Beyond the S&P 500: Why Index Funds Aren’t Always the Answer [Ep. 17]

Transcript

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If you're going to do an index, (...) then do multiple indexes, stay diversified and be comfortable with the risk. Be comfortable that if the S&P drops 20% like it did in the year of 2022, if you're comfortable with that and you're comfortable with those average returns of the S&P over 10 years, then maybe it's fine for you. Don't let a handful of stocks control the index you're in.(...)

All right Robert, you ready for today's topic? I'm ready. Let's do it. Awesome. Today we're going to talk about index funds, (...) ETFs, exchange traded funds, not index annuities, which we don't do annuities, but ETFs, exchange traded funds, (...) and mutual funds because they can be index funds. True. (...) So I know they're not all created equally. Why don't we start out right there, talk to us about ETFs, index funds, excuse me, and what makes them different from each other? Yeah, so let's do that. Let's start with the ETFs and the mutual funds and the difference between them. So not all ETFs and mutual funds are specifically tied to the index but today let's go there and let's talk about the ones that are tied to the index. But what is the difference between a mutual fund- So that would be, (...) if it follows an index, that would be considered a passive ETF as opposed to an active ETF where they're buying and selling as a manager. Right, and for an index, if people don't know, I assume people know, but if they don't, an index can be the S&P 500, the Dow Jones, the Nasdaq, Russell 2000, a bond index, an international index. So, these are the indexes that a lot of people sometimes see flashing on top of their TV screen, right, that a lot of people follow. So, you have mutual funds and ETFs that specifically follow those ETFs, but mutual funds and ETFs are dramatically different in some ways, and in some ways are similar, right?

So the ways they're similar,(...) an ETF and a mutual fund are baskets of stocks, are bonds,(...) and they can follow certain sectors, certain indexes, they can be a mixture of things, but they are a basket of stocks or bonds, so they are diversified, which a lot of people won't. Most people are familiar with mutual funds, they're not familiar with ETFs, so we're going to spend a lot of time today on ETFs and why, for many people, an ETF is a better investment if they're looking for diversification, not necessarily following an index fund, right? So, they're similar in the sense is that they're both tracking, are there baskets of stocks or bonds? Where they're different is fees, internal fees. Mutual funds tend to have a higher expense ratio, which a lot of times people don't notice. An expense ratio doesn't actually show up on your statement, it comes out of your performance before it ever comes to you. So you might be getting charged by an adviser or something, or some type of management fee, or some type of commission, but then you're also giving up some of the performance.(...) Also, and this is probably one of my biggest hang ups besides the fees, is mutual funds trade at the end of the day. And I know in a little bit we're going to talk about a story of does that really matter? Yes, how does it matter? Because if I make a trade at 9am in a mutual fund, it doesn't trade until 3pm, until market close. Of course, this is central time, right? If I make a trade, and this is one of the beautiful things about ETFs, if I make a trade in an ETF at 9 o'clock, it trades like a stock. It trades instantaneously, right? And the other beautiful thing about it is its internal expense ratios are a fraction of mutual funds. Next to an individual stock, which with an internal expense ratio of zero, meaning there's no hidden cost. If you own an individual stock. If you own an individual stock, correct. An ETF is the least expensive thing we can put you in besides that. So those are the difference between the ETFs and the mutual funds.

