Are You Doing Tax-Loss Selling in December?

Description

Tax-loss selling is just a pretty name for selling investments at a loss that could be used to offset capital gains to reduce your taxes. Typically, what happens is that at the end of the year, stocks that have done poorly are pressured even more. This may happen to **Encana** (TSX:ECA)(NYSE:ECA) and **Tourmaline Oil** (TSX:TOU), as the stocks trade at or near their one-year lows. So, it makes sense to review and potentially sell losers throughout the year to avoid selling at the end of the year.

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If you're sitting on Encana or Tourmaline, should you sell them at a loss right now? It depends if you have a lot of capital gains to offset losses and if you're in a high tax bracket or not. Remember also that you can apply the losses up to three years back or for future years.

More importantly, you should investigate the losing stocks and determine if you believe they will turn around or not. If yes, ask yourself how long you're willing to hold on for a turnaround. Obviously, if your risk tolerance has changed and you no longer feel comfortable holding the stocks, it can be a legitimate reason to sell as well.

Let's take a closer look at Encana and Tourmaline. Both companies are oil and gas producers. Unfortunately, there has been an abundance of oil and natural gas and limited pipeline to get the commodities to the market; as a result, the commodity prices have been depressed.

Encana

Encana is the second-largest gas producer in Canada. Its recent net margin was -4%. Its five-year return on assets (ROA), return on equity (ROE), and return on invested capital (ROIC) are about -1.8%, -4%, and -4.6%, respectively. Its trailing 12-month ROA, ROE, and ROIC are about -1.3%, -2.8%, and -10.1%, respectively.

At $9.15 per share as of writing, Encana trades at about 3.2 times cash flow. The analysts from **Thomson Reuters** have a 12-month target of US$14.90 per share on Encana, which translates to about CAD$19.37 (based on a foreign exchange of US$1 to CAD$1.30), which indicates it's possible to double your investment from current levels.

Tourmaline

Tourmaline is the third-largest gas producer in Canada. Its recent net margin was 17.4%. Its five-year ROA, ROE, and ROIC are 3.3%, 4.6%, and 4.2%, respectively. Its trailing 12-month ROA, ROE, and ROIC are about 2.9%, 4.1%, and 3.9%, respectively.

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At $18.57 per share as of writing, Tourmaline trades at about four times cash flow. The analysts from Reuters have a 12-month target of $28.60 per share on Tourmaline, which means there's near-term upside potential of 54% in the stock.

Tourmaline offers a 2.15% yield, which looks sustainable and will help contribute to total returns.

Investor takeaway

Since both of these stocks have strong near-term upside potential, shareholders shouldn't rush to sell them for the sake of tax-loss selling, especially if many others are doing so and pressuring the stocks. Instead, patient shareholders should consider holding on to the stocks and aim to sell at a higher price, perhaps in the new year. In fact, because the stocks have been pressured, it may be a good time to look for a bottom and add more to lower your average cost basis.

Now is a good time for investors to review their portfolios with a special focus on the losers and decide what to do with them. If you buy more, hold, or sell, try to be systematic and not emotional about it.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:TOU (Tourmaline Oil Corp.)

PARTNER-FEEDS

1. Msn
2. Newscred
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