Making Money Now: Having your cake and eating it too

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Take the bull by the horns. Do something constructive. Have your cake and eat it too.

The market is down and most everyone has losses. Though this seems bleak, it can be turned around to advantage. This is because Uncle Sam allows tax losses to be taken against gains. The trick is to acquire losses in index or exchange traded funds (ETFs) you own. Then, buy back some of the promising stocks from the funds. In this way, when the market goes up, the gains from the individual stocks in the index/ETFs can be offset by the losses and hopefully outperform them. That means more money in your pocket. The wash rule does not apply because the stocks that are purchased are not identical to the index/ETFs that are traded.

The wash rule states that you can't buy what you sold at a loss within one month on either side of the transaction. But, you can buy stocks in the same category from the index/ETF. In this way, you avoid the wash rule and can still make money on a run-up in the same category. In fact, if chosen correctly, the stocks can potentially appreciate considerably more than the category.

Index and ETFs have traditionally been ideal choices for portfolios because they are less expensive than managed funds and on average perform better. Also, they are intrinsically more diversified than individual stocks. In this present environment, however, some stock cherry picking may work to advantage. This is because currently there are so many stocks that are risky. Selling index/ETFs that contain these stocks or those expected to appreciate little and using that money to buy more promising components of the same index/ETFs only seems to make monetary sense. Risky stocks might include those with excessive debt, poor management or simply lack of demand for their product/services in these fragile times.

One way to do this is to sell only a percentage of your index/ETFs. Maintaining index/ETFs for a large portion of a portfolio traditionally decreases risk. Then, buy back some of the positions from the index/ETFs that were sold. For example, Vanguard Energy ETF (VDE) is comprised of the Morgan Stanley Composite Index U.S. investable energy market. Its top three holdings include Exxon Petroleum (XOM) 19.68%, Chevron Corp (CVX) 15.5% and ConocoPhillips (COP) 9.1%. These can be found on Yahoo Finance under Vanguard Energy ETF (VDE) holdings (lower left side of page below 'More about VDE'). After selling a percentage of VDE, the three largest components could be purchased with the money gleaned. As the stocks gain, their return is offset by the ETF loss. The ideal scenario is that the gains in the individual stocks will be greater than the return would have been on the percentage sold and thereby a profit will result.

Another way to do this is to use the money gleaned from selling a portion of index/ETFs to buy some of its components with better than average appreciation potential according to analyst's projections. It is a marked plus if these stocks also have low price/book and debt/equity ratios. The least accurate of these figures is the analyst's projections because it is forward looking and involves so many unknowns. The price/book and debt/equity are based on historical figures and should be correct.

Doing the necessary maneuvers is not complicated, but does require some work and time. Be aware that motivation for monetary gain while working numbers from an armchair is required. It is truly easier than most jobs.

First calculate potential price appreciation by putting in the index/ETF that you sold in the

on Yahoo Finance page. For example, type in IWF for i Shares Russell 1000 Growth (IWF). A summary of IWF will come up. Then, click on Holdings on the lower left side of the page under 'More about IWF.' The top ten components appear. At the bottom, there is a link: Get Quotes for Top 10 Holdings. By clicking this, you will be brought to a page you can print out and then put your notes to the side of the top ten holdings. The one year target estimate is found by clicking the symbol for the stock. For MSFT, it is 23 with a present price of 18 so price appreciation for the year is projected to be 5 divided by 18, which equals 28%. The price to book of MSFT is 4.80. It is found under Key Statistics, also on Yahoo Finance. To obtain Debt/Equity go to Microsoft Money and type in the symbol, MSFT. The Debt/equity is in the center column that appears under 'More information for MSFT'. Generally a low debt/equity and price/book ratio is preferable. For more details regarding this, please see Investopedia.

So instead of taking on the guise of Chicken Little who keeps waiting for the sky to fall, it might be worthwhile to try some levitation techniques to boost the sky upward. Using a tax loss against gains on stocks that have been cherry picked is one way. It could be like having your cake (tax loss on index/ETFs) and eating it too (appreciation on stock components). Now, that's smart money.