

Five ways to reap the benefits of tax-loss harvesting

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Can investment losses positively contribute to portfolio returns? Claiming the tax deduction of a realized loss could reduce an overall tax bill.

Here are five ways financial advisors can implement a tax-loss selling strategy:

1. Integrate your tax-loss harvesting efforts with those of your clients and their tax advisors.

Too often clients and advisors compartmentalize tax-harvesting activity. Your clients may have their own brokerage account, use different advisors or have spousal assets and activities that could impair desired tax results.

2. Consider harvesting losses throughout the year.

For most investors, tax-loss harvesting has traditionally meant trying to find a loss within their portfolio at the end of the year to offset a capital gain. But nearly 80% of the time, the market (whether defined by the Russell 3000 or the S&P 500) has experienced positive returns in December.

3. Be mindful of wash sales rules and activity that could work against tax-efficient goals.

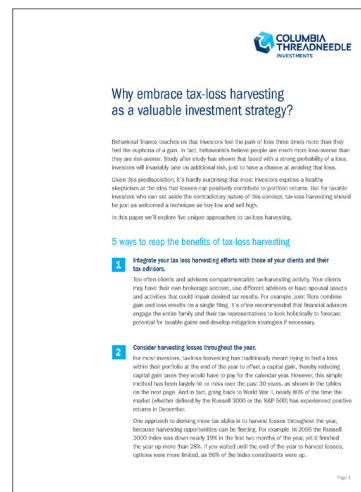
Wash sales occur when shares are purchased within a 61-day window of shares being sold at a loss. Any combination of purchase and redemption type transactions can cause a wash sale.

4. Be thoughtful about how the proceeds from loss harvesting will be managed during wash sale periods.

Program sponsors may offer different practices or options when tax-loss harvesting in separately managed accounts. Advisors and clients should be aware of and thoughtful about any stipulations sponsors may have in place.

5. Take a multiyear approach and monitor the impact of harvesting routines.

Participating in your client's tax planning can lead to long-term client satisfaction that translates to referrals and introductions to potential new clients. A financial advisor's ability to add value is a multiyear proposition. Different levels of loss harvesting exist in different market environments and even in similar market return environments.



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Bottom line

Tax-loss harvesting is a tool that can help many investors relieve the impact of taxes and help them keep more of their wealth. For financial advisors, it can help validate your value proposition and drive client satisfaction, retention and referrals.

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