CAPITAL
ADVANTAGE

Saving Your Portfolio from Unnecessary Taxes – May 4, 2017

Agenda

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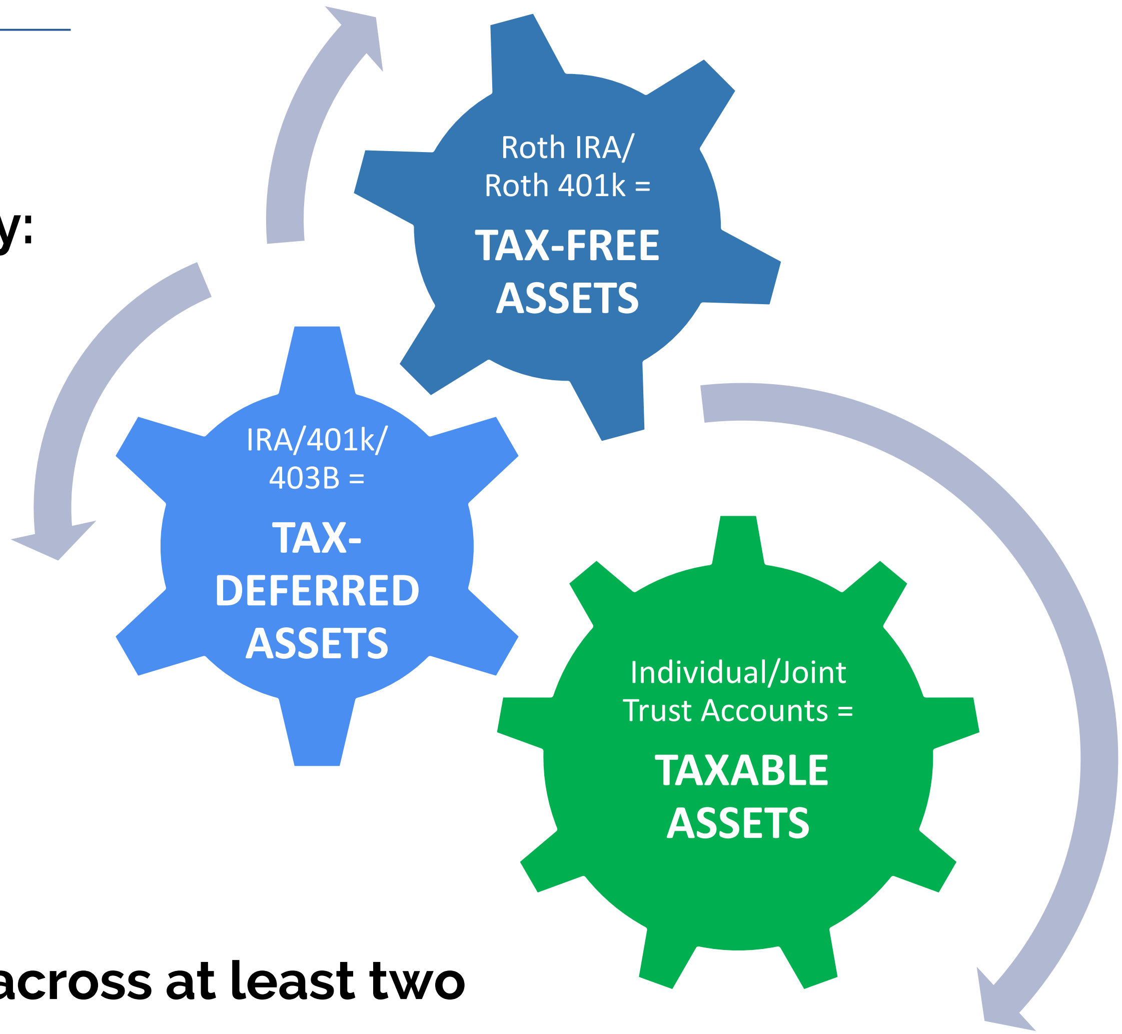
- Introductions and Welcome
- Where to Hold Growth Assets and Where to Hold Income Assets
- What Type of Investment Vehicles Should You Be Choosing?
- How to Use Your Portfolio to Generate Tax Write-Offs
- Planning for Changes to the Tax Code
- Q & A

CAPITAL ADVANTAGE

"Today we are introducing a new simplified tax code: Send us all of your money and we'll send back whatever we don't use."

Portfolio Composition

To Maximize Tax Efficiency: <u>Diversify</u> Your Portfolio



If you only have one type of account, you are not diversified in terms of the tax treatment for your portfolio, and this will make it more difficult to avoid unnecessary taxation on your assets.

Step #1:
Spread your investments across at least two different types of accounts.

