

## 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%<sup>1</sup>. 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%<sup>2</sup>. 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%<sup>3</sup>.

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<sup>4</sup>. 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  |
| <b>Average</b> | <b>11%</b>      | <b>147</b>   |

### 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.

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<sup>1</sup> S&P 500 Total Return. YTD. As of November 4, 2024

<sup>2</sup> FactSet

<sup>3</sup> Bloomberg. YTD. As of November 4, 2024

<sup>4</sup> JPMorgan Guide to the Markets

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