On The Mark

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November 2024 Special Edition

Don't Let Market Gains Turn Into Tax Pains

Key Takeaways

- Tax-loss harvesting has the potential to be an effective strategy even in bull markets.
- Even if the broad stock market has gains, many individual stocks have losses offering investors opportunities to reduce their tax burden.
- Tax-loss harvesting is most effective as a year-round strategy.

With equity markets poised to close out another strong year, investors have an opportunity to manage their tax burden by tax-loss harvesting. This strategy uses portfolio losses to offset capital gains to lower the tax bill. Many investors may not realize that even bull markets have loss harvesting opportunities.

Stocks Dip Even in a Bull Year

So far, 2024 has been a good year for the stock market. The S&P 500 is up 21.5%[1]. That said, markets never rise in a straight line, and pullbacks are normal, even in the best years. Since 1980, the S&P 500 experienced positive returns in 33 out of 44 years but also experienced an average annual decline of -14.2%[2]. These market dips create opportunities to reduce one's tax burden because market volatility creates winners and losers even in a bull market.

Not All Stocks Rise in the Index

Even in a good year for the markets, there are plenty of stocks that are down big, too. The Russell 3000 ETF is a good proxy for the total U.S. stock market. Year to date, the investment is up 20%. Despite this, nearly 42% of all stocks within the investment have losses, and roughly 21% of the stocks are sitting on losses greater than 20%[3].

This pattern is not isolated to 2024. Between 2014-2023, the S&P 500 returned an average of 11%. In each of those years, 147 stocks, on average, ended the year down 5% or more[4]. It is no surprise there are a greater number of stocks available to harvest in a down year, but investors may be surprised that opportunities exist even in good years for tax-loss harvesting.

Year	S&P 500 Returns	Number of Stocks that ended the year down 5% or more
2014	11%	81
2015	-1%	222
2016	10%	94
2017	19%	87
2018	-6%	287
2019	29%	35
2020	16%	163
2021	27%	48
2022	-19%	327
2023	24%	126
Average	**11%**	**147**

Make It a Year-Round Strategy

Tax-loss harvesting is an important part of after-tax wealth creation. For investors, a good resolution for year-end and looking ahead may be to harvest losses more frequently to take advantage of fast-moving markets.

Tax-loss harvesting is a year-round strategy. Thanks to technology, losses can now be harvested throughout the year to enhance effectiveness because opportunities don't just wait for tax season or year-end.

[1] S&P 500 Total Return. YTD. As of November 4, 2024
[2] FactSet
[3] Bloomberg. YTD. As of November 4, 2024
[4] JPMorgan Guide to the Markets

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