



## Registered Investment Advisor Firm

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### TAX-LOSS HARVESTING

As the end of 2016 nears, reviewing your portfolios is a must. In addition to rebalancing, one should consider a tax strategy called tax-loss harvesting in your taxable accounts.

**Tax-loss harvesting** – is the practice of selling stocks, mutual funds, exchange-traded funds (ETF) and other securities that are now worth less than what you paid for them. By realizing or “harvesting” a loss, you are able to offset taxes on both gains from other investments and from income. After harvesting losses, you can use any remaining loss to offset up to \$3,000 of ordinary income. Losses beyond the \$3,000 limit may be carried over to succeeding years.

**The wash sale rules** – A wash sale occurs when you sell a security at a loss and, within 30 days before or after the sale, buy a substantially identical security or acquire a contract or option to do so. You can’t sell the security in your taxable account and then buy it in your IRA or even your spouse’s IRA during the 61 day window. You are not

permitted to sell a losing fund or ETF and then buy another fund or ETF that tracks the same index. Careful.

**Reinvestment of your mutual fund distributions** – In your taxable accounts, a distribution that is reinvested to purchase additional shares could cause you to unwittingly violate the wash sale rule in the event that you are trying to realize a capital loss. This violation could wipe out the tax benefits.

**Year-end distributions** – Mutual fund investors generally receive distributions near the end of year. Look at the type of distribution you are receiving. Some might be capital gains, long-term and/or short-term. These gains are also eligible to be offset by losses from the sale of securities.

**Different types of capital gains** – Short-term capital gains are those realized from investments that are owned for a year or less. They are taxed at your ordinary income tax rate, which can range from 10% to 39.6%.

Long-term capital gains are realized from investments held more than a year.

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Tax rates are 15% to 20% for most investors.

Losses of each type are first offset against gains of the same type, for example, short-term gains against short-term losses. You will arrive at a net long-term and/or short-term gain or loss for the year

**Cost basis** – Ideally, you should be using the specific shares method of valuation for all securities held in your taxable accounts. Doing so allows you to sell the specific shares in order to realize the largest gain or loss depending upon what you are trying to do. This method is especially useful if you purchased securities at various times at different costs, allowing you the greatest planning flexibility.

**Overall financial planning** – Like any strategy, tax-loss harvesting should be part of your overall financial planning and investment goals. Selling holdings that fit your overall long-term investment plan to realize a short-term loss might not be the best move. If you can work this strategy into your portfolio rebalancing, it can be an excellent way to manage your investments in a tax efficient manner.

To recap, tax-loss harvesting is a strategy in taxable accounts to take advantage of positions that have experienced a loss and allow the tax savings to offset gains elsewhere. Also, be aware that other investors may be doing the same thing at the same time.

If you need help in understanding how to apply this strategy call or email me at the numbers below.

### *FED Watch*

The FED left interest rates unchanged while saying risks to the US economy have subsided and the labor market is getting tighter, suggesting conditions are getting more favorable for an increase in rates.

Market observers give a 9% chance of a quarter point rise in the Fed Funds at the November meeting, and a 68% chance of a quarter point rise at the December meeting.

The next meeting is November 1<sup>st</sup> and 2<sup>nd</sup>.

### [Davis Investment Group](#)

Davis Investment Group is a fee-based Registered Investment Advisor firm servicing the needs of clients across the United States.

Davis Investment Group custodies all client assets at Charles Schwab & Co. Davis Investment Group's home office is located at 714 Marin Street, Suite #C, Vallejo, CA 94590. The telephone number is (707) 648-2024.

If you have questions or would like further information on this month's topics or any other financial or investment related subjects, including Social Security claiming strategies, please contact me by phone or through my email address at:

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