The Silver Lining of Investment Losses

Leveraging intelligent automation to get more out of client portfolios.

No one wants to see their portfolio fall in value, but tax-smart investment management can reveal a silver lining at such times by using declines to reduce tax liability and potentially add value for investors. Even temporary market drops can provide opportunities to reduce your current tax bill and potentially increase your long-term wealth. Tax loss harvesting (TLH) is a key feature of tax-smart investing.

What is tax loss harvesting?

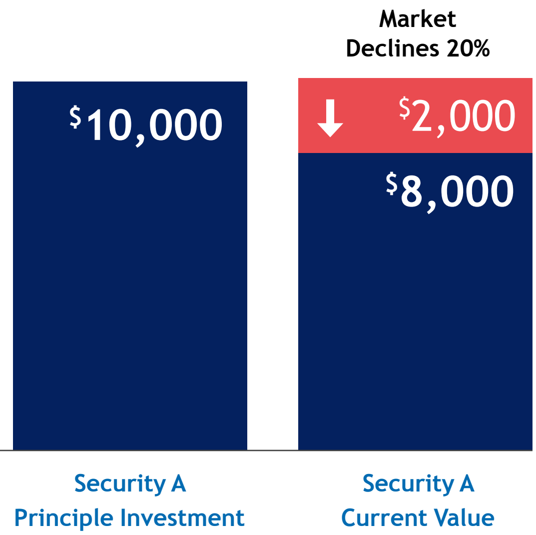
A key feature of tax-smart investing is to capture investment losses in a portfolio that may be used to offset your client's tax burden in the near-term and increase after-tax returns.

How Tax Loss Harvesting Works >

How Tax Loss Harvesting Works

Traditional Buy and Hold

Consider you hold $10,000 in Security A and the market declines 20%. At this point, your investment has lost $2,000.



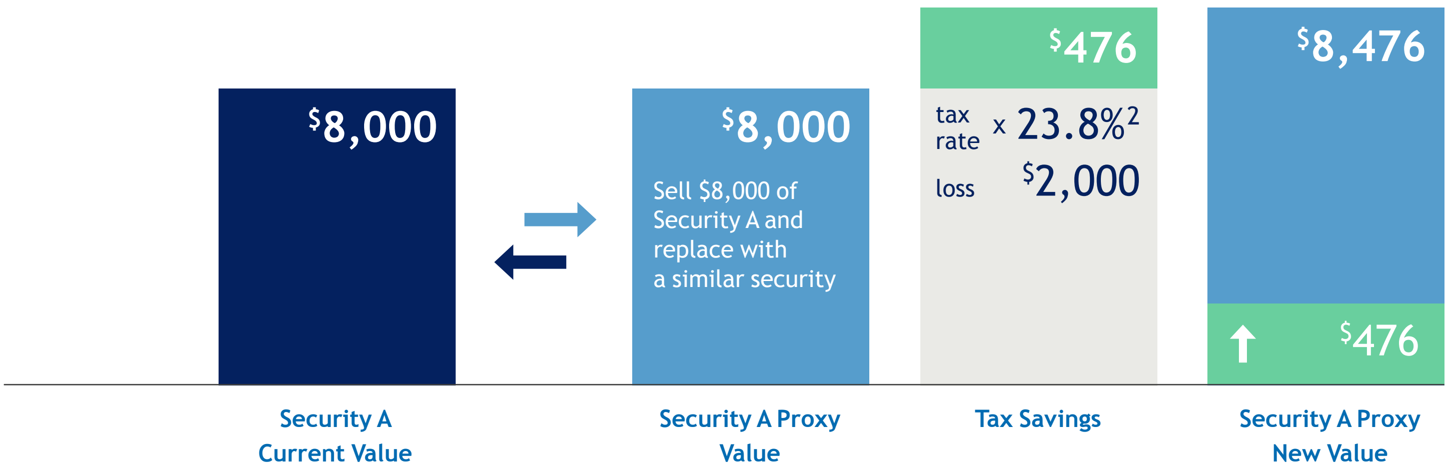
Turning the Loss into a Positive

You now have a choice:

1. Do nothing
2. Use the loss to lower the tax bill

By selling Security A and replacing it with a similar security, your investment strategy remains intact, and you now can use this loss to offset gains in other parts of the portfolio.[1]

By applying the appropriate long- or short-term capital gains tax rate to the loss, you can determine the potential dollar amount of saved tax dollars.

