



The PHYSICIAN'S *Personal* ADVISORY®

EXCLUSIVE ADVICE ON FINANCIAL, INVESTMENT AND OTHER ASPECTS OF THE SUCCESSFUL PHYSICIAN'S PERSONAL LIFE

Planning

End the year profitably with these strategies

Key moves to lower taxes and position your portfolio for the future

Wary and worn from a volatile year, investors will happily say good-bye to 2001. But before the new year dawns, consider these investing and tax strategies to cut losses and maximize your potential for future gains:

Minimize taxes by selling losing stocks or mutual funds to offset gains. Although most of the financial news so far this year has been bleak, not every investment lost value. For instance, Small and mid cap value funds performed well, notes John Hixson, CFP.¹ So sell enough of your losing stocks or funds to take advantage of the \$3,000 in capital losses that you can claim for 2001.

What if you want to sell a stock of fund to deduct short-term losses but think the stock is a “keeper” for the long term? If you re-buy the stock within 30 days of selling it (a “wash sale”), you’ll lose the tax deductibility. But here are two strategies to try:

1. Buy another mutual fund with a similar investment mix. Especially consider an exchange traded fund. Advisors we spoke with are high on these funds, which have low operating costs and don’t recognize gains until you sell the fund.

2. Double your position in the stock, wait 30 days, then sell your original stock but keep the stock you just bought, advises Tom Batterman, JD, CTFA.² You’ve paid the price in the stock by stick with it through the downturn, so this “double down” strategy allows you to hold the stock when it bounces back. If you stock rises while you’re in your double position, you could stand to gain handsomely.

Avoid capital gains distributions from mutual funds. Particularly if the fund’s value falls, you may want to sell the fund before it distributes capital gains at the end of the year. You can contact the fund

yourself, or have your advisor contact it, to get an early notice of capital gains distributions.

Rebalance your portfolio. In moving away from stocks to fixed-income investments over the past year, your portfolio now might be too heavily weighted towards bonds. But that means you’ll have less money in the market when stocks recover. So make sure your portfolio reflects your preferred breakdown between stocks, bonds, and other investments.

With a disciplined investing style, you’ll make sure you’re in the market to take advantage of advances when they happen, says financial advisor Bart Boyer, CFP.³ “Market timers create more risk than they prevent against by potentially missing a surprise advance,” he stresses.

A clear switch from growth to value investing has occurred.

Also review your portfolio to make sure it’s appropriately weighted between growth and value investments. Realize that a clear switch from growth to value investing has occurred, says Harry Kasanow, CFP.⁴ The last such change in sentiment from growth to value lasted five years, and theoretically we’re in the second year of that transition.

Check your assumptions. The bull market of 1999 might have led you or your planner to sweeten the figures used for projecting gains on your investments. Now make sure that those assumptions aren’t overly rosy, Hixson suggests.

Fund your pension plan in timely fashion. Don’t wait until the subsequent year to fund your defined contribution plan. Funding your plan for the current year means getting money destined for the pension plan out of taxable account, getting into the

market to earn tax-deferred dollars, and, barring any robust recovery before the end of the year, buying stocks at a discount. **Kasanow routinely recommends that physicians fund their pension plan as early in January as possible to realize as much tax-deferred growth as they can.**

Consider investing in the Federal Housing Tax Credit Program. This government program allows you to put dollars into programs that invest in rental

housing units for families with moderate incomes. Investing in them can give you a dollar-for-dollar tax credit to a maximum of \$14,850 annually. If you invest in the fourth quarter of this year, you'll get a prorated tax credit for this year. **Buy on the secondary market to avoid large upfront broker fees, Kasanow recommends.**

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