

The Fortnighter

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It's almost December and that means I'm starting to get a flurry of "tax-related" articles across my desk. While there are potentially dozens of tax issues to consider before December 31, the first thing that comes to mind concerns capital gains and losses.

It's extremely important to understand where you are with respect to accumulated gains and losses if you have taxable (i.e. non-registered) assets such as an investment account. I recommend obtaining a copy of your 2012 "gains & losses" report now to see if you've got capital gains for the year - you may want to trigger capital losses before yearend to offset them.

Beware the "superficial loss" rule, however. This occurs where you sell a security for a loss and then buy it back within 30 days - the loss will, unfortunately, be disallowed by CRA. That may not be an issue if there is a "loser" in the portfolio you've been looking to get rid of. But what if it's a great company that has had a poor year (or two) and you simply want to take advantage of an imbedded loss to offset capital gains (and don't want to be out of the stock for a month)? For instance, a lot of energy and materials stocks have

been underperformers for the past year and are well down from their highs - and may be ideal "loss candidates" for offsetting gains. The answer is to look for another company that's highly correlated with it and simply make a switch into it.

I'm thinking of companies like Teck Cominco or oil-sands heavyweight Suncor. The trading history of Teck, for instance, is highly correlated with other mining companies like BHP or Rio Tinto. Similarly, Suncor's "chart" tends to be pretty close to that of Cenovus Energy, another company with a large exposure to Canada's oil sands.

No guarantees, but I'll bet that moving from Teck to BHP for a month (or two) will have little impact on your long-term returns - and will allow you to maintain your portfolio's appropriate sector weighting. That, of course, assumes your portfolio is a fee-based account and incurs no transaction costs.

And while we're on the subject, note that fees in a fee-based account are tax-deductible against income. Make sure to forward your annual fee summary to your accountant along with your capital gains/loss report!

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