December 14, 2018

## *Making the 2018 Stock Market Correction Work for You*

As we enter the last month of 2018, it's time to take a closer look at our investment portfolios. It's been a wild ride in 2018. After watching the Dow Jones Industrial Average rise 13% in 2016 and another 25% in 2017, it was only a matter of time until the markets would correct themselves., After opening 2018 at 24,719, the Dow dropped to its low for the year (23,533) on March 23 only to peak at 26,828 on October 3. The market closed at 24,527 on December 12.

So what does this all mean? There's a very good chance that you have sold investments (including gains from the sales of business interests and real estate) at sizeable gains this year and are potentially holding investments at significant losses. When you file your 2018 tax returns, you will report all of your realized gains and losses. Those investments held for one year or less are reported as short-term, while those held for more than one year are long-term. Your short-term gains and losses are offset against your long-term gains and losses to result in either a net short-term gain or loss OR a net long-term gain or loss.

Net short-term gains are not afforded any preferential tax treatment. They are taxed at ordinary tax rates, ranging from 10%-37%. Conversely, net long-term gains are taxed more favorably, and can be taxed anywhere from 0%-20%, depending on your taxable income. In addition, if your income exceeds certain thresholds, you could be subject to a net investment income tax of 3.8%. So while you may think your long-term capital gains are going to be taxed at 15%, there are circumstances where the rate could be as high as 23.8%. And, of course, let's not forget that Pennsylvania will be looking for 3.07% tax on your capital gains.

The volatility in the stock market in 2018 has created opportunities to shelter gains you have already realized by selling stocks that are being held in your investment portfolio at a loss. Such losses offset your year-to-date gains, potentially reducing your exposure to both capital gains taxes *and* the net investment income tax. Proper planning in this regard should include input from both your investment advisor and your CPA, who often work in tandem to develop a game plan that optimizes your tax savings.

Don't overlook this tax deduction opportunity – properly structured, your investment strategy this month could provide significant tax savings. Please don't hesitate to reach out to us if we can be of assistance.

Very truly,

**Miller*Searles*, LLC**