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Okay, you said you had a story for us. So, what give me a story of why that matters? So, what are some of the differences? What are the differences of ETF and a mutual fund? Okay, so I might talk about this a couple times today. So, this has happened. I can give you multiple times this has happened. We can go back to April. I'm sorry, let's go back to December 26. So many people don't know that one of the worst Christmas Eve's in the stock market was Monday, December 24, 2018. I ask people all the time when they think the worst Christmas Eve was they'll tell me 2008, the Great Depression, it was actually 2018. And it was a Monday. Well, I remember that Wednesday, December 26 coming in. And after the market from August from October 4 to December 26, the Dow, let's talk about the Dow, the Dow had fallen 20%. While the other indexes were down 26 27%. I say other indexes, meaning the NASDAQ, the Russell 2000, the S&P, they were down anywhere between 26 27%. We came in that day. And since we went more conservative in October before the market dropped, just taking some chips off the table, we were able to act on that morning. Now, that morning was a unique, a unique day. Because that morning the market opened up 200 points down on the Dow. And we started buying because we already had some chips in our pocket that we took off the table earlier, you know, earlier in the quarter. So, he said, well, let's start deploying it. Now, I remember having a conversation with you. And we were going, well, maybe the market could drop another three, four or 5%. But if we're not buying on a 20% dip, we're crazy. Right? So, we started just laddering stuff back in. Well, what happened by the end of the day, the market reversed and went up 5%(...) that Wednesday, that was crazy 5%. If we would have bought in mutual funds that morning, it wouldn't matter, we would have missed everything we had in the market would have seen that gain, but everything we just put back in and just bought back in would have missed it. It's interesting, when you're able to be that nimble and that effective on somebody's account, just 10 15% back in the market to see a 5% gain can make a huge difference long term in somebody's account. Yeah. And to be fair, though, those moves don't happen all the time. I think we're giving one of the examples that was one of the biggest stellar examples of when we nailed it today of tip that's not normal. I think the point you're trying to make isn't so much that hey, by doing this, we can nail the days where the market's volatile, it's more so that you can be nimble, even on a normal volatile day where the market moves up or down 1%, let alone the example you're giving us like eight, that's a little abnormal, but even if it's one, the story still applies, right?

You could still be nimble throughout that day and buy a sector and ETF and not have to wait until the end of the day like you would on a mutual fund. So, I'm actually glad you brought that up and said this doesn't happen that often. The December 26th stories, they don't happen that often. But do you know, and I know you already know this,(...) but I know many people don't that it actually happened this year already, you know, and I remember going back to January and February and us having conversations, and there's no crystal ball, there's never a crystal ball and anybody that tells you there is run as far as you can. But we were talking about that the indexes were doing pretty well, especially the S&P, the NASDAQ, but we saw that they were being controlled or they were being elevated by just a handful of stocks, which we're going to talk about here in a little bit, but a handful of stocks.(...) And we kind of started thinking, if those stocks sell off, it's going to drag down the entire index. And that's what we're talking about today is why isn't the index always the best deal? So, a handful of stocks can control the rest of the index. Well, the S&P is made up of 500 companies. If 10 stocks are roughly controlling it, and they sell off, what about the other 490 companies in there? This happened this year. So that's why we started getting out of a lot of the index ETFs last year and doing kind of a more educated tactical approach to individual companies that were undervalued that had that could stand some volatility and have a nice gain. So, we didn't know when it was going to happen. There was no crystal ball. I remember we were telling clients, hey, in the next three to nine months, expect some type of volatility market may get just through the terrace market may get a seven to 15% correction, maybe even 20. Again, no crystal ball. But let's have some powder dry. Let's have some chips on the table. So, let's take let's sell off some of the stocks that did really well. Let's hold it. Let's maybe put it in some bonds and some other income generating investments. And let's wait, let's be patient. (...) Patience is a virtue in this industry. You don't know when it's going to happen, but then fast forward. End of March, (...) market started getting a little rough. (...) First week of April rolls around. And then Friday, April 4th, the market started getting really dicey, really volatile. But volatility creates opportunity. So, we were patient, it creates that opportunity as long as you're ahead of it. Well, then Monday, April 7th came around, and the bottom fell out of many indexes. I remember the Dow goes under 38,000. (...) If you turn on the TV, the TV's screaming drama, of course, do the opposite of whatever TV says, and you'll probably be okay. (...) But people are concerned about what's going on. Well, if you do what's worked for the past 200 years in the stock market, which is take some chips off the table, when it's up, put them back in when it's low, and you stick with that philosophy, you're going to be pretty good. Well, if you're following an index, you can't necessarily do that because you're just following the index. Well, what happened on April 7th? The bottom falls out, the indexes are down, the S&P, the NASDAQ fall more than 20% off of their highs, mainly by those handful of stocks that were carrying them down. And I remember we started buying. Well, what happened the very next day? The market rebounded, went up 10%. If you're in an index, you're just following that yo-yo up and down. But if you take a more

