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Coping with Market Volatility: Be Willing to Take Advantage of Rough Times

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Anyone can look good during bull markets. Smart investors are produced by the inevitable rough patches. Even the best aren't right all the time. If an earlier choice now seems rash, sometimes the best strategy is to take a tax loss if that's a possibility, learn from the experience, and apply the lesson to future decisions.

There also are other ways to wring some benefit from a down market. If you have an IRA or 401(k) whose value has dropped dramatically, you likely won't be able to harvest a tax benefit from those losses because taxes generally aren't owed on those accounts until the money is withdrawn. However, if you've been considering whether to convert a tax-deferred plan to a Roth IRA, a lower account balance might make a conversion more attractive. Though the conversion would trigger federal income taxes, that tax would be calculated based on the reduced value of your account. With some expert help, you can determine whether and when such a conversion might be advantageous.

Finally, some sound research might turn up buying opportunities on stocks whose prices are down because of selling by other investors for reasons that have nothing to do with the company's fundamentals. A volatile market is never fun, but being able to learn from it can better prepare you and your portfolio in the future to both weather and take advantage of the market's ups and downs.



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