Speaker 1: In this video, we're going to talk about rolling over a 401(k) to an IRA. We're going to talk a little bit about the "power" of leveraged funds and we're going to talk a little voodoo, hocus-pocus, mumbo jumbo.

Welcome to the Mullooly Asset Show. This is Episode Six and welcome back. The content that we get for these questions that we cover in the videos come from you. It's a participation sport, so keep the questions coming.

You can contact us through email or Twitter or any of the other social media places where you're finding our videos. Please keep them coming. We love them because if you've got a question, it's probably something that other people are thinking too, so bring them on. Casey, before we get to the first question, have you finished all your Christmas shopping? Have you gotten something for me?

Casey: We'll see.

Speaker 1: All right. What's the first question today?

Casey: First question we've got is, "My broker told me to rollover my 401(k) into an IRA, but shouldn't I put the money into a rollover IRA instead?

Speaker 1: Well, the first thing that I think we need to address is you might actually want to keep your money in the 401(k). Shocked look. There's a lot of brokers and advisors who would tell you, you automatically have to. When you leave the company, you've got to roll it over into an IRA.

Some people when they leave their company, they just want to break all ties and they just want to roll it over. They have control of the asset and that's great, but there's a lot of people who are starting to realize that the costs for the funds in your 401(k) plan are pretty cheap. It might not just be your 401(k), you may have a 403(b) or you may have a 457 plan.

If it's in a specially large plan, if you work for a big company and they've got a gigantic 401(k), they probably have negotiated some pretty low rates, some fees that are really rock-bottom prices you'll be hard to match that in an individual IRA. It's important to really think about that before you automatically roll the money over from your 401(k) into an IRA. It's just one more thing that you've got to think about.

That's something that we discuss here in the office with our clients too. We can manage the account for you, just leave it at the 401(k). The question was really about hey, should I take this money and put it into a rollover IRA or should I put it into a traditional IRA?

I just want to talk about that briefly. The basic accounts are the same. A traditional IRA is really not that much different than a rollover IRA. In fact, when we're filling out paperwork with the brokers that we use, we're really just checking off a box, is this going to be a Roth IRA, a rollover IRA, or a traditional IRA?

Here is where the difference comes into play. You would use a rollover IRA if you're planning on taking the money from that 401(k), parking it somewhere for a short while, and then bouncing that money into your new company, 401(k). That's when you would use a rollover IRA.

If you're not planning on moving that money back into a new company plan, then just roll it over. If you're going to roll it over, just go into a traditional IRA. The reason why they created the rollover IRA in the first place is this. You're okay in most cases taking the money from your 401(k), putting it into a rollover IRA, and then moving it into your new company plan.

When you put money from your old 401(k) into a traditional IRA, remember a traditional IRA you can make those annual contributions each year. When you start commingling your 401(k) assets with money where you're making contributions, now you've kind of locked yourself out from rolling that money again in the future into a new company plan. A little confusing but just understand if you're leaving work and not going to work again, and you're going to roll it over, just put the money into a traditional IRA.

If you think you might somewhere down the road bounce that into a new company retirement plan, a new 401(k), then it should go into a rollover, because you can't commingle contributions with rollover money and then plan on rolling it over again. Okay, I need a break because I'm really tongue-tied after saying that so many times. Casey, please give me something else to talk about.

Casey: Next question is, "Do you know much about the story going around about leverage funds possibly getting shut down?"

Speaker 1: Yeah, and thanks for that question, Casey. We have heard and read stories that these leveraged funds may be getting shut down. It may be all of the leveraged funds, but it sounds like, at least what we know now at the time that we're putting this video together, that it may be the extreme leveraged funds that they're talking about addressing.

For two main reasons. The first one being the costs that are involved. They're kind of expensive, but the more important reason is that the folks who are getting involved in these things may not have the education or the understanding how these leveraged funds actually work.

We're talking about a triple leveraged fund. Now, it can go triple leveraged up and triple leveraged down. If you think, for instance, you think that Dow Jones is going to be going up a lot today, technically you could buy the triple leveraged Dow Jones index and place your bets. If you think the market is going down a lot today, you could buy the triple inverse leveraged fund and try and place your bets that way.

The bigger problem is that most folks who get involved in this don't really understand it.

In a lot of brokerage firms, where your broker is placing an order for you or an advisor is placing an order for you, the advisor or the broker can't even place those orders anymore. They just won't let them in some cases, so we have a lot of individual investors who are going online and trying to do it themselves.

