

Live for Today and Plan for Tomorrow

# TURNING LOSSES TO YOUR GAIN

It's hard to find any investor who enjoys a market downturn, but there are a few ways to turn these unhappy events to your advantage. Tax professionals recommend that you gift assets to your children or to a trust (out of your estate) and let the assets recover in value in the hands of people with a lower tax rate. You can also move assets out of a traditional IRA into a Roth IRA—a partial Roth conversion—and be taxed on the (hopefully temporarily) lower valuation of the assets. When the downturn ends, the assets will (hopefully) grow free of all future taxation, meaning lower taxes today could represent a bargain in the future. And if/when a Roth account passes to heirs, they'll be able to take the money out tax-free.

Tax professionals also look at down markets as a chance to sell any assets that are trading below what was paid for them—and using the losses to help offset the taxes owed on gains elsewhere

in the portfolio. Think of this as sharing the pain with Uncle Sam. An ETF that is trading above the original purchase price can be sold, harvesting the gain, and offsetting the harvested loss, resulting in zero additional taxes. And up to \$3,000 a year of ordinary income can be offset with carefully-harvested capital losses, at least incrementally lowering your tax bill.

Is there a catch? There is always a catch with the IRS rules. When it comes to harvesting losses, the IRS imposes a 30-day 'wash sale' rule, which basically says that when you sell a stock, fund, ETF etc. at a loss, you cannot claim that loss if you immediately buy back the same stock, fund, ETF etc. Instead, you have to wait 30 days to replace that exact position. If you want to keep participating in the market, you have to buy a different security—although it could be similar to the one you sold.

When should you deploy these strategies? That's another catch;

to get the optimal benefit, you would have to know the exact point when the downturn reaches bottom before it starts to rise again. Unfortunately, nobody knows the date, time or level in advance. When it comes to the future, we're all in the dark.

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# SURPRISING RESILIENCE

It's not really political to say that the recent actions coming from the White House have caused volatility with regards to the economy. There may be a long-term plan (having everything manufactured in the U.S., giving American companies free rein from regulatory oversight), but it would be hard to find an economist who thinks that trade wars are ever beneficial in the short term, or a huge projected increase in the federal deficit (and counting on angry trade partners to buy our debt) will be beneficial in the long term.

But when you look at the actual numbers, the U.S. economy has been quite resilient. There's a good scorecard published by Trading Economics (<https://tradingeconomics.com/calendar>) which shows that the inflation rate is still around 2.0%, wholesale prices are only slightly above projections, the U.S. is experiencing

a 6.2% increase in overall industrial production year-over-year, retail sales are running at 3.7% above last year and the unemployment rate is still down around 5%. All of those numbers could change, but so far the economic record has been far from what some headlines have suggested.

There are many investors who are alarmed at what they perceive to be an attack on traditional capitalism, and are calling their advisors to see if they should retreat to cash for the next four years. But the markets are not the economy, and the economy is not the actions in the White House. Companies that have been hit with multiple tariffs to their supply chains have had months to prepare and adjust, and manufacturers who sell abroad will reduce margins to cling to market share. And if companies do manage to adjust, then getting out of the markets

now might sidestep some of the uncertainty, but when would you get back in?

Anybody who thinks that it's easy to predict the market movements and sidestep downturns might look to the world's greatest market timers, the people who are famous for having the ability to accurately forecast the future. If you can't name anybody who fits that description, then you, we or any of us probably have a low probability of being the first.

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# SIX MONTH REPRIEVE

The federal government won't be shut down, at least not until September, thanks to a last minute (literally) passage of the stopgap funding bill in the Senate. The bill largely maintains government funding at levels set by the Biden presidency—calling for unspecified cuts of \$13 billion from the previous year, which is a drop in the bucket compared with \$1.7 trillion in total government spending. The most controversial element is a \$485 million increase in the Immigration & Customs Service budget to administer the President's broad deportation policy. Other budget increases would go to veterans' health care services and

benefits and ratification of the National Defense Authorization Act signed by former President Biden, authorizing a 14.5% pay increase for junior enlisted troops.

Surprising to some Republican voters, the bill also raises funding for nutritional assistance to mothers, infants and children by more than \$500 million, and additional increased funding for the Commodity Supplemental Food Program, which supports low-income senior citizens. The Food Safety and Inspection Service, which reviews meat and poultry processing plants, saw a budget increase. One of the deeper cuts: the Army Corps of Engineers funding for projects to

mitigate the impacts of hurricanes and floods was slashed by a whopping \$1.4 billion.

