

Hey, everyone. Welcome to our educational series, Slice of Advice. My name is Rachel Ludlow. I'm a Series 65 licensed fiduciary advisor, and I'm here today to talk a little bit about investments.

Today's topic is **Investing 102: Taking Your Portfolio to the Next Level**. Last month, McKenna talked about the different types of accounts, what their tax status is, and today we're going to dig a little bit deeper into how you can utilize these to benefit your portfolio and take your specific situation to the next level.

In addition to our normal disclosures that this is all educational and none of this is meant for your specific investing situation, I'm going to preface everything with: **it depends**. What you should do depends on what you need, where you're at, and what you have.

Similar to building a custom home, you don't need 16 bedrooms if there are only two of you. Or, if you are living in Alaska, you might want a whole different heating situation than if you were living somewhere like Arizona. The same is true for your portfolios and your investments.

What you need, and what's going to truly take it to the next level, depends. It depends on your risk, your age, your preferences, what you like, and ultimately, your goals and purpose.

We've talked multiple times about giving your money purpose. Those purposes are the things you want to stay focused on as you work to elevate your portfolios. So, take everything with a grain of salt.

To organize today's class, I want to talk about three different types of investment accounts, the pros and cons of them, strategies you could use with them, and then the snags — things that might slow you down or that you may not have been aware of when looking to elevate your portfolio.

Let's dive in.

First, let's talk about 401(k)s and traditional IRAs. These are tax-deferred accounts. That means you do not pay the taxes up front. You do not pay taxes on the principal when you put it in. As the account grows, it grows tax-deferred, meaning there is no tax at any point of sale or at any point of changing hands.

No matter what happens inside that account, it is not a taxable event until you take a distribution, which is when you take money from inside that tax-deferred account and move it out of the account. Normally, we see this happen when you're taking income and decide you need to use the money in your traditional IRA. That is when those funds are taxed.

Now let's talk about why we like these accounts.

First, we love a good 401(k) because usually you can get a company match. You're not having to pay the taxes now, and you can get some tax advantages immediately. You may get some tax relief or a tax benefit by using these accounts. You may see a decrease in your AGI, or maybe you can get a credit if you are contributing to these types of accounts.

The real reason we like traditional IRAs is because you see compounding happen. Usually, traditional IRAs and 401(k)s span 10 or 20 years. Instead of simply saying, "I put in \$10,000 a year, and now I have \$100,000 at the end of 10 years," the money actually compounds.

The example I want to use is \$25,000. In 2026, you can contribute about \$24,500 to your 401(k). You can also contribute to a traditional IRA, bringing you up to about \$32,000. However, let's round it off and say \$25,000.

If you are max funding your 401(k) for 10 years at \$25,000 per year, and we assume a 6% compounding growth rate, you would have well more than \$250,000. You would have about \$330,000. At 10% compounding growth, you would be closer to \$400,000.

So traditional IRAs and 401(k)s are a great opportunity to allow your money to grow.

Now, you might think the strategy for 401(k)s and traditional IRAs would be to grow them like crazy, right? Not necessarily.

With 401(k)s and traditional IRAs, we tend to talk about having more steady growth. The reason for that comes back to your situation. It depends on what you need this IRA or retirement account to do for you, whether you want to grow it aggressively or not. It also depends heavily on your tax situation and what you will need to take out, or not take out, in retirement before you go full throttle.

Let's talk about the snags.

Number one is taxes. Any money that comes out of a 401(k) or traditional IRA is taxable as ordinary income. That means it will hit your tax bracket, and whatever your tax bracket is, that is the amount of taxes you will pay on it.

Inheritance rules are another snag. If you never use this money and you just grow, grow, and then you pass away, your inheritors generally have 10 years to take it out of the IRA. They are required to pay taxes on it. If you have inheritors who are high earners and you leave them a multimillion-dollar IRA, they have 10 years to pay all of those taxes. They may end up paying taxes in higher brackets on that inherited IRA.

Another snag is that even if you don't need the money, by the time you reach ages 72 to 75, the government is going to require you to take a distribution. This is called an RMD, or required minimum distribution.

The reason is Uncle Sam says, "Hey, you didn't pay taxes on this money when you put it in. It's been growing tax-deferred for all these years, and we're not making anything off of it. You might die before we ever see a penny of our taxes."

So Congress passed rules saying you have to take a certain percentage of the amount that was in the account at the end of the previous year. For example, if today is 2026, they look at the account value as of December 31, 2025, multiply it by an age-based factor, and determine the dollar amount you are required to take out. Then you pay taxes on that dollar amount.

