The 2022 Tax-Loss Harvesting Deadline Is Looming: What to Buy With Your Proceeds

Description

Mark the calendar for December 28. That's the last day to sell stocks at a loss for for tax-loss harvesting this year. The last day to trade for a loss is not December 31, because it's the settlement date that counts. The idea is to use capital losses in loser stocks to offset booked capital gains so as to reduce the income taxes you'd be paying for your investments for the tax year.

Not all losing stocks should be sold. If you think a stock could make a comeback and you have the investment horizon, it may be better to hold it.

Let's say you did book some losses and now you have excess cash. What should you buy with your proceeds?

Protect your principal and get some income

Maybe you took a loss because you took too much risk. If so, you may be inclined to put some of your proceeds into something really secure, such as Guaranteed Investment Certificates (GICs), since interest rates have gone up.

GICs are risk-free investments that protect your principal. Currently, the best one-year GIC rate is 5.3% with a minimum investment of $1,000. So, by buying this GIC, you'll get your money back in one year and earn 5.3% in interest income on the amount.

However, you could argue that the recent inflation was about 6.9%. Assuming inflation stays at this rate for the next year, money in the GIC would *lose* 1.6% of its purchasing value over the period.

If you need to use this money in a year, this GIC is a decent investment. However, if you have a longer investment horizon, you can potentially get better returns by investing in quality stocks with good financial positions and steady growth potential.

Investing in quality stocks

Are you tempted by the higher rates offered by GICs? Then you might like **Canadian Imperial Bank of Commerce's** (TSX:CM) juicier dividend even more. As one of the Big Six Canadian banks, CIBC is regulated and required to hold adequate capital in the changing macro environment. The regulation essentially improves the soundness of our financial system and, indirectly, the safety of bank stock investments.

If you trust buying GICs from CIBC, you might trust to buy its dividend stock for juicier income. At $55.44 per share at writing, the bank offers a dividend yield of about 6.1%. If we consider its history, the bank stock will likely increase its dividend over time. The value stock is trading at about 7.9 times earnings. Particularly, if you have an investment horizon for at least five years, you should see some solid price appreciation as well.

The Foolish investor takeaway

No matter when investing your tax-loss harvesting proceeds or new cash, it's best for investors to match their investments with their financial goals. Are you going for a vacation in a year? Lock that money in a GIC. Are you planning on buying a home in five to 10 years? Saving and investing in a diversified mix of funds in quality bonds, preferred shares, and common stocks may be a good idea. You can even add handpicked, quality stocks like CIBC.

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