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## FINANCIAL FOCUS



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## Your Accounting for a New Economy

# Time to Consider Year-End Investment Moves

Taking time to make some strategic decisions before December 31 can help keep your portfolio on track and potentially minimize your April income tax bill.

### **Review and rebalance**

A portfolio review can tell you whether it's time to adjust your holdings. If one type of investment has suffered, it might now be a lower share of your overall assets than you intended, and could represent a buying opportunity. The traditional way to rebalance is to sell investments in an asset class that has done relatively well and use the proceeds to buy others that will return your allocation to its intended balance. (Don't forget tax considerations before rebalancing.)

If you're uncomfortable selling assets that have performed well, you could direct any new investments into an asset class that now represents less of your portfolio than it should. Diversification and asset allocation don't guarantee a profit or protect against a possible loss, of course, but they're worth reviewing at least once a year. Your checkup also can help you decide whether it's better to do any rebalancing before or after December 31.

### **Consider harvesting losses**

Examine the tax consequences of any capital gains or losses you've experienced this year. Though tax considerations shouldn't be the sole driver of your investing decisions, taking steps before year-end can help manage your taxes. If you have realized capital gains beyond any tax losses carried forward from previous years, you can sell losing positions--known as harvesting losses--to offset some or all of those gains. Any losses over and above the amount of your gains generally can be used to offset up to \$3,000 of ordinary income (\$1,500 for a married person filing separately) or carried forward to offset future gains.

Before selling an investment, consider how long you've owned it. Assets held a year or less generate short-term capital gains and are taxed as ordinary income. That tax rate could be as high as 35%, not including state taxes. Long-term capital gains on the sale of assets held for more than a year generally are taxed at lower rates: 15% for most investors, 0% for individuals in the 10% and 15% tax brackets (for 2009 and 2010).

### **Time trades carefully**

If you're selling to harvest losses and intend to repurchase the same security, wait at least 31 days to buy it again. Otherwise, the trade is a "wash sale," and the tax loss will be disallowed. The wash sale rule also applies if you buy an option, sell a stock short, or buy it through your spouse within 30 days before or after a sale of the same security.

If you're considering purchasing a mutual fund outside of a tax-advantaged account, find out when the fund will distribute dividends or capital gains. Consider postponing action until after that date, which is often near year-end. If you buy just before the distribution, you'll face potential taxes on that money, even if your own shares haven't appreciated. If you plan to sell a fund, you may be able to minimize taxes by doing so before the distribution date.

### **Think about your cost basis**

If you own a stock or fund and decide to unload some shares, your cost basis can affect your tax liability. You can use the average cost per share for a mutual fund. Or you could request that specific shares be sold—for example, those bought at a certain price. Which shares you choose depends on whether you want to book capital losses to offset gains, or keep gains to a minimum to reduce your tax bite. (This applies only to shares held in a taxable account.)