This can be a problem if you don't need the money. If you wanted this money to be a generational blessing, inheritance taxes and RMDs may prevent it from getting there.

Another thing around traditional IRAs and 401(k)s is that, generally, you have to be 59 and a half to make withdrawals. There are a few exceptions. However, for the most part, if you are under 59 and a half and trying to take money out of your 401(k) or traditional IRA, you are going to receive a 10% penalty. That stinks.

There is some wiggle room with a 401(k) if you've left the company and you're over 55, but in general, you need to wait until you are 59 and a half. You do not have quick access to these accounts.

So, we love that we can fund these accounts. We love that we can put a lot of money into them. But there are always pros and cons. You need to make sure that when you're looking at traditional IRAs and 401(k)s, you know what you have and that the growth inside your IRA fits your purpose and your tax plans down the line.

If you can't use a 401(k) or traditional IRA, what's next?

Let's talk about Roths. A lot of companies now offer Roth 401(k)s, which allow you to contribute up to the same limit. You can also contribute to a Roth IRA.

We love Roth accounts because they are tax-free if they have been open for five years and you are over 59 and a half before taking money out. This gives you tax-free growth.

This can be the cheapest amount of growth you can achieve. If you think of taxes as a fee, this is where you can get minimal fees. A lot of times, depending on your situation, the Roth becomes a great vehicle to push heavy growth. This is where you may want to be aggressive

if you are going to be aggressive. This is where you may want volatility if you are comfortable with volatility.

It can be an opportunity, if it fits your personality, profile, and goals, to really push growth.

Another benefit is that Roth accounts do not currently have RMDs. Let me pause, because we all know the federal government changes tax laws all the time. In 30, 40, or 50 years, who knows what tax laws will surround Roths? However, as far as we know with the laws in place now, these accounts offer tax-free growth, tax-free inheritance, and no RMDs.

Even though there may be a 10-year rule surrounding inherited Roth IRAs, your inheritors can still take the money out tax-free, paying zero income tax on it.

What are some of the snags?

Number one, not all companies offer a Roth 401(k). If your company does not, you may be limited to your own Roth IRA. Roth IRA contribution limits are the same as traditional IRA limits. You may be limited to \$7,500 if you are under 50, and \$8,600 if you are over 50.

Next, to contribute to a Roth IRA, you must have earned income. If you have saved a bunch of money, say you have \$50,000 in a bank account, but you are retired and living solely on Social Security, that does not count as earned income. You would not qualify to contribute to a Roth IRA.

On the other end, you also cannot have too much earned income. There are income limits where you phase out your ability to contribute to a Roth IRA. There is a window you have to fit into, so it can be a little tricky.

Also, technically speaking, Roth IRAs and Roth 401(k)s are expensive because you are paying taxes now. You pay taxes on the money before putting it into the Roth IRA. You get the growth tax-free down the line, but you have to pay the price now. That is different from the traditional IRA, where you are not paying taxes now and are getting the benefit up front.

So which one is better? It depends on your situation.

This may give you ideas and make you think about your current portfolio. It may also help you understand why it could be a good idea to take funds sitting in a traditional IRA, pay the taxes today, and convert them into a Roth IRA. We call that a Roth conversion.

A lot of advisors look at Roth conversions near the end of the year, when they have a better estimate of your income for the year. They can see whether you could pay taxes now, maybe not a lot, and move funds into a Roth so you can get more aggressive tax-free growth, leave behind a tax-free inheritance, or have more money available in five years that you can spend tax-free.

This can help without worrying about changing IRMAA brackets, moving into the next tax bracket, or affecting healthcare-related items. It is a good opportunity to compare and contrast traditional and Roth accounts, and to think about opportunities for moving funds from one to the other or simply funding them.

Both can be useful. Both can be good.

The third type of account is what I'll call a brokerage account. There are a thousand different names for this, but in general, a brokerage account is an after-tax account that has nothing to do with retirement. It is a non-qualified account, meaning it does not qualify for tax exemptions, tax exclusions, or retirement qualifications.

This is often what people are talking about when they say, "I bought a stock." You buy a stock with after-tax money in a brokerage account.

We like brokerage accounts because there is a lot you can do with them. However, people can get caught up in how taxes work because these accounts are not qualified. That brings us to capital gains.

Capital gains happen when you buy a stock at a certain price, and its price rises or falls. When you sell it — not a day before, not a minute before — the difference between what you bought it for and what you sold it for is what you pay taxes on.

For example, back in 2011, I was a stay-at-home mom with a little bit of savings. I thought, "I'm going to buy Google," because I was sure it was going to be the supreme search engine. I bought \$250 worth of Google.