Portfolio Composition

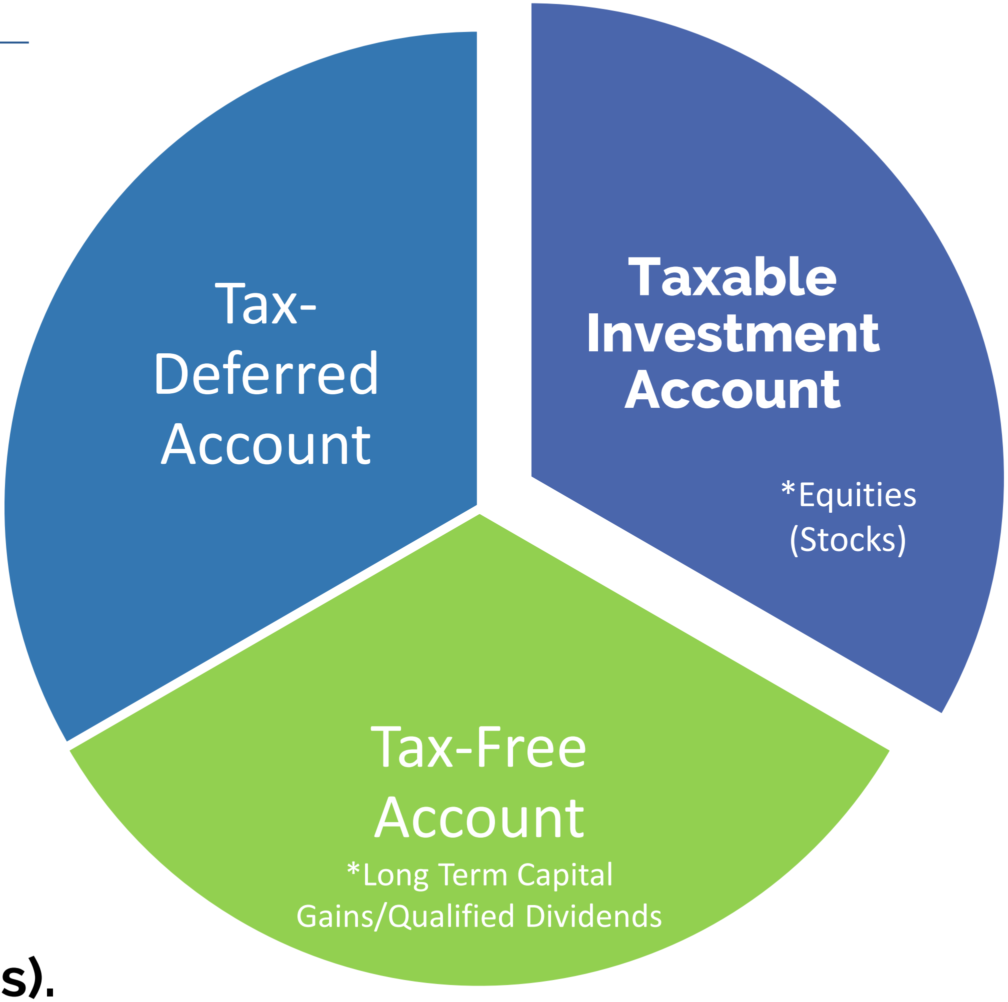
Every portfolio should ideally have a mix of both growth-oriented assets and income-oriented assets.

Long-Term Capital Gains and Qualified Dividends

Single	Married Filing Jointly	Ordinary income rate	Long-term capital gain rate
$0—$9,275	$0—$18,550	10%	0%
$9,276—$37,650	$18,551—$75,300	15%	0%
$37,651—$91,150	$75,301—$151,900	25%	15%
$91,151—$190,150	$151,901—$231,450	28%	15%
$190,151—$ 413,350	$231,451—$413,350	33%	15%
$413,351—$415,050	$413,351—$466,950	35%	15%
$415,051 or more	$466,951 or more	39.60%	20%

