Planning Strategies for Market Volatility

When markets are down, it is easy to panic and question your investment strategy. While markets have bounced back in the last two weeks, many indexes, such as the NASDAQ, are still in correction territory, and our investment team thinks we will likely see more volatility in 2022 than we have in recent years. No one likes to see their accounts decrease in value, but there are many opportunities to take advantage of during these periods that can set you up for success for years to come.

Review Financial Plan

Feeling uneasy over market volatility? Revisiting your plan can help keep you focused on the big picture and what you can control. Don't have a financial plan? Reach out to info@evergreengavekal.com to learn about Evergreen's financial planning process.

Revisit Investment Allocation

If you feel anxious about market downside, it may be a good time to review your investment allocation to make sure you are in the right asset mix. Understanding your willingness and ability to take risks can help you focus on the long-term and stay invested during times of volatility. Reach out to your Wealth Consultant or info@evergreengavekal.com to learn more about our strategies and see if you are properly invested.

Dollar-Cost Average

If you have cash on the sidelines, it can be difficult to determine the optimal time to get into the market. Creating a game plan to get cash to work during times of volatility, whether that is weekly, monthly, or when the market is down a specific percentage, can help you smooth out the ride and take advantage of lower prices.

Utilize Roth Conversions

When markets are down, it is a great time to convert stocks that have a high growth potential from a traditional IRA to a Roth IRA. In a Roth conversion, you take funds from your traditional IRA, and pay income tax on the funds converted to a Roth IRA where you can achieve tax-free growth. By converting before 2026, you can take advantage of lower tax rates put in place by the Tax Cuts and Jobs Act of 2017 that are set to sunset in 2025. There are many factors that go into a Roth conversion, such as; current income and funds available to pay higher income tax, so review with a financial planner and tax professional to determine if this strategy is right for you.

Make Retirement Plan Contributions

If you are eligible to make a contribution to a retirement plan, such as a traditional IRA or Roth IRA, it is a good opportunity when markets are down. Business owners can take advantage of higher contribution limits with lump-sum distributions of $61,000 for SEP IRAs[1] and $14,000 for SIMPLE IRAs for 2022. [2]

Gifting

Gifting assets when values are down can shift future appreciation out of your estate and onto beneficiaries who may be at a lower tax rate. Transferring assets now can also help take advantage of higher gift tax limits. Lifetime gift tax limits reduce from $12,060,000 in 2022 to $5.5m in 2026 due to the sunset provision from the Tax Cuts and Jobs Act of 2017. [3]

Tax-Loss Harvesting

Depending on your current allocation, there may be opportunities to adjust portfolios and realize capital losses that can be used to offset capital gains. Be cautious of the wash sale rule[4]; if an investment is sold at a loss and then repurchased within 30 days, then the initial loss cannot be claimed for tax purposes. You can, however, purchase a similar security and repurchase the original security after 31 days.

Net Unrealized Appreciation (NUA) Opportunities

Individuals that hold employer stock in a retirement plan have a unique opportunity to transfer stock out of that account using net unrealized appreciation (NUA). When an employee separates from service (or has another triggering event) and takes a lump-sum distribution from the plan, there is an opportunity to distribute shares in-kind from the plan, pay ordinary income tax on the cost basis of the shares, and continue holding the shares in a brokerage account. This can be very beneficial as the shares held in a brokerage account are subject to capital gains when sold, which are typically subject to lower tax rates than withdrawals from IRAs which are taxed as ordinary income. There is a unique opportunity when the company stock is down to reset the cost basis of these shares, reducing the tax that would be owed if distributed using NUA. Retirement plans are not subject to the wash sale rule, so you can sell the company stock in your retirement plan, realize no taxes on the sale within the plan, and repurchase the stock, improving the tax benefits of distribution in the future. We recommend reviewing with a tax professional regarding potential tax benefits for this strategy.



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[1] https://www.irs.gov/retirement-plans/plan-participant-employee/sep-contribution-limits-including-grandfathered-

sarseps#:~:text=Contributions%20an%20employer%20can%20make,2021%20and%20%2457%2C000%
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[2] https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-simple-ira-contribution-limits

[3] https://www.irs.gov/businesses/small-businesses-self-employed/whats-new-estate-and-gift-tax#:~:text=The%20annual%20exclusion%20for%20gifts,the%20annual%20exclusion%20is%20%2416%
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[4] https://www.irs.gov/publications/p550

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