What they may not understand is that it's triple the leverage for today only. Some of the conversations that we've had with people are, "I've been in this leveraged fund for six months and actually the index underneath it has gone up, but I haven't made any money." That's because it resets every single day.

I'm skipping a lot of math to answer this question, but you need to understand that this is a daily mover. If you think the index underneath it is going to be moving today like you could buy these leveraged funds on the Dow Jones, on the S&P 500. You can also buy triple leveraged funds on things like crude oil or gasoline futures.

There's a lot of things that you can do these crazy bets on, but it's a daily move. The idea is you buy it in the morning and you sell it before the market closes. Some folks have been in some of these leveraged funds, these over-leveraged extreme leveraged funds, for weeks and months at a time, and when the dust finally settles, they're looking and they're saying, "I didn't make any money with this."

My angle on this is I think they want to curb these triple leveraged funds, because it really encourages speculation and not really investing. There's more to come on this. I don't think we've had any kind of resolution yet, but watch for more news on these leveraged funds. Casey, what else do you have for us today?

Casey: Next up we have someone who wants to know, "Why do you use charts? I've heard people refer to technical analysis as voodoo?"

Speaker 1: It's true, there's people that call technical analysis voodoo. In fact, a few years ago Jim Cramer on his TV show called technical analysis voodoo, hocus-pocus, mumbo jumbo. I was a fundamental guy who then strayed to the other side, to technical analysis.

In fact, when I got started in the business, we had to be in the office early like before 7:30 to hear the analysts call from New York. They would talk about how they were upgrading or downgrading a stock or they were initiating coverage on a company. That was proprietary information.

We then had a couple of hours to call our clients and line up positions before anyone else heard that there was an upgrade going on at a particular company. A lot of times we would see a stock going up and we'd find out at 2:00 or 3:00 in the afternoon, the reason why it's up today is because some analyst at another firm upgraded the stock and all the brokers of the company bought it.

One day though, I'm driving to work. It's probably 1997, 1998 I'm driving to work, I'm listening to the radio and they say, "Well, over at this firm they upgraded the stock." That was my firm, and it must have happened overnight. All of the proprietaryness, is that a word? All of that just went right out the window.

There was no more edge to having fundamental analysis, because the internet just kind of destroyed any kind of proprietary fundamental work being done. Then it really became a question of, well, if all fundamental analysis is the same, then you should use things like P/E ratios, right?

When your price-earnings ratio was down at a certain level you buy something, and when it gets to this level you should sell it, right? Or when the market is going up, P/Es expand and go to this number. I mean then anybody who could do simple division should be a millionaire. It just didn't make sense.

The other thing that always bothered me is that firms can always seem to go back and rewrite history. They could go back and say, "We're restating our earnings for the previous quarter or the previous year." The numbers were faulty.

The beauty about technical analysis, and we use point and figure charts as our technical analysis. We get them from our friends at Dorsey Wright. The beauty of point and figure charts is that they are driven by price. The only thing that matters on the chart is the price and then we're looking for a trend. Is it trending up? Is it trending down?

Now, think about this. If the only thing that matters is price, then people are buying and selling for whatever reason. There's just X's and O's on the charts. There's nothing that says here's where the company's CEO ran away with the money, here's where they changed interest rates, here's where they went into a recession. Nothing like that.

Those prices are going up every day based on people's buying and selling patterns, that's it. People could be buying because they are hopeful that something is going to work. They could be a mutual fund making a big position move. They could be people trading on inside information. If there's enough buyers of anything, the price is going to go up.

That doesn't matter if it's stocks, bonds, or food at the grocery store. If there's enough buyers, prices will rise. If there's enough sellers, prices are going to go down. We're not ever going to get in at the exact bottom or at the exact top, but we're going to be able to spot these trends.

What I really like about technical analysis is that it helps stack the odds in our favor. We're looking for charts that have positive trends. We're looking for charts that have multiple buy signals. We're looking for stocks that have good relative strength. We're looking for stocks that are in the right kind of sectors, the sectors that are moving up.

We want to stack the odds in our favor. Don't misunderstand, charts can't predict the future. They're not perfect, because things do happen. What we're really trying to do is reduce the odds of a disaster and stack the odds in our favor.

That was a really long answer to a short question. I think it's a great question and I'm glad it was asked. That's all we've got for Episode Six. Thanks again for watching, and we'll see you guess when? Episode Seven. Thanks again for watching.