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Volatile Markets In 2020 Offer Tax-Loss-Harvesting Opportunities

The surge in volatile market conditions this year may be spinning heads, but the roller-coaster ride also offers savvy investors a chance to exploit tax-loss-harvesting rules to reduce taxes for 2020, says Andrew Willms, president and chief executive officer of The Milwaukee Company, a wealth management firm in Thiensville, Wisconsin.

“The year so far has witnessed one of the most extreme periods in U.S. stock market history over such a short span,” notes Willms. “For investors currently holding positions that are in the red, now may be a good time to book the loss to offset gains elsewhere in the portfolio for use when filing upcoming 2020 tax returns.”

Investors need to think opportunistically, he emphasizes. For example, let’s say an investor bought an exchange-traded fund (ETF) in January and continues to hold the position at a loss. Waiting until the end of the year to sell is one option for tax-loss harvesting. But the fund may rebound in the months ahead and show a gain by year’s end. In that case, the tax-loss harvesting opportunity has passed.

Alternatively, selling the ETF today, at a loss, and then immediately repurchasing a similar-but-not-identical fund (to avoid the Internal Revenue Service’s Wash-Sale Rule) creates a tax-swap opportunity.

“Selling an ETF at a loss and purchasing a similar fund provides continuum for the investment position and at the same time offers a tax loss that can be used to offset capital gains elsewhere in the portfolio,” Willms explains.

“Tax-loss-harvesting strategies can help boost after-tax returns by reducing capital gains,” he says. If the trades are executed correctly, with an eye on portfolio-wide risk management, there should be minimal, if any, disruption to the overall investment strategy, he explains.

Investors should consult with their financial advisor and tax accountant to ensure that any tax-loss-harvesting trades align with an individual’s financial plan, Willms adds.

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About The Milwaukee Company

The Milwaukee Company (TMC) is a wealth management firm based in Thiensville, Wisconsin. TMC offers investment-related services to individuals, trusts, investment entities, and charitable organizations. The company also provides insights and advice on how to reduce income taxes on investment portfolios, as well as plans to successfully transfer wealth to family members and charitable organizations. For additional information, visit: themilwaukeecompany.com