TAXES AND YOUR INVESTMENTS

Returns after taxes is what matters

HOW WE THINK ABOUT TAXES

When investing there are numerous decisions which impact the tax bill. Some are genuine tax minimization opportunities, while most are tax deferral strategies.

We guide our clients through these options with the goal of helping them keep more of what they've worked so hard to earn.

Nobody likes to pay taxes. As a result, many investors assume that minimizing taxes should be the primary goal. **We disagree**. Our approach is to focus on **total return** and how much **you retain *after* considering taxes**.

Account Taxability
Maximize use of tax-advantaged accounts, like: Roth IRAs, 401Ks and 529s

Asset Location
Hold higher income securities (like bonds) in the non-taxable accounts if the benefits outweigh the costs

Security Selection
Use securities, like exchange traded funds, which are typically more tax-efficient than mutual funds.

Tax-Loss Harvesting
Continuously (not annually) looking for opportunities to defer tax realization through sale of securities with losses.

Special Situations
When necessary, explore strategies like direct indexing, options and exchange funds for handling difficult gain situations

ARE YOU HESITANT TO REALIZE TAXABLE GAINS?

Consider this thought experiment...

Would you rather:

1. Continue to hold a winning investment to avoid realizing a gains tax, only to watch it later decline into loss?

OR

2. Sell a winning investment while it is up, pay taxes, and reinvest in a more attractive opportunity?

Option 2 is a clear winner

The moral? **Taxes alone should not drive your investment decision-making.** They are one consideration among many as you seek to squeeze the most out of your investment returns.

CAN I REDUCE OR JUST DEFER GAINS? IT DEPENDS.

A TAX SAVVY TAKEAWAY

Minimizing taxes is easy... speculate on a few bad investments and you'll likely be well on your way.

Maximizing what is left in your pocket after paying taxes is hard... as it requires a sound tax-aware investment and planning strategy.

AM I REDUCING OR DEFERRING TAXES?

Certain decision we make have the potential to reduce taxes. Most are simply deferring taxes. But there can be value in deferral.

Tax reduction opportunities

Genuine tax reduction strategies within your investment portfolios are few and far between. Some examples are:

- Roth IRAs (tax free withdrawals)
- Traditional IRAs (contributions may be tax-deductible)
- 401(k) (pre-tax contributions can reduce your taxable income)
- 529 Plan (withdrawals for education are tax free)
- HSA investment account (withdrawals for medical expenses are tax free)
- Donations (if you plan to donate to charity, you may be able to donate appreciated assets and avoid gains taxes)

Tax deferral opportunities

Much of what investors think of as investment “tax strategies” involve tax deferral rather than tax reduction. Some examples are:

- Tax-loss harvesting
- Tax-efficient securities like ETFs
- Asset location strategies
- Direct indexing
- Exchange funds
- Option-based hedging strategies

Pay less today but more tomorrow

The potential value of deferral

The cost of deferring taxes today, is that you will owe more down the road. So why bother? There are several reasons:

1) Often investors will be in a lower tax bracket in retirement. Deferring taxes until retirement could result in genuine tax savings.
2) You could potentially invest the savings today, helping to offset the cost of your future tax bill.
3) If you never have to sell your assets, you may be able to pass them on to your heirs and eliminate the gains with stepped up basis.