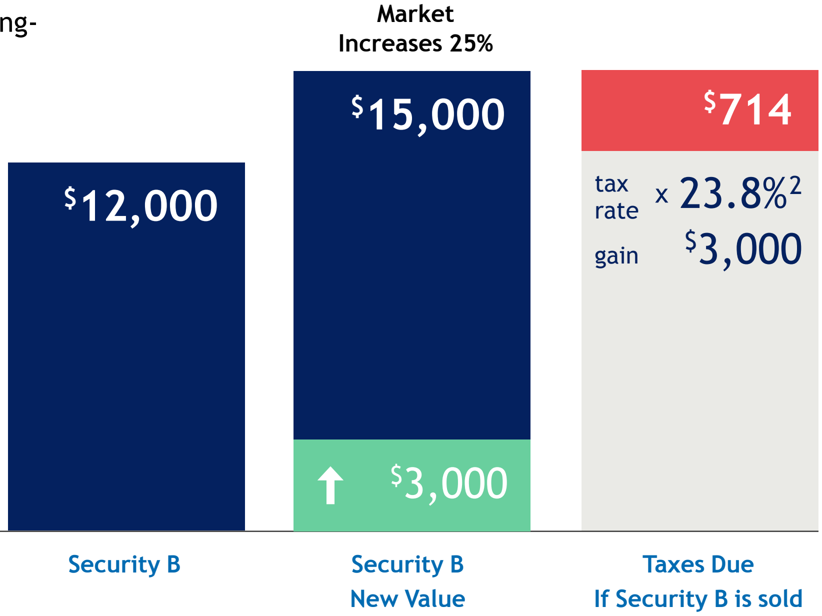


Investment performance is not guaranteed. All investments involve risk, include the potential loss of principal.

Tax-Smart Investing

Applying the Tax Savings to Other Gains

Now consider elsewhere in your portfolio Security B has a long-term gain of 25%. If you were to sell this holding, and pay the maximum long-term tax rate of 23.8% on the $3,000 gain, you would owe $714 in taxes.



Saving on Taxes

Since you previously harvested the loss on Security A, you can offset $2,000 of this gain and save $476 off the tax on this gain, allowing the investor to keep that Security B money invested.

By using losses to offset gains, and potentially up to $3,000 of income, the investor can lower their tax burden in the near term.

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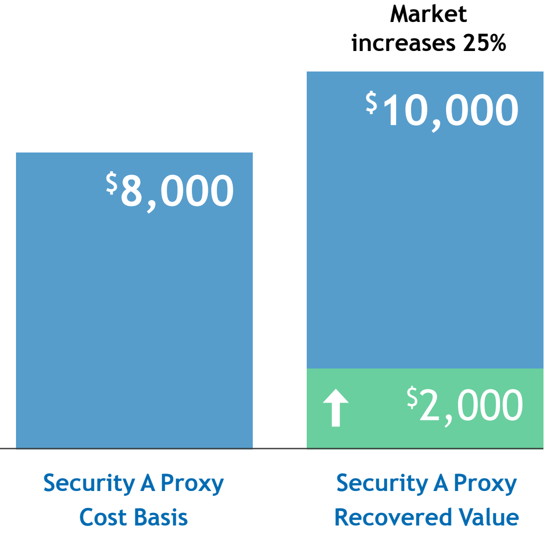
Tax-Smart Investing

