

Turning Losses into an Advantage: Using Carryforwards with the Compoundr Strategy

Taxes are one of the largest obstacles investors face in building long-term wealth. Ordinary income from bonds and other fixed income investments is typically taxed at the highest marginal rate, creating a heavy drag on returns. The Compoundr strategy is designed to solve this problem by converting ordinary income into deferred capital gains. But when combined with capital loss carryforwards, the benefits go a step further—turning past losses into a powerful tax shield.

The Power of Loss Carryforwards

When an investor realizes losses in their portfolio, those losses can be carried forward indefinitely to offset future capital gains. Unfortunately, they cannot be applied against ordinary income beyond the \$3,000 annual deduction. That often leaves investors with large unused carryforwards waiting for an opportunity.

Where Compoundr Changes the Game

Traditional fixed income produces ordinary income, which cannot be fully offset by capital loss carryforwards. The Compoundr strategy, however, reclassifies that income into deferred capital gains. This shift opens the door for investors to apply their net capital loss carryforwards in a way that would otherwise be unavailable.

Example

- An investor has \$100,000 in capital loss carryforwards.
- A traditional bond portfolio generates \$20,000 of annual ordinary income, which is fully taxable and cannot be offset by those losses.
- By contrast, the Compoundr strategy converts that \$20,000 into deferred capital gains. When realized, those gains can be matched against the \$100,000 carryforward, eliminating the tax bill entirely.

What would have been taxable every year at the highest marginal rate becomes fully shielded by losses that previously sat idle.

Strategic Benefits

- **Transforms Tax Character:** Converts income taxed at the highest rates into capital gains that can be offset by carryforwards.
- **Unlocks Loss Value:** Puts unused capital losses to work in reducing future tax bills.
- **Maximizes Compounding:** By deferring and neutralizing taxes, more capital remains invested and working for the investor.

Bottom Line

The Compoundr strategy doesn't just defer taxes—it reshapes the character of returns to give investors greater control. By transforming ordinary income into capital gains, Compoundr allows investors to apply net capital loss carryforwards more effectively, reducing tax liabilities and enhancing after-tax compounding.