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Lynn's Top Five

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As I write this column the markets are quite unhappy with the economic news presenting itself and are heading into correction territory. No one has a crystal ball about where markets will be on any given day, so it's time to remind ourselves of what smart investors do during uncertain times.

1) They don't panic: When you design your portfolios, know your cash needs for short-, mid- and long-term periods of time and invest accordingly. You should acknowledge during this design phase that it's always possible you'll need money when markets are down and you won't want to incur losses to provide your monthly income. Think through your holdings so that you can handle that possibility.

2) They buy low: If possible, when markets correct, be a buyer. Not all at once one day, but carefully over a determined period of time. If you needed to add to your wardrobe and your favorite designers were on sale, you'd be carefully looking for just the right pieces to add to your ensembles while they are on sale. Invest with that same mentality: buy when prices are low.

3) They think tax smart about capital gains: Your portfolio, like a garden, will have successes that you'd like to pare back. When markets are down, you have an opportunity to do just that: cut back on positions that have grown too much and create less gain by doing so, and then use that capital to buy other holdings that you'd rather have in their place.

4) They think tax smart about capital losses: During the last large correction, a lot of investors banked as much in losses as they could by selling holdings that were underwater and replacing them with other positions they felt would do well going forward. Strategic benefits from this strategy include shielding your gains with these losses, taking $3,000 against income, and then carrying forward the balance until you can use the rest up in future years (first against gains, then $3,000 per year against or- dinary income). When employing this technique, be careful of the wash sale rules that prevent you from claiming losses by selling and rebuying the same security within 30 days to claim a tax loss.

5) They use this as a reminder to sell high: It's often easy to know when to buy and much harder to know when to sell. This is your moment to remind yourself to employ a sell strategy when markets recover. Don't fall in love with your gains. They can't feed you later in life if they exist only on paper just to disappear when you need them most during the next round of market uncertainty.

Find it hard to discipline yourself to employ these steps? Then I urge you to work with capable professionals, such as a Certified Financial Planner who has a strong track record engaging with clients in life situations such as yours. Especially in times like these, it's very comforting to have a strong team in place working consistently on your behalf in an informed and collaborative fashion. May we live in interesting times, indeed!

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