Life happened. I got busy, and I left that Google alone. Later, I checked to see how much it was worth, and it was about \$15,250. That means I had about \$15,000 of gains. If I sell, I have to pay taxes on those gains.

Most capital gains for most people come in at about 15%. So, if I sold today, I would need to pay 15% on my \$15,000 of capital gains.

That could be a big tax problem, especially if I don't actually want to use the money but want to reinvest it into different stocks. Even if I never send a penny to my bank account, selling that stock creates a tax-incurring activity.

You also need to be cautious with mutual funds. If you use a fund manager or mutual fund, and the mutual fund has been holding on to gains, the manager may decide to sell. Even if you did not choose to sell, those gains can be passed on to you because you own the mutual fund.

A mutual fund is pooled cash, and you do not choose when it buys or sells. So, when we talk about brokerage accounts, we like the idea of capital gains, but we want control. You want to use investments where you can control whether capital gains happen or not.

I can choose to sell my Google, or I can choose to hold it forever and make it future Rachel's problem. I can also choose to find another solution, which we'll talk about in a minute.

You want to be careful in brokerage accounts. Invest wisely and pay attention to where the control is on the assets inside those accounts. Capital gains can sneak up on you, even if you do not actually see the gains in your bank account.

Long-term gains are the ones I'm talking about at about 15%. You have to hold the investment for at least 365 days. If you hold it for less, or if you are day trading and buying and selling repeatedly, your gains are taxed as ordinary income.

There are also caveats. For example, if your modified adjusted gross income is over \$250,000 and you are married filing jointly, there may be an additional tax on your capital gains called the net investment income tax. We can dig into that another day.

In general, just know that capital gains are often about 15%, but you need to be aware of them. Even though they are taxed separately and do not directly hit your tax bracket in the same way, they can affect things like IRMAA, Social Security taxation, or healthcare exchange eligibility. They can make your income look higher than it is, even if you do not have the money in your bank account.

The strategy is to invest wisely, make sure you have as much control as you need, and make wise decisions about when you want tax-incurring activities to occur.

One neat thing you can do with brokerage accounts is tax-loss harvesting. Let's assume you have a diverse brokerage account with 100 different stocks across eight different sectors. Tax-loss harvesting gives you the opportunity to harvest losses on some of those stocks by temporarily selling them.

If you have 100 stocks across eight sectors, not every sector is going to be winning all the time. That's the beauty of diversification. If you have your fingers in all the things, you're going to win at something all of the time. But chances are, you may also be losing in one or two areas.

If you temporarily sell some losers that have taken a loss, and you leave them sold for at least 31 days, that loss can come through on your tax reports and offset potential gains.

There are a lot of unique strategies here. If you want to learn more about tax-loss harvesting, give us a call. That only happens in after-tax, non-qualified brokerage accounts.

Again, with your brokerage account, you want to have a decent amount of control.

All things can be used well. Just like a tool, if you have the correct tool for the correct job, you increase efficiency and make it easier to complete the task. The same thing is true for investments.

Let's make a quick list of tools we can use and where they may fit.

Starting with stocks: stocks are great. You can use stocks for a ton of things because there are so many different types of stocks. Some stocks kick out dividends. Some are focused on growth. Some may be more resilient or less volatile.

Depending on the type of stock, it can be used in any type of account. Stocks do not necessarily need to only be in your retirement account or only in your brokerage account. You can use them wisely in any account type. You just need to make sure the stock you are using helps fulfill your purpose.

For example, you might not want a bunch of dividend stocks kicking out dividends at unknown times in your brokerage account if you have not accounted for that extra income in your taxes.

ETFs are managed funds, or pooled money managed together, with the goal of tracking an index like the S&P 500, the Russell 3000, or maybe an international index fund. Their goal is to track the index.

ETFs can be useful in many places. However, be cautious when putting them in a brokerage account because you are not managing the buys and sells. A manager is doing that for you to imitate the index. If the index changes, there could possibly be a tax exposure event because the manager made the move for you.

There is a little less control here. We like to see ETFs in retirement accounts, Roths, and IRAs. If they are in a brokerage account, that is not necessarily a problem. It depends. You just need to use them wisely.

The same is true for mutual funds. Mutual funds are pooled money managed by a manager. Instead of simply tracking an index, they usually have a specific goal or target. Their goal may be to follow the S&P 500, achieve growth, or beat the S&P 500.

Again, your money is pooled. You do not have as much control, and a manager decides on the buys and sells. While mutual funds are still liquid and useful in many situations, a brokerage account may not always be the best place for them.

