'Tis the season

As the calendar rolls over to December, there are signs everywhere that the holiday season is upon us. The air is cooler, homes and store windows are glowing, and tasks mount, as people scurry around to fit it all in before the new year. By the 24th, many of the December holidays have come and the shopping rush is all but over. The 24th marks an important date for your portfolio; for your trade to count towards 2016 and to reap the taxation benefits, it has to be completed by December 24th.

There will always be heavily traded stocks, as well as stocks that have fallen through the year, representing an opportunity for investors to sell at a loss, which creates a tax asset. Losing a dollar on stock ABC in a taxable account offers the opportunity to sell a profitable position in stock XYZ and offset a dollar of profit. Tax-loss capture is an important aspect of portfolio management; not every stock is going to be a winner, it's how you weed out losing stocks that creates the benefit. Selling losing stocks can be beneficial in the long run.

Selling some of your winning stocks isn't a bad idea either, even if it means paying tax on your gains. If the word tax isn't the most loathed in the dictionary, it will be on the short-list. But what's the fear surrounding taking a gain? It's that it is an incremental tax, you have a substantial gain on your investment and on disposal you must send roughly a quarter of that to Ottawa. It feels like it just disappears. But capital gains tax is actually the best kind of tax available to investors in Canada, and we shouldn't fear it.

Bonds generate income, which means at the end of the year you owe tax just as though you'd gone to work and earned those dollars. In the highest tax-brackets in Canada you can expect to pay about half of that in tax. Dividends are wonderful, being paid to wait while holding mature and hopefully profitable companies holds no end of appeal, but the taxman takes just over a third. A capital gain is added to your income at fifty percent, and if you pay fifty percent tax it only costs you 25% to take your win. Moreover, capital gains taken today can actually be offset for a few years, if markets become unfavourable then taxes paid today may be rebated tomorrow.

Taxation is often an obvious blind spot for investors and advisors alike. Take the example of a portfolio with significant capital gains in a sector or asset class like technology in 1999 or Canadian equities in 2009/10. A superior advisor is first and foremost a risk manager for your wealth and is keenly aware of your risk tolerance. The decision not to sell or trim overexposures (tax-related or otherwise) will often result in a portfolio with higher risk and less diversification. Strong discipline and a plan can avoid finding a lump of coal in your stocking.

In 2016, capital gains represent the cheapest way to maximize the benefits in your taxable accounts. Nobody likes paying tax, but if you're forced to pay tax why not take every advantage offered? 'Tis the season for tax planning too.