The most interesting part of the bill is not what's in it, but what it continues. No U.S. President has the power to eliminate any government agency that Congress has passed into law, which means that between now and September, Congress has authorized and funded the full range of agencies that existed pre-election.

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# EASTER EGG PRICING

**E**ggs may not be the first thing people think about during the Easter holiday, but they're certainly a popular part of the celebration that is now less than three weeks off. And with the recent runup in egg prices due to the massive bird flu epidemic, some consumers might be wondering if the markets will experience another price spike.

The news is actually pretty good. The USDA Egg Markets Overview at the end of

March showed the impact of more than 30 million laying hens either killed by bird flu or deliberately culled in order to stop the spread of the epidemic. But the laying population has recovered about half of the losses in just three months, now with more than 285 million birds across the U.S. farming sector—down from 304 million at the end of last year. The report notes that stores are beginning to advertise eggs at \$4.00 a doz-

en, compared with wholesale prices over \$8.00 in February. Grocery supplies are very nearly back to normal, and as more hens reach laying age over the coming weeks, the Easter price squeeze that some anticipated may not materialize after all.

Source:

[https://www.ams.usda.gov/mnreports/ams\\_3725.pdf](https://www.ams.usda.gov/mnreports/ams_3725.pdf)

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# THE TARIFF TANTRUM CONTINUES

**A**s you almost certainly know, the markets continue to fall in response to the new tariff policies in Washington. The dynamic now (dubbed the ‘Tariff Tantrum’ by economists with a sense of humor) is that the markets are screaming at the White House that they don’t like the tariff policies and want them to end. How long the screaming will go on, and whether the current White House occupant will listen, is the key unknown factor.

There’s a good chance that periodic downturns are included in your financial plan, since they’ve always been a normal part of economic activity.

Some people who are inclined to panic are suggesting that this is different, the economic and market dynamics are different, that this current situation is, therefore, not normal.

But the interesting thing about market corrections, and bear markets, is that no two are alike; no two exhibit the same dynamics. We’ve had Presidential assassinations

and nuclear standoffs, the 9/11 attack and Covid, reckless Wall Street speculation that brought the global economy to the brink—and they were all different. None of them were normal—except for the fact that they all triggered a restless mood among the quick-twitch traders who move in and out of stocks daily and sometimes hourly, and sooner or later the true intrinsic value of companies was re-recognized during a recovery.

Each time, it seemed implausible that the markets would recover—until they did. Both the downturn and the subsequent upturns caught the public off-guard, and that’s normal too. What would NOT be normal is if the companies—who have, this case, had months to prepare for the tariff situation—would somehow be tarified out of existence.

The best way to bypass that unpleasant feeling that accompanies a downturn is to stop looking for a while. Somebody who went to sleep in February of 2020 and woke up in June would have won-

dered what all the fuss was about. If you look at the long-term graph of market movements, you hardly see the downturns in the long arc toward ever-rising value.

We should not minimize what’s happening now; the scream coming out of the markets is a significant message, and the losses are real, even if there’s a good chance that they’ll be temporary. But we do have the option not to participate in the fear that market corrections generate—if we’re smart and courageous enough to resist it.

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# 2025 FIRST QUARTER INVESTMENT REPORT

**A**fter two years of stellar returns, the U.S. investment markets have decided to give back some of their recent gains. We are not in bear market territory quite yet, but the risk of a recession, a slowdown in consumer spending and the uncertainty over trade wars and tariffs, has created some market jitters that are raining on the bull market parade.

A breakdown shows that just about every U.S. investment category was showing double-digit gains. The Wilshire 5000 Total Market Index—the broadest measure of U.S. stocks—is down 4.84% in the first quarter of the year. The comparable Russell 3000 index lost 4.72%.

Looking at large cap stocks, the Wilshire U.S. 2500 Large Cap index has lost 4.73% of its value in the first quarter. The Russell 1000 large-cap index is down 4.49%, while the widely-quoted S&P 500 index of large company stocks fell 4.59%.

Meanwhile, the Russell Midcap Index finished the quarter down 3.40%.

As measured by the Russell 2000 Small-Cap Index, investors in smaller companies are sitting on a 9.48% loss for the quarter. The technology-heavy Nasdaq Composite Index dropped 10.4% in the past three months.

