

# Don't sell for tax loss just at year end



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**By  
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As a student of its history, I have learned to sum up stock market movements in a phrase: the downs are temporary and the ups are permanent.

So you might be asking yourself how we can help our clients stay the course in striving for their highly individualistic financial goals.

Alan Wainer, a partner at the Toronto-based firm Soberman LLP, and I were recently discussing the different strategies that public accountants should be talking about when meeting clients.

One of the strategies that got my full attention was when Wainer said he believed clients should not wait until November or December to review their investment portfolios with their financial advisor or broker, if one of the purposes is tax-loss

selling. Clients should consider addressing the matter at least on a quarterly basis.

"For those individuals who did not crystallize on any accrued losses in 2008, they could reconsider doing so in 2009, if they had capital gains in 2006 and 2007, as you can carry back losses three years, with potential tax savings of up to 23 per cent," Wainer said.

"Unapplied losses though can be carried forward indefinitely. Generally only capital losses can be applied against capital gains and not other sources of income."

If clients are to adopt this strategy, they should also keep track of their securities transactions. Wainer, like many public accountants, saw a challenge in preparing 2008 personal tax returns for his clients who had switched advisors in the past year. If the client doesn't have the original cost of securities that were sold in 2008, gaining access to such information from the predecessor advisor may not be a simple matter.

I believe that now is a better

time to do tax-loss selling because clients are not pressured. My reasoning simple: in December, people make rushed decisions because they have not planned in advance.

Tax-loss selling at the end of the year is not a new strategy. Unfortunately, most retail investors do not have a congruent financial plan that has the client's financial advisor working hand-in-hand with their public accountant. This usually results in tax-loss selling not being as common as it should, because a client does not have an overview of their depreciated securities, and how that fits into their strategy.

Now is the time when tax-loss selling should be considered like never before. However there are some caveats.

When the Canadian economy is in a recession and the market fluctuates unpredictably, the rush to sell securities at year-end could be tricky. For example, clients who rushed into tax-loss selling last December to meet the deadline to recoup money they lost from last year's market slump

might have instead considered taking incremental capital losses by selling their securities in stages over time. This can lessen the possibility that the market might have a 20 per cent surge, and the client misses it altogether.

Whatever reason clients may consider tax-loss selling, either for taxes or investment purposes, in the end clients should look at their long-term financial and life plan when weighing the decision. I recommend helping clients do financial analysis to determine whether it is beneficial or not for them to do tax-loss selling.

Selling losing securities in different stages may work for those clients who want to purchase back the same type of securities. But if the client wants or needs a different portfolio altogether, due to changes in investment objectives, selling everything in one fell swoop might be your client's most viable option.

For those who argue against selling everything, just consider that the 23 per cent maximum tax savings clients can get from the government for tax-loss selling

could be higher than the potential market rally during the 30-day restriction of purchasing back the securities sold.

So why don't most financial advisors offer useful planning solutions similar to the tax-loss selling strategy? Because most of the wealth management advice in the Canada is given by people who have not been accredited by recognized self-regulating bodies. Thus these people are ill-trained.

So if you find your client is dealing with a salesperson rather than a skilled professional, maybe it is time to suggest they move their investment account to someone who will help them get maximum value with the least exposure to risk.

*If there's a topic you'd like Peter Merrick to write about, please contact him.*

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