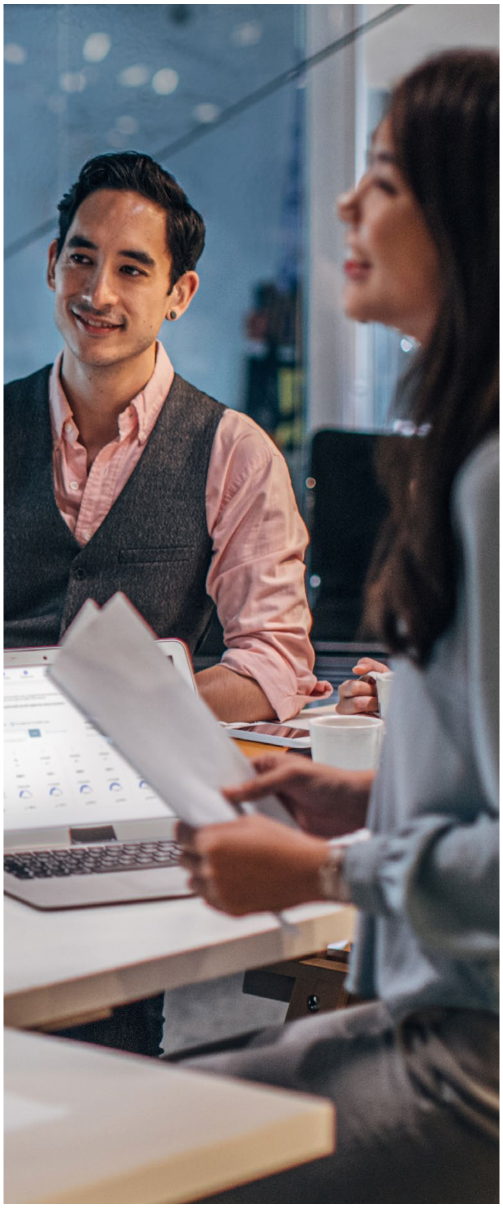
Managing Capital Gains to Improve Client Portfolios

55ip



Money in Motion

The explosion of low-cost investment products and model portfolios provides significant opportunities for advisors to transform and grow their practices while improving client outcomes. However, there is a major obstacle getting in the way of advisors taking full advantage of these opportunities – Taxes!

Capital gains taxes can get in the way whenever there is "money in motion" for non-qualified accounts. Whether it is money flowing into accounts or money flowing out of accounts – taxes pose an obstacle.

The following instances may result in capital gains taxes:

1. Onboarding a new prospect with legacy holdings
2. Withdrawing money to meet client need for funding
3. Modifying a client's investment strategy

Most advisors understand these obstacles, but may not be aware that new technology capabilities are available that allow advisors to efficiently manage them to take the "capital pains" out of money in motion for their clients and practice.

> **Capital gains taxes** to transition taxable accounts has hindered advisors in the broader adoption of model-based strategies beyond small, tax-deferred accounts.

Tax-Smart Transition

A Growth Tool for Advisors

Clients often face a dilemma when they consider hiring a new financial advisor or transferring their taxable assets into a new strategy. Selling their current holdings to make these changes may trigger a large tax bill, which can be a barrier to action – yet clients may not realize the potential cost of remaining in a strategy that might be misaligned with their risk tolerance or goals.

Such changes don't need to be "all-in" or "all-out" decisions based on tax considerations. One of the potential benefits of a model-based practice is the elimination of manual, client-by-client workflows. Now this can include scaling tax calculations.

Advisors can illustrate how much of the client portfolio can be transitioned for a defined tax budget.

Tax Budget – % of Total Tax Bill[1]	0%	20%	60%	100%
% of Portfolio Transitioned	14.8%	40.9%	70.0%	100%
Tracking Error[2]	+/- 3.0%	+/- 1.6%	+/- 0.6%	+/- 0.0%

This chart is for illustrative purposes only and is not representative of actual model performance.

