

Opportunities in a Down Market

By Xenia Woltmann

War, illness, and the economy are significant sources of stress lately. Understandably, the optimism we felt not too long ago is now overshadowed by concern. While we cannot predict what is ahead, we can look for opportunities.

One advantage to the current environment is tax loss harvesting. While the market is down, take the time to reevaluate your portfolio, removing underperforming assets and holdings that no longer serve the purpose they were intended for. Many investors have assets with a considerable increase in value. This appreciation could become a significant portion of their overall portfolio, causing unintended risk. The strategy of tax loss harvesting may allow you to offset gains by selling other assets at a loss.

Another opportunity lies in Roth conversions and the potential future tax savings. Future tax rates are uncertain, nevertheless taxes are inevitable. Converting traditional retirement assets to a Roth account is taxable upon conversion. Use the opportunity of a decline in value to convert those funds and potentially pay less taxes now. This may also help reduce your tax liability on future Social Security income as Roth distributions will not be included in the calculation to determine if benefits are taxable.

According to research completed by Kiplinger, the average bear market lasts just over 9 months and roughly occurs every 56 months. An average bull market lasts about 32 months. On average, it has taken 13 months for bear markets to hit bottom (in 2020, it was only 32 days). While history cannot guarantee the future, bear markets are usually an attractive time to invest funds that have been sitting on the sidelines; you are purchasing at a discount. Barron's sites that historically, a year after entering a bear market, returns have averaged 17%, with positive returns 75% of the time.

"The pessimist sees difficulty in every opportunity. The optimist sees opportunity in every difficulty." – Winston Churchill.



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