Investing Your Tax Savings

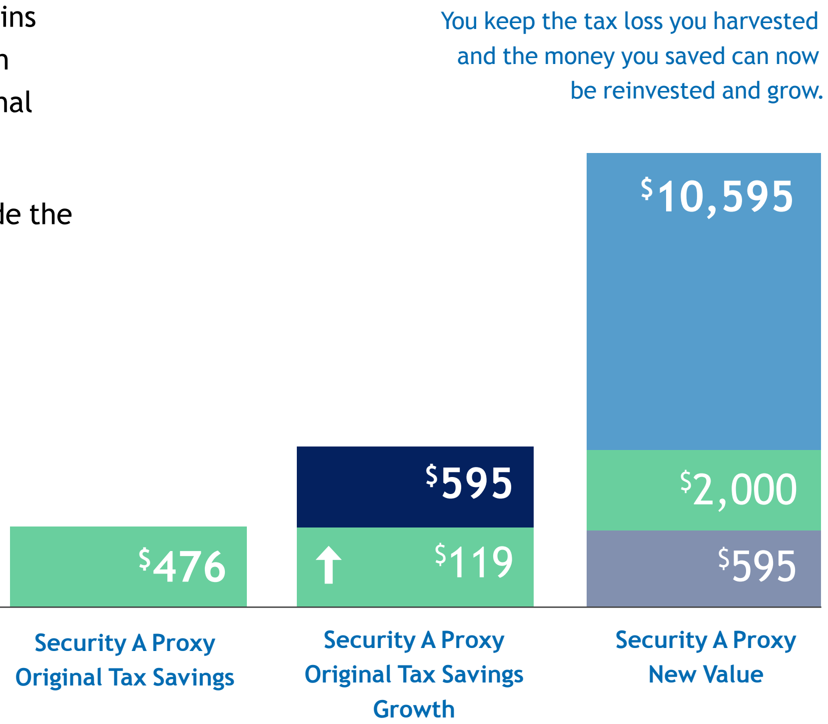
Now, let's say the market goes back up 25% and the security proxy you used to replace Security A grows in value with the recovery.



Capturing Value Even When Market Recovers

If the market recovers its losses, the client retains the value created by tax-loss harvesting and can even keep the money invested, earning additional returns.

$476 in original tax savings rises by 25% alongside the new investment.



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Other Benefits To Consider

If the gains that get offset are replaced by a larger eventual gain on the replacement security, Security A Proxy in the example, these “tax savings” would actually become deferred gains that could be taxed later as the gain is now measured from $8,000, not the original $10,000.

In addition to the near-term tax payment relief, there are three other potential future benefits of deferring the realization of taxable gains that could reduce the amount of taxes eventually paid:

1

Defer short-term capital gain to long-term[2]

↓ tax rate

2

Defer until income bracket is lower

↓ tax rate

3

Defer for cost-basis step up in estate plan

↓ tax rate

Effective Tax Management >

Effective Tax Management

Effective tax management demands advanced capabilities customized to your unique portfolio and objectives:

Who?	Available to clients with accounts over $50,000
When?	Systematically monitored monthly throughout the year
How?	Calculations and security selection powered by intelligent tax-management tools

Where is Tax Management Not Appropriate?

Tax-smart investment management is typically a good idea; however, we will review your portfolio and analyze the potential impact to your investment strategy and your overall financial picture. For example, tax loss harvesting may not be appropriate for clients:

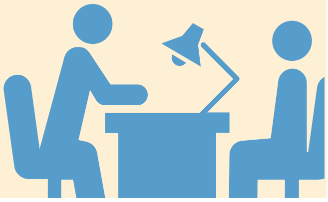
- In non-taxable accounts, such as IRAs or 401(k)s
- In accounts where most tax lots have appreciated so substantially that market-based declines would be unlikely to result in prices below cost basis (although newer tax lots are created with each rebalancing)
- If the investor is in a very low tax bracket or expects that they may be in a higher tax bracket at withdrawal than they are today

Keeping an Eye on the Markets

While no one can predict the future, we believe it is a good idea to be prepared in case markets are volatile or turn downward, and tax-smart management is an important capability to add value during these times.

Learn More

Let's review your portfolio and see how tax-smart investment management may benefit your long-term wealth creation goals.



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The impact of a tax-loss harvesting strategy depends upon a variety of conditions, including the actual gains and losses incurred on holdings and future tax rates. The results shown in these materials are hypothetical and do not represent actual investment decisions.

The tax-loss harvesting service is available for an additional advisory fee and the results shown represent the net effect of the advisory fees but may not consider the impact of fees charged by others, including transaction costs or other brokerage fees. The information contained herein is subject to change without notice, is not complete and does not contain certain material information about the investment strategy, including additional important disclosures and risk factors associated with such investment and information about fees, trading costs and taxes. Neither the U.S. Securities and Exchange Commission nor any state securities administrator has approved or disapproved, passed on, or endorsed, the merits of this document. **More information at www.55-ip.com.**

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Footnotes

1 Wash sale rules do not allow an investor to realize a capital loss for tax purposes and purchase a "substantially identical" security within 31 days of the realization of the capital loss. For reference see IRS Publication 550.

2 Short-term capital gains tax rates correspond to ordinary income tax brackets and range from 10% to 37%.
Long-term capital gains tax rates range from 0% to 20%.