Automated tax-smart transition can "unlock" stranded assets like concentrated stock holdings and accounts transferring from other advisors with embedded gains – and systematic, automated tax loss harvesting may be able to seize on volatile markets to accelerate transitions, just when advisors and clients may need it the most.

Tax-Smart Withdrawal >

Tax-Smart Withdrawal

Preserving Value

As baby boomers enter retirement, how they navigate taxes in accessing their savings is critical. Any erosion of capital diminishes the income-producing potential of a portfolio. For advisors, protecting against unnecessary tax-events improves client outcomes, preserves assets, and by differentiating the advisor, helps grow the practice.

Withdrawing needed income is a balancing act. Simply liquidating securities to minimize the current tax hit could leave the portfolio increasingly imbalanced. Pro-rata liquidation could lead to excessive and unnecessary tax bills. This is a burdensome calculation for an advisor, but yet another opportunity to use tax-smart technology to quantify the tradeoff between taxes incurred and how closely the portfolio is sticking to its target profile.

Tech at Work

Effective tax management technology and proposal capabilities can differentiate an advisor with their ability to provide practical, beneficial guidance to clients and can potentially be critical to success in prospecting and growing their practice.

With the tradeoffs clearly illustrated, the advisor and the client can select the combination of tax bill and target portfolio tracking error that best suits the client.

Estimated Tax Bill	$1,000	$1,400	$1,600	$2,000
% of Portfolio Value	2.5%	3.5%	4.0%	5.0%
Tracking Error	+/- 7.7%	+/- 2.7%	+/- 1.5%	+/- 0.0%

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Your Practice: Powered by 55ip

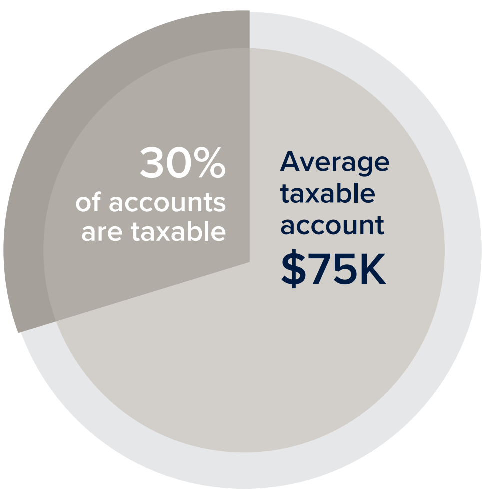
55ip offers an investment model adoption platform designed to help improve outcomes for advisors and their clients. By partnering with 55ip, advisors are empowered with a simple user experience and investment strategy engine for model delivery including design, selection, tax-smart transition and automated trading.

The tax management capabilities co-sourced with 55ip are helping our advisor partners "unlock" taxable assets for model portfolios.

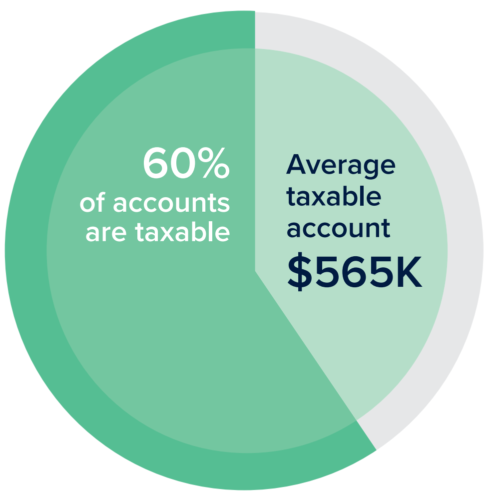
1 Tax-Smart Transition

2 Tax Loss Harvesting

3 Tax-Smart Withdrawal



Typical Model Usage[3]



Overall average of 55ip accounts is $350k

55ip-Powered[4]

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Footnotes

1 Assuming tax rates of 23.8% for long-term capital gains and 40.8% for short-term capital gains

2 Tracking error is a measurement of how closely a portfolio is tracking its intended target holdings

3 Data from TD Ameritrade Institutional Model Market Center – Link Conference 2020

4 Source: 55ip