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educated or sniper approach to our thought-out approach to stocks, to individual stocks, and you're not just tracking an index, you can do really well and take advantage of that opportunity. So, it happens more often than people think. And I bet if I asked somebody today, when was the last 20% drop, they wouldn't name April. They'd probably name the pandemic and not even realize it happened this year because we tend to have short memory spans.(...) So it makes sense if I'm hearing you right, you're trying to go over what's important in terms of investing, the benefits of having a sniper approach, having individual stocks they think makes sense instead of a shotgun approach and just owning a whole S&P 500 or Dow Jones.(...) You talked about market waiting. Why don't you remind everybody how the indexes work? You said the S&P 500, a massive percentage of it's really 10 stocks. Why is that? Remind everybody how the cap works. Okay, I'm going to try to speak slow. And if I mess up on something, please, please interrupt me and help give me some guidance. So let's look at how the S&P, let's just talk about the S&P so we can stay focused.(...) The S&P to figure out a market cap of a stock, you've got to look at the price of that stock and the outstanding shares of that stock. And when I say outstanding shares, they can be owned by a person. Outstanding shares are owned by the open public. What's considered not an outstanding share, mainly people that are insiders of the company, things like that privately held positions. But so, you take the price of the stock times the outstanding shares, then you have the market cap. So, everybody knows Apple. Many people have an Apple phone. So, let's use Apple in this instance. (...) Apple stock as of a day or two ago was $210 per share.

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Apple has 15.7 billion shares. (...) Multiply that times each other, you get 3.3 billion or sorry, $3.3 trillion just under it's like 3.2 and some change. If you take $3.2 trillion and divide that by the total cap of the S&P 500. So, Apple's capitalization divided by the total S&P 500. $3.3 trillion in market cap divided by the S&P's market cap, total market cap of $52.7 trillion. You come out to about 6.26% of the S&P. So, one stock controls 6.26% of the S&P. In fact, a fun fact for you, I would say six to seven stocks, it's roughly seven stocks control nearly 30% of the S&P.(...) Well, I said earlier, what about the 490 stocks? Because there's 10 that have a big piece, but seven of it is that's the biggest piece of that puzzle right there. (...) So what about the other 493 companies? (...) I'm not going to tell you that they're all gyms, they're all good values,

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but they can all be bad. In fact, you could probably find a diamond in the rough there that you could take advantage of it. It's got a low PE ratio, a good dividend, something that you could just if the market's at a top, you could say, hey, maybe if we get some volatility, I could buy some into this stock or these handful of stocks that way you're diversified in multiple different sectors. I could buy into these. And even if the market pulls back or the index pulls back, I'm going to be okay. Maybe I go down a little, but I'm not going to go down what the index does. And I'm definitely not going to go down what those handful of stocks did. So, what happened on April 4th, and April 7th is Apple, Nvidia, (...) Google, Amazon, they sold off. Well, if the index dropped 20%, those stocks had to drop 30, 40%. They had to have massive drops to offset the other 493 companies. Does that make sense? (...) Perfect. (...) So people need to look at the fact that they're taking unnecessary risk by just being in an index when that index is controlled by a small majority of that index fund. Makes sense. Not to get off on a tangent, but you made me think of something.

