



Intelligent Investing

Intelligentsia: Take Stock Losses Now

By: John Phoenix 03.02.09

Historically, Americans are quick to pick themselves up, dust themselves off and start the growth engines all over again. According to Ned Davis Research, the S&P 500 gains an average of 32.2% the year following a bottom during a recession.

Losses Are a Gift Forever

With limited chances to realize gains in 2008, many advisers didn't see a need for harvesting losses, *but the losses incurred in 2008 can be carried forward forever*. That means just what it sounds like: Losses taken today can be used in 2010, 2011 or 2020.

So whether you believe the markets begin to grow in six months or six years, now is the time to stockpile losses to provide you with the ability to keep more of future gains when investments begin the move back into positive territory. But what's the best way to do it?

Capital Gains Tax Likely on the Rise

Any discussion of taking losses needs to include a quick primer on the status of capital gains taxes. There is great uncertainty about the future of long-term capital gains taxes. Prior to the election, President Obama proposed increasing the long-term capital gains rate, especially for the wealthiest investors.

Given the complexity of the market and a 2008 that generally saw returns in negative territory, President Obama has indicated that he wants to get the economy back on track before implementing any capital gains tax increases. This may include retaining the Bush tax cuts set to expire in 2010.

Discretionary Overlay

Discretionary overlay offers more superior tax management than most trading strategies. Discretionary overlay managers have discretion to trade the entire equity portion of an investor's account and make investment decisions based on the specific needs of the investor. If the portfolio has preexisting low basis positions, the discretionary overlay manager will factor in this data when trade recommendations are made by the managers to avoid overweighting industry weights that could increase the investor's risk. With discretionary overlay management, tax loss harvesting is a systematic, active tax management strategy that is executed everyday in accordance with the investor's Investment Policy Statement.

John Phoenix is CEO of Metamorphosis Money Management.