

Bear Market Benefits

The war in Iran and persistent inflation have clearly spooked short-term investors who like to jump into and out of the market based on the prevailing winds. U.S. stock indices have fallen for three weeks, albeit so gradually that most investors have hardly felt the impact. The S&P 500 is now trading less than 5% below its January 2026 record high, which is not quite half of a correction, and less than a fourth of a bear market.

Still... Savvy advisors are beginning to dust off their bear market toolkits, which allow them to take advantage of lower stock prices should they manifest in the future.

These tools can be beneficial in gloomy times. The simplest is to sell stock funds that are trading at prices below their original cost, which generates valuable losses that can be used to lower your tax bill. Professional advisors can also help investors to convert some of their IRA holdings over to a Roth account at these lower prices, reducing the tax bill on the conversion, and moving money into an account that will never again be taxed.

People can gift stock funds up to a value of \$19,000 per recipient (\$38,000 for couples) to their children without any tax consequences. If the stock fund is less valuable at the time of the gifting, more of it can be transferred during the (presumably) temporary bear market.

And finally, when stocks go on sale, bargain shoppers who can overcome their fear are able to scoop up shares at a discount, remembering, of course, that there's nothing to say that those stocks won't be selling at even greater discounts during the remainder of the bear market cycle.

What advisors are NOT dusting off is a market timing tool. Getting out of the way of a bear market, moving to cash and stuffing the money under your mattress sounds like a terrific idea until you realize that you have to decide when to buy back into the market. Should you wait until the market goes up? How far would it have to go up before you're convinced that the bear market is over? Chances are, THAT point would be when the market is higher than when you got out.

Anybody who is still not convinced that this is a losing strategy should take a moment to name the greatest market timers in history, the people who knew when to get in and out of the markets during past downturns. Anybody who was successful in that endeavor, anybody at all, would have attracted a lot of media fanfare.

To date, the media hasn't found anybody to shower with that attention. It's not likely that you or I would be the first.

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