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We did an episode earlier on fraud of the advisers and sometimes firms. Absolutely. Little fun fact is if you remember Enron, triple A rated company. Yeah. Within a short period of time prior to going bankrupt, it was triple A rated company. (...) It going under, it was part of the S&P 500. Do you know that that was good for the S&P 500? There's a catch to what I'm saying. Why was it good? What replaced Enron when it got kicked out? Nvidia.(...) And Nvidia, as everybody knows, has been on fire. So that's the cool thing about the S&P 500, just on a side note that it's constantly refreshing and updating. But thanks for breaking down how the cap weighting works. My pleasure.(...) On why a few stocks, if they get hammered, how it could hurt the index. Any other downside risks you want to talk about the index? You know, I briefly just touched on a second ago, but a few more would be lack of diversification. You know, I had a conversation with a client just yesterday and it's funny that it happened yesterday because we have the majority of the serious money, but they have a play account and he's in his late sixties. He's worth, (...) let's call it eight, $9 million, but he's got a nice size play account, and he's been a client for six, seven, eight years. And we were just having a talk yesterday. And at first, I was wondering where the conversation was going and he goes, I think I want you to take over my, my personally managed account, my play account. And I go, why? He goes, well, I have a handful of stocks, right? And they all are around this sector, and they all are some of the stocks that are controlling the S&P. And they go, they've been underperforming the managed account. I mean, they're great companies. Don't get me wrong. We actually like some of those companies, but they've been underperforming the managed account. Why? It's not that the company's in, he's in aren't great. It's just lack diversification. So, what, what are other things you could be in or that you need to stay focused on? What about the Russell 2000, right?

Small cap stocks, international. What do you mean when you say international Robert? Well, great question. And there are a ton of different international indexes out there. As we know, there's thousands of countries out there. So, you just want an international, if you're going to do an index fund, right, you need an international fund that is well diversified. I personally think there's a better way to kind of cherry pick certain countries, certain stocks in countries that give value. However, keep in mind that like the Russell 2000, the international market tends to be volatile. It tends to kind of, it's more volatile than the S&P. Let's put it that way, right? But that still creates that opportunity that we've talked about. So, I'm not saying put 50% of somebody's portfolio in an international(...) fund or international company, just be diversified. Going back to the story we were just talking about of that client, that's why they weren't getting the performance they want is because they had great companies. But there was a lack of diversification when there are other opportunities that the market will present in different sectors. Right? Another thing would be bonds. That's all I'm about to ask you. How does that, how does that play in here? You know, if people have been watching the bond market the past 15 years, they haven't been attractive. Right? I remember having conversations with clients 12, 13, 15 years ago, saying one day the bond market's going to correct and when it does, it's not going to be pretty. And of course, the next question is you've experienced many times as well. The next question out of our mouth is, okay, when? I'm like, well, that's a trillion-dollar question there. Nobody knows when it's going to happen. Just be prepared. Right? Interest rates were coming down and as interest rates come down, bonds tend to go up in value, but the coupon of those bond funds are paying less. Well, in 2021, when we saw that bonds, our interest rates were below the 10-year government treasury to be specific, we're below 1%. And the stock market's up here, we're thinking, (...) this might be the time if they increase interest rates just due to inflation, they increase interest rates, bonds are going to, they're going to get hit pretty heavy. And of course, that did happen in 2022 bonds went nearly into an absolute recession, my words into an absolute recession in 2022. But why is that good now? (...) It makes bonds more attractive because when do you want to buy something? I don't want to buy Nvidia at an all-time high. I don't want to buy a stock at an all-time high. I don't want to buy a bond at an all-time high. People are regretting that that got into quality bonds in 2021 that are longer term duration. And then in 2022, they got hit pretty hard. (...) I want to buy something because interest rates on bonds work inversely, right? Correct. Interest rates go up; your principle of your bond comes down. Right. (...) You want to walk us through that? You bring up a good point. Many people are upset that interest rates have gone up the way they have, right? We got; we got so used to having low interest rates. But when you go back historically, historically, (...) that is not the norm, right? (...) Interest rates being at, you know, (...) 30-year home mortgage being at 5.5, 6%. That's kind of the norm. Getting mortgages at 2% and 3% is not. So now that the 10-year spike to 4.4, 4.4 currently, but if you go back a year and a half ago, it went above five for a brief period of time. Well, why is that good for bonds? Well, it wasn't leading up to that bonds got hit pretty heavy.(...) But now if you were just starting to get into bonds, then if interest rates dip a little bit, and we know that the Fed is talking about decreasing 50 bibs, 75 bibs, maybe an entire percent by the end of the year, if they do that, that makes bonds more attractive, because these bonds that didn't do so well that are now more attractive can now reverse and go back up in value while they're paying a higher coupon. So, I know it sounds confusing. It's really not bonds are pretty simple. You just have to understand that they work inversely with interest rates and sometimes work inversely with the market.

