Taking Tax Advantage

June 29, 2022

There are always strategies that take advantage of market movements which have nothing to do with market timing. One of the simplest is periodically rebalancing the portfolio to its original mix of assets. In a simplistic version of this, you might have a mix of 60% stocks (including international, small, and large cap etc.) and bonds (Treasuries, corporates, and various maturities), and suddenly the market goes up or down in a hurry. You have either more than 60% or less than 60% stocks, so you sell or buy back to the original tolerance. If you're disciplined about following this process, you will end up selling when the market has gone up (locking in gains) and buying when the market goes down (taking advantage of bargain prices).

Another, slightly more complicated strategy is Roth conversions. This basically means taking some of a traditional IRA portfolio and moving it to a Roth account. Since you didn't pay taxes on the assets when they were contributed into the IRA portfolio, Uncle Sam requires you to pay ordinary income taxes on the money as it's moved over. But once in the Roth, those assets will never again be touched by the government. Gains and distributions are tax-free, even when the money is inherited. The Roth owner also doesn't have to take out required minimum distributions—ever. (That, of course, doesn't apply to inherited Roths, but even there the money comes out tax-free.)

Obviously, the best time to do a Roth conversion is right after the stock market has experienced losses, because you can roll over more shares of stocks, funds, or ETFs at lower valuations, which means lower taxes than you might have had to pay if the conversion had been made at market highs. Then, assuming the markets recover, all the future gains will happen in a totally tax-free environment.

The Roth conversion can be made a bit more valuable if, at the same time, due to the same market downturn, you can 'harvest' $3,000 worth of losses in a taxable portfolio. You sell assets that are trading below what you paid for them, up to $3,000 (which is the limit that can be used to offset ordinary income) and use the losses to offset some of the tax impact of the conversion.

These investment strategies are not nearly as exciting as predicting where the markets are going to go next—which is what the financial press tends to focus on. But since predicting what the markets will do in the future is a fool's errand in the first place, the boring approach of taking advantage of what the market offers is not a bad alternative.

Source:

https://www.investmentnews.com/ed-slott-turn-lemons-into-roth-conversion-cash-30452#

If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number (215) 325-1595 or you can click here to schedule a meeting.

Please feel free to forward this article and offer to anyone you know who might have financial questions or need some unbiased advice. Most financial advice is sales advice. In stark contrast, we are fee-only (non-commissioned) fiduciary advisors. We just provide truthful, unbiased advice to our clients.

BROADHURST
Financial Advisors, Inc.

Jeffrey Broadhurst
MBA, CFA, CFP
Broadhurst Financial Advisors, Inc.

*****PRIVACY NOTICE*****

This message is intended only for the individual or entity to which it is addressed and may contain information that is privileged, confidential, or exempt from disclosure under applicable federal or state law. You are hereby notified that any dissemination, distribution, or copying of this communication, except in accordance with its intended purpose, is strictly prohibited.

Our physical and mail address:
1911 West Point Pike
P.O. Box 301
West Point, PA 19486-0301

Contact us:
Phone: (215) 325-1595
Email: jeff@broadhurstfinancial.com