WINTHROP WEALTH

CLIENT QUESTION OF THE MONTH
TAX-LOSS HARVESTING

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ACCORDING TO THE IRS, THE DEADLINE TO SUBMIT 2021 TAX RETURNS OR AN EXTENSION IS MONDAY, APRIL 18, 2022, FOR MOST TAXPAYERS.

By law, holidays impact tax deadlines. The due date is April 18th instead of the 15th because of the Emancipation Day holiday in the District of Columbia. Taxpayers in Maine or Massachusetts have until April 19th to file due to the Patriots' Day holiday. The deadline to file for those requesting an extension is October 17, 2022.

Since we are approaching tax season, we thought it would be helpful to review the benefits of tax-loss harvesting. Tax-loss harvesting is achieved by selling an investment with a loss and immediately purchasing a different security with similar (but not identical) exposure. The key points are:

1. The loss on the sold security can be used to offset taxable gains. If there are losses in excess of any gains, up to $1,500 for an individual or $3,000 for married filing jointly can be used against ordinary income. Unused tax losses can be carried forward in perpetuity. The IRS rules on capital gains and losses can be found **here**.
2. Since we simultaneously sell a security to capture a loss and purchase a different holding with similar exposure, the client is never out of the market. We can capture losses during declines, and when the market potentially recovers the new position may also recover PLUS the client has a tax-loss to offset future gains.
   - Here is a simple example: Assume a client buys $10,000 worth of ABC security and one month later the price has declined by -15%.The client can sell the entire position of ABC for $8,500 and buy a similar (but not identical) position for the same amount, let's say the new position is XYZ holdings. Now assume that the value of XYZ holdings increases back to $10,000. The total value of the position is unchanged, but the client has a $1,500 tax loss to use against future gains.
   - Note, to ensure that investors do not sell a security to capture a loss and immediately buy it back, the IRS has implemented the "wash sale" rule. The rule states an investor cannot sell an investment at a loss and then buy a "substantially identical" security within 30 days before or after the sale.

We constantly look for opportunities to execute tax-loss harvesting trades. Typically, the best instances occur during significant market declines – the most recent best examples are December 2018 and February/March 2020. In 2022, we have started to tax loss harvest positions when appropriate. If the market declines further, we will increase the tax loss harvesting.

Having a dynamic process and the proper technology to tax loss harvest is critically important as market declines occur frequently. The S&P 500 has averaged a peak-to-trough decline of about -15% each year since 1928 despite producing a total annualized return of +9.7% over the same period. (Source: Bloomberg) When the inevitable market decline happens, we try to make lemonade out of lemons by tax-loss harvesting and rebalancing portfolios. These activities can provide significant benefits by capturing losses and/or reallocating to more attractive securities.

At Winthrop Wealth, we apply a total net worth approach to both comprehensive financial planning and investment management. Financial planning drives the investment strategy and provides a roadmap to each client's unique goals and objectives. The comprehensive financial plan defines cash flow needs, is stress tested for various market environments, optimizes account structures, considers tax minimization strategies, and continuously evaluates financial risks as circumstances and/or goals change. The investment management process is designed to provide well-diversified portfolios constructed with a methodology based on prudent risk management, asset allocation, and security selection.

DISCLOSURES:

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad e market value of 500 stocks representing all major industries.

Financial planning is a tool intended to review your current financial situation, investment objectives and goals, and suggest potential planning ideas and concepts that may be of benefit. There is no guarantee that financial planning will help you reach your goals.

Likewise, it is important to remember that no investment strategy assures success or protects against loss. Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. All investing involves risk which you should be prepared to bear.

Rebalancing a portfolio may cause you to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss.

This information is not intended to be a substitute for individualized tax advice. We suggest that you discuss your specific tax situation with a qualified tax advisor.