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So, what I hear you saying is, if you think interest rates are going to go down, you probably want to be in longer term bonds. If you think interest rates are going to go up, you want to be in shorter term bonds because they work inversely. So, an example would be if I owned a 10-year government bond, a few years, we talk about right now, they're paying four 4.4. But a few years ago, let's say they're paying 2%. And if I'm in a 10 year bond,(...) and why do I not want to be in a 10 year bond, I'm better off being in a two year bond and a 10 year bond if rates are going to go up, because if I'm in a 10 year bond, and I'm making 2%, and rates go up, and now the identical bond, some other consumer or investor could purchase the same bond you're in. But instead of yours, that's paying two, they're buying one that's paying 4.4. So now they might have paid $100,000 for that bond, it's no longer worth 100 grand because there's this paying 2.2. So maybe it's worth 90 cents on a dollar, so 90 grand, yet you now can buy a bond that's paying 4.4. So, you either buy the bond at 90 grand, 90 cents on a dollar paying 2.2, or you buy a bond for par, 100 cents on a dollar, but you're getting to 4.4. So, you kind of need to be watching and doing just as much research, I think you would agree on where interest rates are going and what type of quality bonds we have as you do on a stock market. Right. And yeah, to your point, nobody wants to buy your bond at 2% when they get the identical bond paying 4%, right? (...) Unless you're going to give it up for a huge discount, which then you would lose.

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So the reason I bring up these indexes when we talk about the Russell 2000, the international market, the bond market is opportunity, that volatility, like the Russell 2000, has underperformed the last couple of years due to inflation, some tariffs, taxation,(...) but small caps, you know, when we talk about the Russell, small caps are,(...) they tend to do a lot better in a tax friendly environment. So, with the big, beautiful bill that just passed and not to get political, but with the bill that just passed, some of it is going to cut taxes on small businesses. If that happens, (...) tariffs, tariffs being the caveat to that question, because who knows what tariffs are going to do as far as inflation on it. But if that happens, that could rally small caps. So while we're all focused on these huge tech companies that are in the news that have done well, not so much the last few months, and you're trying to be sector specific, and they're controlling the index, we're completely ignoring other opportunities in the Russell 2000, in the international market and in the bond market, when they are prime for the picking at this point. And so doing a sniper approach in each of those sectors or each of those indexes, instead of just buying indexes, could be very valuable to your portfolio.(...) Yeah, I think what you're saying is we want to look at where the puck is going and not where it's at. Right. So, the good performers of late may not be the good performers going forward. And I think the environment is going to change. You know, one thing we haven't talked about, I'd love to spend a quick second talking about is another benefit of just individual stocks. And again, our models here at GDS Wealth Management, they tend to be roughly a third ETFs, two thirds of individual stocks. Right. We think there's good synergy in between having like a passive investment of an ETF, for example, and more of an active of having some individual stocks. For many reasons, some of the ones you've done a great job of going into of the benefit of buying during the day and taking advantage of that versus like a mutual fund, which we don't mess with.(...) But I think another benefit too are taxes.(...) Right. Because if you're just an ETF, for example, again, as I said, we're about two thirds of our clients' money roughly is in individual stocks. Let's say an investor out there just has ETFs. And they're thinking, why would I even want individual stocks? I'll give you another reason for tax deductions. If I just have the S&P 500, or Russell, or you know, you could pick a industry sector specific,(...) you're probably not going to get a lot of losses, you're going to hold out of that index and write it out for until you sell it, which may, maybe never. By having individual stocks, you can constantly do tax loss harvesting. Right. So, we've done that in the past, we did that with Estee Lauder, it got beat up a while we buy. So, if you're listening, a quick reminder, how do tax loss harvesting, how does that work? Imagine you buy a stock at $100,

