Recharacterization Rules – If you have converted your IRA to a Roth IRA during 2011, you may want to consider "recharacterization." One of the possible reasons why investors would do this is market decline. For example, you may have converted your IRA to a Roth IRA worth $50,000. If you decided to pay all your taxes up front, you paid on $50,000. If the account now is worth $40,000, due to the decline in stock markets, then it may make sense to convert to a traditional IRA and get back the tax you paid on the conversion. You may want to change back to a Roth at a later time and pay on the lesser amount.

Consider Investments That Incorporate Portfolio Protection and Exploit Volatility - Volatility is inevitable in today's market. One way to possibly reduce volatility is to invest in asset classes with low correlation to the equity/fixed income investments in your portfolio.

Invest in Equities for the Long Term – If possible, investors should be invested in equities up to their personal risk tolerance. Because one is invested in the long term, do not be discouraged, sidetracked by daily news, or election-year politics. Investing in equities historically has been the best defense against inflation. Even if one is retired, inflation will incrementally increase your living expenses during your natural life.

Diversify, Diversity, Diversity – Make diversity part of your investment strategy. Proper asset allocation combined with opportunistic rebalancing continues to be the best way to reduce risk. A well-diversified portfolio that invests across a range of asset classes (equity, fixed income, and alternative investments) is always a good option.

Beware of Investments That Prey on Investor Fears – Beware that many popular investment vehicles that are sold during volatile times. They can be very expensive and complex, usually sold due to fear. While there are a fair amount of products that offer risk protection, many are limited in their benefits. Some can have adverse effects to investors' portfolios during normal market environments.

Stick to Your Guns – Studies have shown that investors allow their emotions to govern their financial decisions. With uncertainties in markets, sticking to your guns is highly advised. Maintaining a well allocated and balanced portfolio is more sound that a knee-jerk decision.
Note that some or all of the above ideas may not be suitable due to your individual risk tolerance, time horizon, expected or needed investment returns.

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