

SHERPA INSIGHT

From Detterbeck Wealth Management

Proven Financial Strategies for Reaching New Heights

ALTERNATIVE SPOTLIGHT: OIL & GAS PROGRAMS

By Brett M. Detterbeck, CFA, CFP®

Oil & Gas programs are unique programs that may offer both attractive benefits from both an investment- and tax-strategy standpoint. You see, much of the first year investment toward many of these programs is allocated to “intangible drilling costs” (“IDCs”) which can be up to 100% deductible to the investor. Hence, the amount of investment serves as an ordinary loss on the investor’s tax return. This can be an extremely powerful tax strategy for a person with the following characteristics:

- high income earner
- exerciser of stock options
- big one-time spike in income (i.e. from a bonus or inheritance)
- retiree looking to offset the ordinary income from multiple IRA withdrawals

Sample case: John, an Illinois resident with a solid job making \$300K/year, just received a \$200K bonus in February from

his company. He’s interested in offsetting some of that ordinary income. Furthermore, he’s interested in diversifying his investment portfolio that is currently made up entirely of stocks and bonds.

By doing a \$200K investment in a particular Oil & Gas Program, John will offset \$200K worth of his income and wind up with a net AGI (Adjusted Gross Income) of around \$300K. Without the investment, he was looking at a net AGI of \$500K. Being in the top tax bracket (35% Federal / 3% State), this saved him roughly \$76,000 in taxes!

Furthermore, he now has exposure to an asset class other than bonds and stocks and is no longer highly correlated with the overall market. With some of these Oil & Gas programs offering relatively high yields in the first several years of 12%+, John should expect over \$24,000 worth of yearly cash flow from this program. These monies could be used to fund an educational account like a 529 plan for his daughters, or could be rolled into another savings account, or could simply be used for extra disposable spending needs.



Due to the recent explosion in popularity of oil and commodities in general, one can only imagine the demand for these types of programs. If you’re interested, we urge you to contact us now to get more information on the different programs and how long they will be available. Furthermore, if you are interested, please talk with an experienced financial advisor like DWM who can point you in the right direction, thereby only using programs that

(Continued on page 2)

**WE'RE LOOKING FOR
NEW CLIENTS,
JUST LIKE YOU.**

Our business depends on word of mouth for its growth. If you have a friend, associate, or family member that could use the help of a Financial Sherpa to lead them to their financial destinations, please have them give us a call. Thanks.

CONSIDER IN-SERVICE WITHDRAWALS FOR YOUR RETIREMENT ASSETS

By Lester G. Detterbeck, CPA/PFS, MBA, CFP®, CFA and Ed Slott's Elite IRA Advisor Group

Once an individual retires from a company with a 401(k), 403(b), profit-sharing and/or other retirement plan, serious consideration should be given to rolling those funds over to an IRA. The potential benefits include stretching the funds to future generations, more investment options, and better coordination of estate planning.

But did you know that many plans also allow participants to get the benefits of rolling over their retirement plan assets to their IRA while they are still working? This is called an *in-service withdrawal*. This is done as a trustee-to-trustee transfer and therefore there are no income taxes to pay at the time of rollover. (Please note that the participant will continue to be part of the company plan after taking the initial in-service withdrawal and will typically perform an in-service withdrawal once a

(Continued on page 2)

ALTERNATIVE SPOTLIGHT (continued)

are suitable to your risk characteristics. Also, most of the programs our clients invest in are “development” wells, or wells where the probability of successful oil drilling is relatively high (just the opposite of “exploratory” or “wildcat” wells). Depending on the program, these wells may pump for over 25 years, meaning an investor can receive cash payments for over a quarter of a century. Please also note that many of these programs are for accredited investors only and require a \$25,000 minimum.

The addition of alternative investments to a portfolio can provide not only diversification benefits but also attractive returns and lower portfolio volatility. The key is that many of these investments have a low correlation to traditional asset classes like stocks and bonds. Hence when stocks are down, other assets such as equipment leasing or timberland may be up.

On the other hand, one of the constraints to alternatives is that they generally are by themselves riskier and less liquid than traditional investments. Hence, a diversified portfolio of stock and bonds should be the core of an investment portfolio; “alts” should complement this core and generally not exceed 30% of the overall portfolio. This balanced approach should ultimately lead to more stable and predictable returns over the long-run, thus increasing your odds of achieving lifetime financial success.

IN-SERVICE WITHDRAWALS (continued)

year).

Many plans allow in-service withdrawals. Typically, in-service withdrawals are only available for fully vested amounts. Also, some plans only allow in-service withdrawals for participants over age 59½. Those plans without in-service withdrawals may be able to be amended, particularly if the business owners and/or key employees would like to be able to benefit from in-service withdrawals.

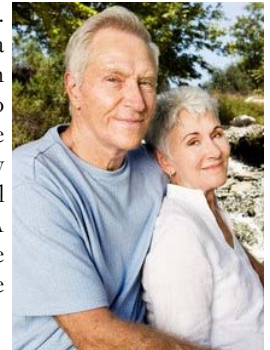
The assets in the company retirement plan may represent a major part of an individual’s or family’s investment portfolio. By taking the retirement assets out of the plan, the participant can move those assets to an IRA and receive the following benefits:

Stretching the funds. Many company plan participants want to keep the money growing tax-deferred for their beneficiaries. A non-spouse beneficiary of an IRA can stretch distributions on the inherited IRA over his or her life expectancy. Many company plans do not allow this stretch option, even though IRA rules permit it. Many plans don’t want the administrative burden of paying out beneficiaries over many years, so they simply pay out beneficiaries over one year or five years at most. With the money in an IRA and the proper beneficiary designations, the family will get the stretch.

More investment options. Company plans typically have a limited menu of

investment choices; generally mutual funds, maybe ETFs, and sometimes individual stocks and bonds. IRAs, on the other hand, have a universe of investment option to choose from. These can include mutual funds, individual stocks and bonds, ETFs, real estate, hedge funds, principal-protected structured notes, variable annuities and more. Furthermore, when constructing a client’s overall asset allocation, it makes sense to put certain types of investments into tax deferred retirement plans. The asset classes that may work best may not be available within the company plan investment menu. However, they are typically available within an IRA.

Coordination of Estate Planning. The IRA can be more easily coordinated with the client’s overall estate plan than the company plan assets. IRAs offer the option of splitting accounts and naming several primary and contingent beneficiaries. Client assets in a company plan typically have to name the spouse as beneficiary based on federal law. The IRA rollover makes the estate plan more flexible.



If you think an in-service withdrawal could work for you, please contact us for more information.



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