Source: http://retireby40.org/pay-no-tax-dividend-income/

Where to Hold Growth Assets



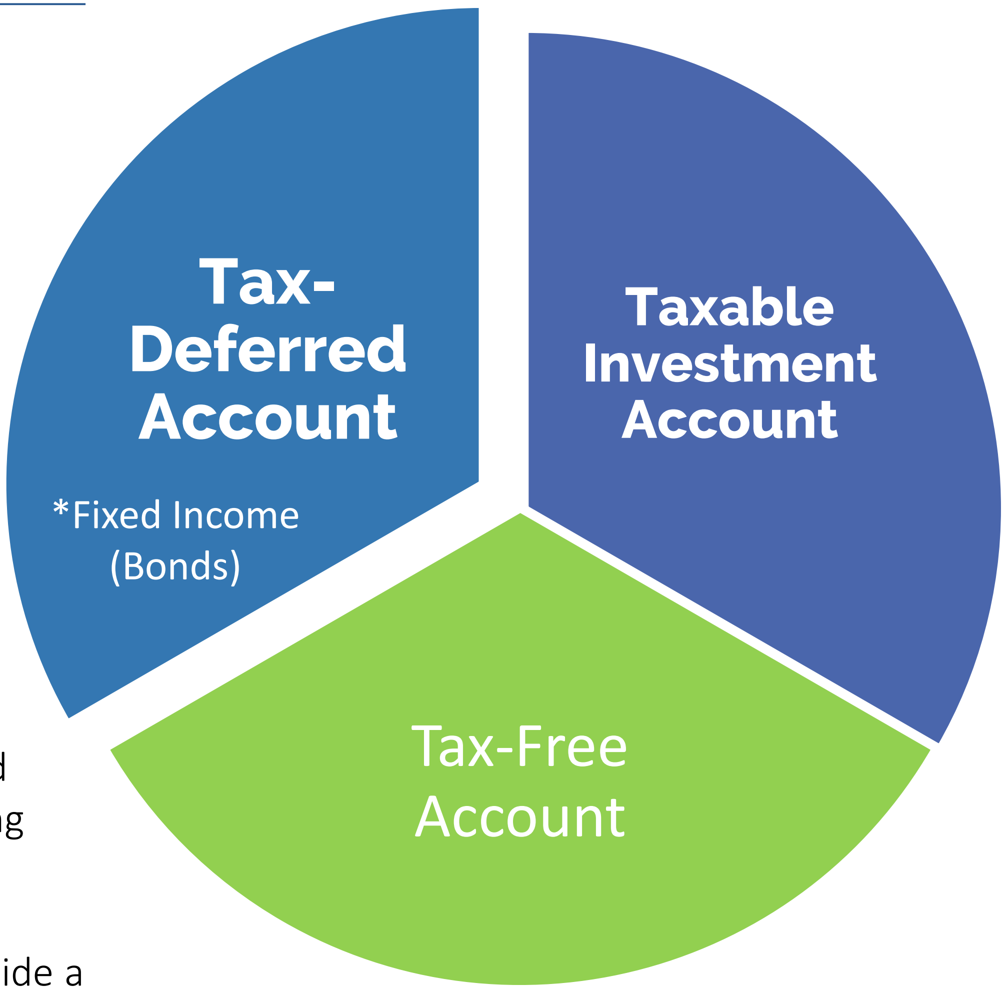
Step #2:

Hold your growth assets (equities/stocks) inside your Taxable investment account(s).

Where to Hold Income Assets

Step #3:

Hold your income assets (bonds) inside your Tax-Deferred investment account(s).



- Holding bonds in your Taxable investment accounts creates some of the most unfavorable tax treatments for income, especially when you do not need the income payments to support spending needs.

- It is better to hold your income assets inside a Tax-Deferred investment account (like your IRA or 401k), so the investments and income payments can accumulate free of taxation.

A Note on Roth IRAs

Roth IRAs grow tax-free…
and distributions aren't taxed either.

Maximize the value of your ROTH by:

- Investing aggressively in this account. (i.e. aggressive growth vehicles)
- Leaving this account invested for as long as possible. (last bucket to pull from during retirement)

KEEP YOUR ROTH IRA GROWING

What Type of Investment Vehicles Are Available?

More Personal Control Tough to Diversify	Broadly Diversified Passively Managed	Broadly Diversified Actively Managed
Individual Equities and Fixed Income	ETFs (Exchange-Traded Funds)	Mutual Funds

* Tax-free municipal securities should only be held in taxable accounts.

Consider Where Investments are Located to Help Enhance Taxable Returns

Tax treatment of expected returns		Taxable	Tax-Deferred	Tax-Free
Exempt	Tax-free municipal securities and municipal mutual funds			
Taxed at long-term capital gain rates	Equity securities held long-term for growth			
	Equity index funds/ETFs			
Taxed at ordinary income rates	Mutual funds			
	Taxable bonds and bond funds			

Avoiding Mistakes

Avoid Fund Distributions

Avoid Buying Mutual Fund Distributions

How to Use Your Portfolio to Generate Tax Write-Offs

Tax Loss Harvesting

- Losses to offset gains
- Up to $3,000 write-off against Ordinary Income
- Use ETFs and Indexes to avoid Wash Sale Rules

Charitable Contributions

Creating a Tax Loss Carryforward

Tax-Sensitive Investment Management

50/50 Stock versus Bond Allocation

Each Account Diversified (Inefficient)

Account Type	Asset Class	Balance	Annualized Return	Annual Gain	Tax Treatment	Applicable Tax	Investment Tax Due
IRA	Stocks	$250,000,000	7%	$17,500	Tax Deferred	28%	$4,900*
IRA	Bonds	$250,000,000	4%	$10,500	Tax Deferred	28%	$2,800*
Individual	Stocks	$250,000,000	7%	$17,500	Long Term Capital Gains	15%	$2,625
Individual	Bonds	$250,000,000	4%	$17,500	Ordinary Income	28%	$2,800

Total Tax on Investments: $13,125

Efficient Asset Location

Account Type	Asset Class	Balance	Annualized Return	Annual Gain	Tax Treatment	Applicable Tax	Investment Tax Due
IRA	Bonds	$500,000,000	4%	$20,000	Tax Deferred	28%	$5,600*
Individual	Stocks	$500,000,000	7%	$35,000	Long Term Capital Gains	15%	$5,250

Total Tax on Investments: $10,850

Annual Tax Savings: $2,275

* Due upon IRA distribution

These results are hypothetical and do not represent actual value added to client accounts, and do not reflect the potential impact of account liquidation. Returns for individual clients will vary. Performance shown represents past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, and you may lose money.

Questions?

Important: Disclosure Information

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