Bonds can be useful for a variety of reasons. Even though they are debt instruments, you can get consistent income from them. Bonds may also help balance volatility. Where you put them highly depends on your goals. They could be useful in an IRA, especially if you need income. They could also be useful in a brokerage account if that meets your goals. It depends, but you need to understand what they are.

Annuities are another tool. You can have an annuity in an IRA, a Roth annuity, or an after-tax annuity. With an after-tax annuity, you may take money from the bank, put it into an annuity, and that becomes your investment.

The taxes on annuities are what I like to call wonky. Even with an after-tax annuity, there is no capital gains treatment. Your gains are treated as ordinary income.

Annuities pay money out using LIFO, which means last in, first out. Guess what is usually last in an annuity? Interest. Interest is taxed as ordinary income. So, in the first few years of taking income from an annuity, you may see higher tax exposure than you would later down the line.

You want to be careful about how you use annuities and make sure you understand them. If you have an annuity inside an IRA and you are taking income or distributions from it, you have the same taxation treatment as an IRA. You generally need to be 59 and a half, you need to pay taxes on it, and it comes out as ordinary income.

Also, when you pass away with an annuity, whether pre-tax or post-tax, there is no step-up in cost basis.

Normally, in a brokerage account, if I held my Google stock until my deathbed and it became worth \$150,000, the person who inherits that stock would receive a step-up in cost basis. They would receive it as if the principal were \$150,000. They would not have to pay any of my past capital gains. They only pay gains from the day I pass on.

That does not happen with an annuity. That is another reason you really want to know what you are doing when getting into an annuity.

If you are ever being pitched an annuity, we have a nine-point question spread that would be good to ask the person offering it to you. That can help make sure you are getting quality and truly understand what you are getting.

Life insurance does not fit into the account categories. You do not put life insurance in your retirement account, and you do not put life insurance in a brokerage account. But it is an investment you can make.

We could do a whole other session on life insurance because there are a lot of products and things you can do. However, the death benefit is generally not taxable to your inheritors. If you are paying for life insurance and you pass away with a \$500,000 death benefit, that goes to your inheritors tax-free. That may be part of your plan. Again, it depends.

Lastly, I want to talk about alternative investments. These are neat, and I do not think there is enough education around them. They can be used wisely in different account types.

Real assets include things like gold or silver. If you have them tucked away in a sock drawer or locked up in a bank, those are investments that can increase or decrease in value.

Real estate is another alternative investment. If you do not actually purchase the real estate directly, you might invest through a REIT, which is a real estate investment trust. With a REIT, you pool money with others to buy real estate and receive income from it.

Cryptocurrency is another alternative investment, as are NFTs and other non-fungible or non-tangible things that have value.

Private equity is another example. You may be interested in a hedge fund or a private company that allows you to participate in its investing. Venture capital is similar. Think “Shark Tank.” Maybe you like investing in new, smaller companies and becoming an angel investor in exchange for a certain percentage of the company.

Direct lending is another example. Say your niece needs \$10,000. You loan her \$10,000, and she pays you back with 4% interest over a certain amount of time. You have invested in her by loaning her the money.

There are many different things you can use, but at the end of the day, what I love most about investing is that there are time-tested principles that tend to hold true.

It depends on your specific situation, but for the most part, if you have strategy, time, and consistency, you are going to get good results no matter what account you are using and no matter what investment tool you are using.

With those three things combined, you should get decent results.

I wanted to go over these smart tips to investing. You may have seen this before because this is almost the exact same slide McKenna used. No matter how elevated or how simple your investing is, the smart tips are the same.

You need to understand what you own. You need to understand how it works, how it works in an IRA, how it works in a brokerage account, and how it works if it is an annuity.

You need to understand the risks, how they affect you, and what you specifically need from that investment.

Today, we talked quite a bit about asset allocation and asset location — what different investments can do for you in different circumstances and different accounts.

And, of course, diversification matters. You can never get away from that. Having your fingers in all the things gives you a chance for some of them to win, even if not all of them are winning at the exact same moment.

The smart tips are always the same: understand what you own, do the best you can, have a strategy, give it time, make good decisions, and stay consistent.

With that, I do have to say this is all educational. None of this is specific to you. There are no guarantees that you will make loads and loads of money, although I hope you do.

If you have any questions on today's presentation, I would love to chat with you, or one of our team members would love to chat with you. Give us a call at 208-552-9169, or you can always send us an email at office@journeyretirement.com.

I hope you had a good class. I hope you learned many things. If there is more that we can do for you, please let us know. Thanks, and have a great day.