Monthly Insight

7 Investment Tasks to Prioritize for Year-End

It's that time of year again: the dust is starting to settle from the Black Friday sales stampede; most of the Thanksgiving leftovers have been consumed; and the final mad rush toward the holiday shopping season has begun. But in addition to checking those last few items off your gift list, it's also time for another important annual agenda: performing the year-end tune-up on your investment portfolio.

It's important to remember that your investments are not like a set-it-and-forget-it crock pot recipe. You need to monitor them periodically to be sure that your asset allocation and diversification plan is still in line with your long-term goals and priorities. In fact, this is exactly why we ask our clients to schedule periodic meetings: so that we can help them make sure their financial vessel is in good sailing trim. There are a few things you can do at the end of the year to make sure your portfolio is in good shape for the approaching tax season and beyond. Let's take a quick look at seven of the most useful strategies for your year-end portfolio checkup.

1. Max Out Your 401(k) or 403(b)

This probably sounds like a broken record, but it bears frequent repetition: there's no substitute for socking away as much as possible in your tax-favored retirement account, especially employer-sponsored plans like a 401(k) or 403(b). It's impossible to overstate the advantages of tax-free compounding and growth when it comes to ensuring a comfortable retirement. The 2019 IRS contribution limit for 401(k)s and 403(b)s is $19,000, with an additional catchup provision of $6,000 available to taxpayers age 50 and over.

2. Avoid Unnecessary Capital Gains

Especially if your portfolio includes actively managed mutual funds, it might be a good idea to avoid making purchases until after December 31. This is because fund managers often make capital gains distributions close to year-end, and if you are the share owner of record on the dividend date, you will be credited with the gains, even if you purchased the shares only recently. So, in a taxable investment account, you might want to hold off on making mutual fund purchases until after the ex-dividend date, when the distributions will not be credited to your account.

3. Take Advantage of Tax-Loss Harvesting

Speaking of capital gains, the end of the year is also a good time to examine your portfolio to see if you have some losses on investments that can be used to offset taxable capital gains. This strategy, known as tax-loss harvesting, can save you money next April 15. This is also a situation where a professional, certified financial advisor can be of tremendous assistance. Your advisor can help you analyze your taxable portfolio to look for the best opportunities to put this strategy to work for you.

4. Review Your Diversification Strategy

Keeping your portfolio properly diversified among different asset classes is one of the most reliable ways to minimize the volatility that is inherent to the financial markets. When your portfolio is well-diversified, it includes different types of assets that tend to respond in different ways to various market conditions. Of course, it's impossible to completely eliminate all risk, but when a portfolio is diversified, it spreads the risk among different asset classes and allows your investments to benefit from a wider range of market conditions. A professional, certified financial advisor can help you find the diversification strategy that is best for your specific goals and tolerance for risk.

5. Rebalance

If you have a properly diversified portfolio, not all of your investments move in lockstep. Over the course of the year, it's likely that some assets have grown rapidly, while others have advanced more slowly or perhaps even lost some ground. This means that your asset mix has changed, making you over-weighted in some areas and under-weighted in others. In other words, it's time to rebalance. The advantages of rebalancing include keeping your asset allocation within the guidelines you established in order to execute your long-term investment strategy. Also, rebalancing can provide opportunities to add assets to your portfolio at relatively lower costs, which can allow for better future growth.

6. Fund an IRA

Even if you already have a tax-favored plan like a 401(k) or 403(b), you can still put up to $6,000 a year in a traditional or Roth IRA, and you can make an additional $1,000/year catchup contribution if you're age 50 or older. This gives you another way to grow your retirement funds in a tax-free environment. A traditional IRA provides you with a tax deduction for the amount you contribute each year, but you'll pay taxes on the amounts you withdraw annually in retirement. For those who want more flexibility with IRA withdrawals, a Roth IRA may be a good choice. Roth accounts don't provide a tax deduction when the contribution is made, but the funds compound and grow tax-free, and withdrawals are not subject to income tax. Additionally, funds can be withdrawn penalty-free from a Roth account for certain other qualified purposes, such as a first-time home purchase or college expenses.

7. Talk to Your Advisor

Perhaps the most important thing you can do to make sure you're maximizing your investments is to talk to a professional, certified financial advisor. Professional guidance can help you make sure you are holding the right asset mix, taking advantage of smart tax strategies, and staying on track to meet your most important goals and priorities. If you come to the end of each year wondering if you're doing the right things to ensure a comfortable retirement, or if you'd just like a professional second opinion on your portfolio and long-term strategy, we would love to help you uncover the facts you need to feel secure.

Stay Diversified, Stay *Your* Course!

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"We understand that every person we serve has distinct values and ambitions, and they each need their own plan for wealth management."