Perspective

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Stay Calm

When you feel as though you've been worn thin by the ups and downs of markets (and the shrill cries of pundits), it's a good idea to take a deep breath and remember the basic principles of investing have not changed.

1. **Perspective can make a difference.** It's likely that you're investing to meet specific financial goals that are 10 or more years in the future. Sometimes, taking a long-term perspective can help settle a case of nerves.
2. **A well-diversified portfolio is an excellent buffer.** When it comes to managing risk, the key is to have a well-allocated and diversified portfolio that reflects your risk tolerance. Diversification won't eliminate negative returns in down markets, but it can help limit downside risk.
3. **Down markets often create buying opportunities.** Every investor's goal should be to buy low and sell high, but it's a lot easier to say than do. When stock markets lose significant value, there may be opportunities to invest in quality companies at low valuations.
4. **Market volatility may have little to do with company performance.** There are many reasons for markets to fluctuate, such as swings in investor confidence, the effects of high-speed automated trading, uncertainty about economic growth, concerns about changing monetary policy. Sometimes, market swings have little to do with companies' performance or the intrinsic value of stocks.

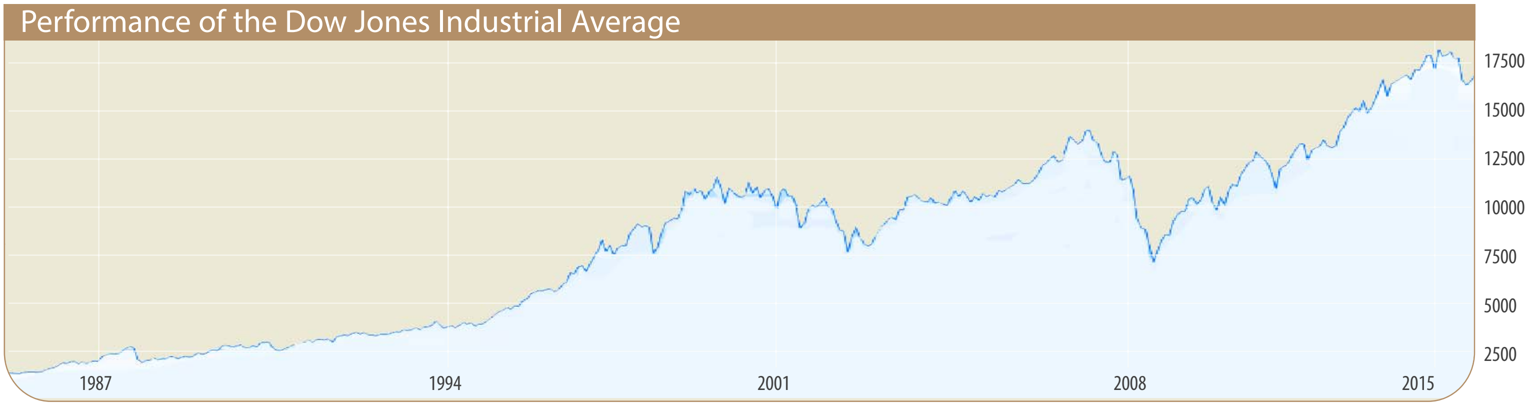
AND CARRY ON

If you have doubts, consider the words of Warren Buffet, "In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497."[1] ■

Neither asset allocation nor diversification guarantee a profit or protect against a loss. Past performance is no guarantee of future results.

[1] The New York Times, *Buy American. I am.* October 17, 2008.

Performance of the Dow Jones Industrial Average



Source: Yahoo! Finance

The Silver Lining of Market Volatility

It's disheartening when markets head south, but there is a potential upside. Selling investments that have lost value may give you an opportunity to reduce the taxes you owe this year and, possibly, in future years. The strategy is called ***tax loss harvesting***, and it may be particularly popular after the market correction we've experienced in 2015.

In general, investment losses can be used to offset:

- Current investment gains. Gains are earned by selling investments that have appreciated in value. There is no limit on the amount of losses that can be matched to gains in a given year. In general, losses should be applied first to short-term gains (gains on investments owned for less than one year), which are taxed at a higher rate than long-term gains.[2]
- Current ordinary income. After capital losses have been applied to capital gains, they may be applied to ordinary income. In any given year, investment losses can offset up to $3,000 of ordinary income ($1,500 if you are married and filing singly).
- Future gains and ordinary income. If there are additional losses, they may be carried over to offset gains or income in future years.[3]

Tax loss harvesting can be a valuable strategy and it has the potential to improve portfolio efficiency. Regardless, tax laws are complex so it's wise to contact us and/or a tax professional before taking action. ■

Beware of Wash Sales

One of the tricky aspects of tax loss harvesting is avoiding wash sales. A wash sale occurs when you sell an investment to claim a tax loss and then buy the same investment back within 30 days of the sale. When this happens, you cannot claim the loss.[4]

None of the information in this document should be considered tax advice. You should consult your tax advisor for information concerning your individual situation.

[2] Kiplinger.com, *Understanding Capital Gains and Losses*, September 28, 2015.
[3] IRS.com, *Ten Facts That You Should Know about Capital Gains and Losses*, February 18, 2015.
[4] IRS.com.

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