



SCARSDALE
Investment Group

The Unbeaten Path to Secure Investment Growth

A Big Opportunity in Today's Market - Sell Stocks, Buy Bonds

Stan Richelson and Hildy Richelson August 21, 2023

The headline and leading story in *The Wall Street Journal* on August 17, 2023 trumpeted:

“Ten-Year Treasury Yield Hits Highest Since '08.”

The article theme was that the high yields on bonds were making investors nervous

“... because past surges have at times proved destabilizing for markets.”

It reported that according to Tradeweb, the 10-year Treasury yield closed at 4.258% on August 17. This marked its highest close since June 2008, months before the collapse of Lehman Brothers.

The stock market is having a very strong year as of August, 2023, and the S&P 500 Index is up around 15% to date. According to *The Economist*ⁱ “The American stockmarket [*sic*] is at its most expensive in decades.” While it may have been prudent in the past to hold and buy the dips, they suggest that *prospective* returns look poor because future earnings growth looks dim.

Times of rapid change and stress in financial markets often present opportunities for savvy investors. This is one of those times with interest rates at a high since 2008.

If you have significant *gains* in some of your equities or other risk assets, and significant *losses* in some of your bonds, you may have a great opportunity.

The fact that bonds are providing *robust yields* currently, and that some of your stocks may have significant gains, might lead you to consider a strategy with a long history that has not been applicable for many years. In the old days this was called a classic **Tax-Swap**. The end of year was called the Tax-Swap Season. Now the stars are aligned and what was old is new again.

The Tax-Swap Strategy is as Follows:

1. Review your bond portfolio to determine whether you have significant losses in any of your bonds. Also consider if you wish to upgrade your portfolio's credit quality.
2. Review your stock portfolio, or other risk assets, to determine whether you have significant gains. Also consider the upside price potential of your sales candidates.

If 1. and 2. exist, consider the following trade to create a Tax-Swap:

1. Sell the stocks or other risk assets that have significant taxable gains that you believe have limited upside potential at today's prices.
2. Sell the bonds that have significant taxable losses in an amount to offset the stock or other gains. These bonds may be low-coupon bonds.
3. Buy new high-coupon bonds that provide a substantial cash flow for 10-years or more.

The Financial Results of the Tax-Swap Strategy

The tax and financial results of the **Tax-Swap Strategy** may generally be as follows:

- The sale of your bonds will result in a tax loss.
- The tax loss on the sale of your bonds will offset the gains on the sale of your risk assets, reducing your tax due.
- Your cash flow may be higher if you sold low-coupon, discounted bonds and purchased high-coupon bonds.
- Your asset allocation between high-quality bonds and risk assets will be more conservative because you will own more bonds. You may sleep better at night with more high-quality bonds and a larger cash flow.

Keep in mind that yields on bonds are the highest since 2008.

If you would like to discuss whether the **Tax-Swap Strategy** makes sense for you, please advise.

NOTE AND DISCLAIMER: THIS ARTICLE SETS FORTH THE GENERAL STRATEGY OF A TAX SWAP. IT IS NOT DESIGNED TO PROVIDE TAX ADVICE TO ANY INDIVIDUAL INVESTOR OR READER SINCE WE DO NOT KNOW THE TAX POSITION OF ANY READER OR INVESTOR. YOU SHOULD NOT PROCEED WITHOUT CONSULTING YOUR PERSONAL TAX ADVISER OR ACCOUNTANT WHO KNOWS YOUR TAX POSITION AND CAN ADVISE WHETHER A TAX SWAP IS IN YOUR INTEREST.

ⁱ "Worth the cost? *The Economist*, August 12, 2023, p. 60. On equity risk premium