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and it doesn't work out like you intended, it drops to 80, (...) or maybe 70. The point is it's down. So, let's see for now, let's say it's down to $80. But you still believe in a stock, nothing fundamentally has changed. In fact, everything, maybe it's more attractive today, the PE ratio is less, the dividends higher, (...) you know, it looks even like a better opportunity. If you were to purchase more of that stock, say you doubled your position, and then you wait 30 days, that's the key, you got to wait 30 days, and on a 31st day, you can sell your initial cost basis. Right. And now you get a tax deduction. (...) Hopefully that makes sense our listeners. So, you buy a stock, you buy $10,000 of it at $100 a share, it goes down to $8,000, you buy another $10,000 of it, you wait 31 days (about 1 month) and you sell your initial eight grand. Now you get the deduct on your taxes, the difference of the 10,000 initially and eight grand you sold it at, and you've reestablished a position. You can constantly play this game, which we do as frequently as possible to maximize our client's tax deductions. The key thing is you want to watch out for those wash sale rules, (...) whereas if I repurchase that stock 30 days before or 30 days after the sale, then you don't get the deduct on your taxes. So that's something you got to be careful, you don't want to get hit with a wash sale rule. (...) Well, and of course you also you lower your average cost basis, you adjust the average cost basis. So, you know, and we've done that plenty of times and it's vitally important, but you made me think of something and I want you to talk about it because it's one of your one of your stories that we used to talk about a lot. We're talking about paying taxes or tax loss harvesting and individual stocks and ETFs. And this is around a similar topic, but mutual funds. Answer me a question. (...) Can you buy into a mutual fund? (...) That year be a horrible year. The indexes be down, the mutual fund be down, but can you pay taxes as a client as if you've made money? Yeah, (...) when you said a story, I was curious what you were going to ask me to talk about. I know you started smiling the moment you realized which one it was. (...) So, again, this doesn't happen every day of the week. However, in times of heightened volatility, this can happen, especially if it's with a mutual fund. Normally, if I'm meeting with somebody in person, I might rat off a few, but I don't want to have a mutual fund out there complaining about me, but there's some that do this more than others.(...) If you want a mutual fund and the market drops significantly like it did this year, 20% or no way, or you picked during COVID. Again, they returned really quick, especially in 2025. It returned quick, but it was down, right? (...) Let's say you have your money in mutual funds, (...) you're down 20%, 30%, whatever the case may be. You don't panic because you've heard everybody, Warren Buffett, Dave Ramsey, pretty much if you've read anything in the industry, never panic and sell at the bottom. Well, guess what? Your neighbor panics, or maybe they need the money for their kids. Maybe it's not panic, but they have a liquidity need. They have to sell that mutual fund to help them get through the tough time with their business, to put their kids through college, et cetera. So, they put an order in to sell a mutual fund at the bottom. You don't because you know better. Well, guess what? That mutual fund, they don't just have cash laying around. They have to go sell the underlying investments. (...) So, let's think about that. Let's say it's a mutual fund that's been around a long time and they bought ExxonMobil at a dollar, right? That's their cost basis. And I'm being dramatic and trying to oversimplify it, but they buy that at a dollar and then they sell it at $100. You didn't do anything wrong, but your neighbor, again, for whatever reason, maybe they did panic, maybe they didn't, they just had a liquidity need. They sold the underlying mutual fund, sells ExxonMobil at $100, and they had bought it, acquired it two decades ago at a dollar. That $99, the difference, (...) pro-rata's pass to the investors in a form of some form of capital gain. It could be short-term, long-term, depending on how long you've owned the fund itself. (...) But you may not have done anything. You just went along for the ride, you didn't sell, but now part of that sell could be passed down to you. When you do your taxes the next year in April, you're looking at it, "Man, this mutual fund, I lost my shirt. I'm down 25% and now I'm paying this capital gain." That can happen. (...) Lately, we've been talking about these examples. Again, that doesn't happen every single day of the week with every mutual fund, but it is a reality. (...) We, (...) as financial advisers, and you as an investor out there, you want to do everything in your power to minimize your taxes. This is just a low-hanging fruit, in my opinion, another reason why mutual funds in general are less attractive than ulterior investment solutions out there. Yeah, I know as SV, only fiduciaries, we stay away from mutual funds because we can't do most of them because of that reason. (...) But it's always sad when somebody actually realizes that happened to them and they come into us, want us to fix it. But

