

Planning Moves for Volatile Times

Between the return of inflation, continuing COVID shocks, and geopolitical instability, many investors have girded themselves for volatility continuing into the foreseeable future.

Fortunately, there are steps you can take to help protect your assets against sudden, unpredictable moves in the markets and the economy. Here are a few ideas to keep in mind:

1. CONVERT TO ROTH IRA

Many investors have seen significant drops in value for their portfolio recently. If and when those values rebound, one way to shelter the recovery from income tax is by converting from a Traditional IRA to a Roth IRA. When a Traditional IRA is converted to a Roth IRA, income tax is assessed on the value of the asset on the date of the transfer, which, in today's market, can potentially result in a lower taxable transaction. If you're interested in an IRA conversion, note that dollar-cost-averaging can also help protect your assets from volatility, so you might want to make this a cornerstone of your retirement strategy.

2. REFINANCE YOUR DEBT

With inflation increasing and the Federal Reserve already planning future rate hikes, interest rates may be due to follow. If you've been considering a refinance of your mortgage, this might be a good time to lock in a lower rate before they start edging upward. But be mindful of the costs that can come along with it, such as appraisal and application fees, and try to balance your monthly savings against any upfront costs. This can be especially significant if you have plans to sell your home in the next few years, in which case refinancing may not be worth it.

3. MAKE USE OF TAX-LOSS HARVESTING

Tax-loss harvesting allows you to sell securities that have declined in value at a loss, but then use those losses to offset current and future capital gains. You can apply up to \$3,000 of these losses against your ordinary income and carry forward ►

Planning Moves for Volatile Times *continued*

any unused capital losses to use in future years. If you own stocks that have lost value, it's important to keep an eye on how long you've held them, since short-term capital gains are taxed at your marginal tax rate while long-term capital gains are taxed at a 15% (or 20% for higher income-earners) tax rate. Be careful to avoid using the short-term, and more valuable, loss against any income taxed at the lower 15% or 20% rate.

4. FUND YOUR HSA

One of the most beneficial tools to prepare you for future medical expenses is a health savings account, which holds pretax dollars that can be used on qualified medical expenses for yourself, your spouse, and/or other family members tax and penalty-free. Any funds that are not used by the end of the year can be rolled to the following year and continue to grow tax-free. To be eligible for an HSA, you must be enrolled in a high-deductible health plan with a minimum annual deductible before health care costs are covered. You also have a one-time opportunity to convert a portion of your traditional IRA to an HSA, limited to the annual contribution limit. Taking advantage of this strategy changes the funds from tax-deferred to tax-free, assuming the HSA funds are eventually used for qualified medical expenses.

5. GIVE TO YOUR HEIRS

If you have heirs who are feeling the economic pinch now and could benefit from getting their inheritance early, this could be an excellent time to use a gifting strategy. Individuals have an exemption against gift, estate and generation skipping taxes of \$12.04 million per person (\$24.08 million for a married couple). This historically high exclusion is scheduled to decrease to about \$6 million on January 1, 2026, when the Tax Cuts and Jobs Act sunsets. This exemption can be used throughout your lifetime via gifts, or at death via bequests from your estate. Currently, the annual gift exemption is \$16,000 per year, per recipient (or \$32,000 annually per recipient for a married couple), so only gifts above the \$16,000 (or \$32,000) annual limit per recipient would reduce your lifetime gift and estate tax exclusion.

Several of these strategies require the guidance of tax and legal professionals and can be complicated to execute, so tread carefully with them. Your Baird Financial Advisor team can partner with your CPA and/or attorney to help you make sure you're on the right track to weather whatever volatility we may see.

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