

DOW JONES - Talk Back

TORONTO (Dow Jones)--Selling losing securities for tax advantage, known as tax-loss selling - need not be rushed at the end of the year.

With the ongoing market fluctuations and the economy still in a downturn, some financial planners are learning how to pare down their clients' losing securities in different stages, rather than hurrying to dump depreciated stocks towards the end of the year.

"Now is a better time to do it because you are not pressured," said Tony de Thomasis, a certified financial planner and president of De Thomas Financial Corp. in Thornhill, Ont. "In December, people make rushed decisions."

Tax-loss selling at the end of the year has long been a common practice because that's when investors can have a full overview of depreciated securities. But when the economy is in a recession and market fluctuations are unpredictable, rushing to sell at year-end could be tricky.

Investors rushed into tax-loss selling last December to meet the deadline for recouping some money that they lost from last year's market slump. Those who incurred capital losses from selling securities can charge those losses against capital gains over the past three years. Investors can purchase back the securities they've sold but the government will consider their losses superficial if they were repurchased within 30 days.

"You don't have a window to do it in stages in December and if you are out of the market when there's a 20% market rally, that's a huge loss," De Thomasis said. Some of his clients sold only a portion - say 10 to 15% - of their losing securities towards the end of 2008. The rest of the positions they wanted to lose were sold in early 2009.

Alan Wainer, a partner and chartered accountant at Toronto-based Soberman LLP, said clients should consider reviewing their investment portfolios with their financial adviser at least on a quarterly basis for tax-loss selling.

Investors should also keep track of their securities transactions. Wainer sees a challenge in preparing 2008 personal tax returns for his clients who have switched advisers 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 their previous adviser could be difficult.

Keeping track of the original cost of the securities is important to determine capital losses.

Investors may consider tax-loss selling for taxes or investment purposes but in the end, they should look at their long-term investment plan when making a decision to do it. "An analysis has to be done to determine whether it's beneficial or not," said Peter Merrick, certified financial planner and president of Merrickwealth.com.

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He said selling losing securities in different stages may work for those 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 would be advisable. Merrick also said the 23% maximum tax savings that clients can get from the government from tax-loss selling could be higher than the potential market rally during the 30-day restriction of purchasing back the securities sold.

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