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Savvy Tips for Turbulent Times: Three Strategies for Investors to Consider

June 2025

In today's volatile market, many investors are left asking: What should I be doing right now? Whether it is rebalancing, buying, selling or simply staying the course, uncertainty is prompting a growing sense of urgency to take action.

During periods of heightened market volatility, knowing exactly what to do, and when, can be difficult. Rather than trying to "time the market," investors should instead consider strategies that can actually benefit from market volatility.

Tax-Loss Harvesting

Tax-loss harvesting is a common strategy where investors sell investments at a loss to offset current-year or future capital gains. This can help reduce your current year's capital gains tax and, if realized losses exceed realized gains, such losses can offset up to $3,000 of ordinary income, with any remaining losses carried forward indefinitely.

During a pronounced market selloff, there may be additional opportunities to sell securities at a loss to offset current and/or future capital gains. However, you must be mindful of the wash-sale rule, which stipulates you cannot buy the same (or a substantially identical) security within 30 days before or after the sale, or the loss will be disallowed. In this situation, the cost basis is added to the new substantially identical asset, deferring the potential loss to a later date when the new asset is sold.

Roth Conversions

When global markets are down, the value of a Traditional IRA may be temporarily lower, making it an opportune time to convert traditional IRA assets to a Roth IRA at a reduced value (and consequently at a lower tax cost). This may be particularly beneficial for investors who have already entered retirement or have low earned income in a particular tax year.

A Roth conversion involves moving money from a Traditional IRA (pre-tax) to a Roth IRA (post-tax). You pay income tax on the amount of assets converted, but future growth and withdrawals (if qualified) are 100% tax-free. Essentially, you pay tax on the current (lower) value, and the future growth or 'rebound' in the Roth is tax-free.

A lower Traditional IRA balance will also reduce future Required Minimum Distributions (RMDs), which can protect against higher tax brackets in retirement. Ensure you document everything and keep Form 1099-R (from the traditional IRA custodian, showing the distribution) and Form 5498 (from the Roth IRA custodian, showing the contribution).

When evaluating the timing and amount of a Roth conversion, you might consider the "Barbell Strategy:"

- Convert some assets now while markets are lower.
- If markets fall further, convert additional assets.
- Manage tax exposure across multiple tranches and perhaps across multiple tax years.

Stock Options and Restricted Stock

While each stock option plan has its own rules, each plan involves the transfer of equity interest in a company to an employee as compensation. In some cases, the employee is granted the right to purchase shares at a stated price (exercise price) following certain vesting dates; in other instances, the employee is granted company shares at fair market value upon meeting plan requirements, often based on length of employment.

Stock options provide the employee with the ability to manage their immediate taxable income, based on the time of exercise. If you exercise these options while the stock market is volatile and the company stock price is lower, the taxable income component is reduced (the difference between the fair market value and the exercise price), while future growth on the shares could be taxed at favorable long-term capital gains rates (if the shares are held for at least one year).

Given the nuances involved with stock compensation plans, a deeper discussion with a qualified professional may be needed to evaluate the impact on current-year taxable income and the overall exposure to company stock.

In closing, whether it is tax loss harvesting, thinking through a partial or full Roth conversion, or making stock option decisions, there are many different potential opportunities that investors should consider amid equity market volatility. We encourage you to reach out to your advisor to see if any of these strategies might benefit you.