



The Roth Conversion Opportunity: Capitalizing on Valuation Discounts.

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The passage of the One Big Beautiful Bill Act (OBBBA) permanently locked in lower individual income tax brackets. However, smart wealth planning goes beyond static tax rates. For clients holding traditional IRAs or alternative investments (such as private equity, real estate, and private credit) in their IRAs, market adjustments and temporary valuation troughs (e.g., NAV adjustments) can present a powerful tactical window: the ability to convert assets at a discounted valuation basis. By transferring an existing IRA and/or alternative assets into a Roth IRA during a valuation drawdown, clients minimize the upfront tax hit while anchoring future compounding in a 100% tax-free environment.

Real estate development projects deliver a predictable valuation curve. Until an asset produces stabilized income, a third-party appraiser has no stabilized rent roll to capitalize, and values the interest below invested capital, typically around -35%. That dip is known as the Roth Conversion Window. You convert at the lower valuation, pay less taxes on the converted amount, and everything that grows from stabilization through sale compounds inside the Roth tax-free, aside from the debt financed income (UDFI).

Takeaways for Advisors

- › **Leverage Valuation "Discounts" & Illiquidity.** Converting standard IRA dollars or illiquid or depressed alternative assets allows clients to lock in a lower Adjusted Gross Income (AGI) impact, transferring maximum asset shares to the Roth bucket at a reduced tax cost.
- › **Mind the Conversion "J-Curve".** A Roth conversion triggers an immediate tax cost in Year 1, causing a temporary dip in net portfolio value (the "J-Curve" baseline). However, alternative assets with high expected returns recover sharply over time, driving exponential tax-free compounding that far outpaces the initial tax burden.
- › Research the Roth Conversion educational collection [here on the Panorama Knowledgebase](#).

Example for illustrative purposes only.

VALUATION ARC: ILLUSTRATIVE J-CURVE Based on \$100K investment · 2.0x target equity multiple · Cumulative value including distributions · For illustrative purposes only



TARGETED TIMELINE: DEVELOPMENT FUND II Years shown relative to fund closing · Asset deliveries are staggered across the portfolio



KEY CONSIDERATIONS BEFORE CONVERTING

Pay Taxes from Outside the IRA

Pay conversion taxes from non-IRA funds. Using IRA assets reduces what grows tax-free. If you're under 59½, it may also trigger a 10% early withdrawal penalty.

Conversions Are Irrevocable

A Roth conversion cannot be reversed under current law. If values drop further after converting, the tax cost is locked in. Work through the timing with your advisor first.

5-Year Waiting Period

Converted funds require a 5-year hold before penalty-free withdrawal, even if you're over 59½. Each conversion starts its own 5-year clock from January 1 of the year you convert.

Timing Across a Multi-Asset Fund

The Fund's appraised value reflects up to four assets at different stages. The discount is largest while the portfolio is pre-stabilization and compresses as deliveries stabilize.

Leverage and UDFI

Real estate held in an IRA with debt financing may generate unrelated debt-financed income, taxable to the account at trust rates. Roth status does not exempt it. Ask your CPA.

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