



Today's investors in the stock market have one more factor to consider when making decisions — taxes.

Since 2007 when the stock market began to fall, many investors have been able to use investing strategies that ignore tax liability because of a rule that allows investors to deduct their losses.

That rule hasn't changed, but since the stock market has turned around — reaching all-time highs in the past few weeks — investors don't have any more losses to carry forward, and need to consider new strategies for investing, local experts say.

"If you pay attention to the tax issues and invest accordingly, you can save a considerable amount of money," said Richard "Rip" Hale, managing director of wealth management for Morgan Stanley in Dayton. "Money clients don't have to spend on taxes is often the safest way we can increase someone's net worth."

When putting together their taxes at the end of the year, investors can compare investment losses to gains. Any losses they saw count as a deduction from the investment gains for capital gains tax purposes. So if an investor lost \$100,000 and gained back \$100,000, his capital gains tax liability would be zero. If the investor lost \$100,000 but only gained \$50,000, he would be able to roll over the extra \$50,000 as a deduction for future years.

Gains in the stock market are only taxed once they are realized through a sale. Similarly, losses have to be realized through a sale in order to be recorded for tax purposes.

Thanks to the market crash in 2007, until this year many investors have carried over significant tax deductions that meant they could invest without worrying about the most tax-efficient strategy. That's all changing, said [Steve Wenstrup](#), a principal of Tillar-Wenstrup Advisors in Centerville.

"We have no losses in our portfolios," he said. "It's hard to find them. So you have to start making your gains long term."

Wenstrup said the most tax efficient strategy for investors to use in a bull market is the buy and hold strategy. Investments held for at least year are only taxed at 15 percent, versus short term investments, which are taxed at 35 percent.

With investment-loss carry-forwards, investors could avoid that 35 percent tax penalty by applying a rolled-over loss from years' past, and could continue with a short term investing strategy. But once that's used up, the short-term

buy and sell strategy becomes a way to rack up a huge tax liability, and is no longer a good option, he said. Instead, investors should hold their stocks for at least a year.

"For this strategy to be successful, the keys are find companies with profitable, long-term growth opportunities and pay a fair price for the stock," he said.

Wenstrup pointed out that even in today's strong market conditions, diversified portfolios will still see some losses. A savvy investor needs to take advantage of those losses by selling, and buying back after 31 days, in order to record a loss that can be used to offset future gains from other investments.

In this environment, high turnover strategies are only efficient when placed in tax-exempt accounts such as IRAs or 401Ks, Wenstrup said.

Another investment strategy that maximizes tax liability and should be avoided is the mutual fund, he said.

"It's difficult to be tax efficient in those programs," he said.

An individual's tax liability for capital gains is based on where he bought into the stock. But in a mutual fund, investors buy in at different levels and then share the gains, and the tax liability that comes with it. So an investor who bought the mutual fund at a high level still is accountable for the gains compared to the low level others bought into.

If an investor already incorporates charitable giving into his or her lifestyle, the most tax-efficient way to do so is to donate appreciated stocks, Wenstrup said. The investor gets a tax deduction for the whole appreciated value of the stock, and the charity takes no tax penalty.

But in some cases, the best option is still to sell a stock when it's high, even if it means taking the full tax burden, as there is no other way to maximize profit.

"You don't want to let the tax tail wag the dog," Wenstrup said. "If it's time to sell a stock, it's time to sell a stock."

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