For the first time in many years, foreign markets are outpacing the U.S. equity scene. The broad-based EAFE index of companies in developed foreign economies gained a robust 6.15%, in dollar terms, in the first quarter of 2025. In aggregate, European stocks are up 9.86% so far this year, while EAFE's Far East Index gained a modest 0.35%. Emerging market stocks of less developed countries, as represented by the EAFE EM index, gained 2.41% in dollar terms in the recent quarter.

Real estate securities continue their recent gains. The Wilshire U.S. REIT index has gained 1% so far this year. Commodities returns also gained; the S&P GSCI index posted a 3.35% return in the 1st quarter, riding the new surge in inflation across the economy. Utility stocks, as measured by the

S&P 500 Utilities index, rewarded investors with a robust 4.12% gain.

In the bond markets, we are still experiencing the inverted yield. Yields on 30-year government bonds are holding steady at 4.52%; 10-year maturities are yielding 4.16% and 5-year Treasuries yield 3.90% currently. But investors can get higher yields in 3-month issues (4.29%), and 6-month (4.20%) issues. Five-year municipal bonds are yielding 2.87% in aggregate, while 1-year munis are yielding 2.56%.

What's going on? It's fair to wonder whether U.S. companies, in aggregate, were actually 40% more valuable at the start of the year than they were two years ago, before the extraordinary two-year run. It's possible that traders were overestimating how much to pay for a dollar of earnings, bidding the price-to-earnings ratio up to nearly 30--very high by historical standards.

Overall earnings are still strong, but future earnings will depend on willing spenders for goods and services. The traditional measure of consumer confidence have de-

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clined for the past few months, and this new more thrifty attitude is starting to show up in a slowdown in consumer spending--up just 0.1% in February.

The old saying, mostly true, is that markets hate uncertainty, and rarely have we seen more of that than in the back-and-forth promises of tariffs imposed, revoked, discussed, negotiated by the largest trading partner in the world. Tariffs represent a friction on global commerce, particularly manufacturers who assemble products here in the U.S. from components made elsewhere in the world. Nobody knows yet how these tax surcharges will be imposed, but economists and the press are clearly anticipating higher costs, and therefore higher prices, and therefore lower sales volumes--and potentially also lower profits as companies absorb the additional costs.

And, of course, the tariff highway is a two-way street. Economies around the world are mulling reciprocal tariffs in what could be-

come an escalating tit-for-tat trade war, without any clear end point to the tats until somebody blinks.

Short-term, and sometimes longer-term market movements are driven by what economists delicately call 'sentiment,' which simply means what investors are willing to pay more (a bull market) or less (a bear) for companies and their earning potential. When the earning potential comes into question, there can be a retreat to the sidelines.

Of course, uncertainty cuts both ways. If the actual impact of the tariffs turns out to be less than expected, or if the tariffs are negotiated down, or if they prove to be beneficial in the short-term (a boom in facility construction in the U.S., or a shortening of supply chains) the abundance mentality could return. (Economists are already speculating about a 'relief rally' if the trade wars are called off.)

It's worth noting that the threat of a trade war seems to have actually benefited non-U.S. stocks, particularly in Europe, which is now in a bullish phase

and whose markets are outpacing the American ones. The two markets were due for a reversal, but what we are experiencing is extraordinary--a sign that investors are less worried about the tariff impact on European companies than on American ones.

The so-called experts in the markets were extremely bullish just a month or two ago, and now, suddenly, they're sounding downright bearish. The consensus forecast at Goldman Sachs was for the S&P 500 to reach 6,500 by the end of the year. That was scaled back earlier this month to a still-bullish 6,200. Now? The projection is 5,700, and we probably have another backtrack or two in store.

The point: when the markets are soaring, the pundits tend to predict more of the same. When the markets are down, they do the same thing. Extrapolating from the recent past is not prediction; it is clearly guessing, and perhaps pandering to the mood of the moment. Nobody, no matter how many fancy data-crunching engines sit on their desk, can pre-

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dict the future, and everybody is subject to being swayed by the bullish or bearish cross-winds.

The best course has always been to ignore the predictions, positive or negative, and manage your own

sentiment through the choppy investing ride that we're experiencing. The alternative is to pull out of the markets into stable assets that are guaranteed to lose value due to inflation. The threats are real, the

uncertainties are always with us, and through it all, patient investors have always been rewarded in time.

Why would the future be any different?

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