

Using an IRA and the Stock Market to Increase Savings

Byron A. Ellis – November 21, 2020



Since the recession of 2008, financial savings institutions, such as banks, have limited the returns on savings accounts. According to [Bankrate](#), the best overall rate as of November 2020 is 0.70 Annual Percentage Yield (APY).

Often savers in depressed communities keep their savings in banks that pay them low APY. However, if they invested in stocks, their returns could be in double digits. Surely, though, stocks are riskier than savings accounts in banks that are members of the Federal Deposit Insurance Corp. (FDIC); thus, FDIC ensures the security of low APY banks' savings accounts.

For banks' savers, low APYs inhibits their ability to grow their wealth. It is not so if they invest in the stock market, where they could earn significant returns. However, many individual savers view investment in stocks as risky, difficult, and complicated.

One way to start investing in the stock market is by opening a qualified retirement account, such as a traditional IRA, that allows for stock trading. For most, contributions to these accounts reduce the savers' taxable income, see [irs.gov](#). So, with a traditional IRA savers reduce their taxable for the year of their contributions.

Understanding stock trends provides stock investors with advantages. [Big Charts from Market Watch](#), allows investors to see how different stocks are trending. Likewise, most stock brokerage firms provide similar features.



The chart above is from Big Charts, it shows the trajectory of Gap Inc. (GPS) stocks from December 2019 to November 2020 depicting a slightly rising, a downward, a long rising trend. Money can be made on signaling (short selling) or rising trends; short selling is for experienced investors and not recommended.

Say, if a saver bought Gap Inc. stock at \$10 per share in June 2020, the saver would have made \$14.35 (since the stock is now trading at \$24.35), more than doubling her investment in less than six months.

Investors can mitigate the downside risk of investing in stocks by watching the stock performance daily and if the stock is underperforming sell it.

Symbol	% Chg
AGRO !	2.12%
DVN !	7.10%
MN !	9.56%
TWTR	10.42%
AMCR	10.77%
CCL	16.97%
DXC	17.72%
DISCA	18.67%
HRB	21.54%
HAL	21.99%
MGM	22.95%
IVZ	40.80%
FCX	65.76%
GPS	129.95%

The image on the left shows the actual performance of a six-month stock portfolio. AGRO was the last stock purchased. As is evident, the percentage change, even for the lowest-performing stocks is greater than that for bank savings deposit accounts.

The six months rate of return is about 59 percent, which dwarfs any banks' savings returns. The point of the article is to encourage savers to consider investing in the stock market to obtain greater returns on their savings and to reduce their present income taxes.

Reluctant savers should start with a small investment into an IRA, they also should consider the reduction in taxable income.

The Jethro Project Consulting Group (tjp@jethroproject.com) can provide monthly stock recommendations.

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