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normally when it happens, it's too late. So unnecessary risk, I know we talked about earlier, is there anything else you want to talk about unnecessary risk sometimes in ETFs or mutual funds? No, I think staying diversified is the biggest takeaway. Don't let a handful of stock control the index you're in. If you're going to do an index, and this would be my takeaway from the day. So, wrap today up, what do we want our people here? If you're going to do an index, then do multiple indexes, stay diversified, and be comfortable with the risk. Be comfortable that if the S&P drops 20% like it did in the year of 2022, now from top to bottom, it fell over 30%. So, you got to be comfortable with that 30% loss. If you're comfortable with that, and you're comfortable with those average returns of the S&P over 10 years, then maybe it's fine for you. But if you want a less heart attack driven volatility, and you want to be more calm, and have a just diversified approach,(...) be in different sectors of the market, even if it's indexes, be in different sectors, or take a more sniper approach and look at companies that are undervalued, or of course, work with a wealth management team like us.(...) So that would be my biggest takeaway is do your research and be okay with the volatility. Awesome, Robert. Well, we got our mailbag here from Kim on YouTube. Thank you, Kim. On YouTube. By the way, that's a great way. If you want to send us questions on YouTube, we would love to hear them and do our best to answer them for you. Absolutely. Well, hopefully she gave me a layup. (...) I think so. I think this is in your alley, right up your alley. How would a Roth conversion impact Medicare Part B for additional premium charges? I still can't decide what to do. (...) Wow. That is a tough question.

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Not knowing more about Kim. (...) And we did an episode on this when we talked about financial planning, importance of Roth conversions. So let me see if I can dive into that. The fact, and I'm just guessing here, right? Because the first thing I need to know on that question is how old is Kim? Oh, yeah. If she's 55, the answer could be slightly different. But I'm going to assume that Kim is at Medicare age since he's asking Medicare Part B. Either she's 63, which is important because two years leading up to 65 when Medicare kicks in, they do a two-year look back. So, your income could affect Medicare Part B. In one of the episodes we did, we talked about Irma. Irma is a surcharge on Medicare that could double or triple, in some cases quadruple, your Medicare premium if you're single or a married couple. And it's judged or dependent on your income. And it's your modified adjusted gross income. So, whatever you did that year, so if you do a Roth conversion, it is adding to your adjusted gross income and your modified adjusted gross income. So, you have to go back and do the math. Does it mean, or I should say, it doesn't mean that doing a Roth conversion doesn't make sense if it goes into Irma. And a lot of times, a lot of cases, if somebody's healthy and depending on their income, it could still make sense. And I love not to talk about financial planning again, we already did that, but I love the fact that our financial plan, and not all of them do, but ours and a few other ones, have the technology to calculate Irma within a Roth conversion. More custom. Right. So we can look at somebody's income, their age, and how much do we want to realize, how much do we want to pay taxes on that might kick them into double, triple, even quadruple Irma stages and make them pay more in Medicare Part B, but it's only going to be temporary. So sometimes if you're going to do, and Kim, this is what I would tell you, if you're considering it, one, do the math, but then be okay

(...)

that doing more in one year, doing all of it in one year, I don't know her net worth, but doing, you can stretch it out, a Roth conversion over a number of years. But in some cases, especially if you're worried about Irma, speeding that up, doing more. Right. (...) Right. You're still going to have, if you're going to have to pay Irma, regardless of doing the Roth conversion, maybe you rip it off because you're going to live with it for that year or two years or three years, depending on how many years you do a Roth conversion, but rip it off. That way you pay for it. It then goes back to normal. And now you have a tax efficient plan for the remainder of your life and for your heirs. (...) Perfect. Thank you so much. Thank you. My pleasure. Thank you, Kim, for the question. We'd love any additional questions you have. Please send them on YouTube and we look forward to answering them in the future.