



Opportunities in a downturn

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We obviously can't predict a market downturn in advance, but we can certainly prepare for one. With the markets in a bit of a doldrums the past month, that preparation may come in handy in the fairly near future.

Whenever stocks go down, it opens up a surprising number of (usually temporary) planning opportunities for the alert investor. Perhaps the most obvious is harvesting losses; that is, selling positions that have gone down, booking a loss for tax purposes, and then buying a similar (but not identical) investment that is probably also on sale due to the bearish conditions. The investor retains an essentially equivalent market exposure but now has a loss to offset gains or income (up to \$3,000 of income) on next year's tax return.

Another opportunity is a Roth conversion. That means paying taxes on the value of the shares or cash moving from the IRA into a Roth today, so that you won't have to ever pay taxes on that money again. You've probably read that if you expect to be in the same or lower tax bracket in the future than you are today, then a Roth doesn't make tax sense. But if you can make the conversion at lower valuations, then the tax bill is lower today than it would be if the money was taken out after the market recovers. And some of us believe that tax rates have nowhere to go but up.

People who are making annual gifts to their children or heirs can get a little leverage in a market downturn. Each of us can transfer \$17,000 this year to others without paying a gift tax. If you were to transfer investments that are temporarily undervalued, then that \$17,000 in depressed ETFs could be a more valuable gift when the market recovers.

And finally, when something goes on sale, it's often a buying opportunity. For some reason, this is how people think when retail or online stores offer discounted prices, but when stocks go on sale, most investors think about selling rather than buy. But buying at depressed prices is always a good strategy, long-term, for savvy investors.

Sources:

<https://www.irs.gov/businesses/small-businesses-self-employed/frequently-asked-questions-on-gift-taxes>

If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number [\(215\) 325-1595](tel:2153251595) or you can [click here to schedule a meeting](#).

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Jeffrey Broadhurst
MBA, CFA, CFP
Broadhurst Financial Advisors, Inc.



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Our physical and mail address:

1911 West Point Pike
P.O. Box 301
West Point, PA 19486-0301

Contact us:

Phone: (215) 325-1595
Email: jeff@broadhurstfinancial.com