Even in a bull market, certain investments within a diversified portfolio are likely to post losses. The good news, though, is that these losses can be put to good use through a process known as tax-loss harvesting.

In a nutshell, tax-loss harvesting enables you to offset the capital gains taxes that you've incurred on your successful investments. It's a service that we at Align Wealth Management provide automatically for our clients' taxable investment accounts.

Here's an illustration of how tax-loss harvesting works. Suppose Investment A has a realized gain of $1,000, while Investment B has a loss of $1,000. By selling Investment B, we realize a loss that will neutralize the $1,000 capital gain for tax purposes.

With tax-loss harvesting, realized losses on investments can be used to offset taxable gains and then decrease taxable ordinary income up to $3,000 per year. In addition, if you realize more than the $3,000 annual limit in a certain year, the IRS permits you to carry unused tax losses forward to offset gains in future years.

Once an investment is sold, it should be replaced with a similar type of asset in order to preserve the design of the overall portfolio. This brings us to an important IRS rule: Uncle Sam frowns on investors who try to game the system by selling a security for a loss and then buying it back within a few days. The IRS' "wash sale" rule prohibits selling a security for a loss and then buying it or a very similar investment back within 30 days.

The Align team regularly rebalances our clients' portfolios to make sure they remain in line with your goals, risk tolerance and time horizon. As we do this, we look for prudent tax-loss harvesting opportunities.

Tax-loss harvesting is just one way to invest tax-efficiently. We also seek to avoid short-term capital gains wherever possible. Short-term gains—those resulting when an investment is held for a year or less—are taxed at a higher rate than long-term gains.

Minimizing the taxes on your investments may not sound as exciting as earning fat returns. But incremental savings, compounded over a number of years, can have a substantial impact on the ability to reach your goals. It can't be reiterated enough: When it comes to financial success, it's not what you earn, it's what you keep.