Proactive, Ongoing Tax Management

Improving Clients' After-Tax Returns

Adhesion's Tax Sensitive Overlay Management is an optional service for advisors wishing to mitigate the impact of taxes on clients' portfolios. Although never desired, losses on investments in taxable accounts can offer a silver lining: they can be used to help offset taxes. Tax loss harvesting is considered by many investment professionals to be one of the most effective active portfolio management strategies available.

This is enabled through the combination of Adhesion's sophisticated **Unified Managed Account (UMA)** platform, a centralized **Overlay Portfolio Manager (OPM)**, and model portfolios from **Separate Account Managers (SAMs)**.

Tax Management Services In Action

Tax-efficient Trading

The major purpose of an overlay system is to identify the most tax-advantageous way to carry out trading instructions. The Adhesion UMA Platform recognizes that securities are purchased at different times and prices. For example, say Johnson & Johnson was bought by different managers five years ago, three years ago, and this year, and now one manager wants to sell. We look at the individual holding lots to see which shares to sell for the best tax outcome. And as gains are realized, the Adhesion UMA Platform also finds potentially offsetting losses.

Some more traditional managed account platforms may employ a **First-In, First-Out (FIFO)** methodology and sell the lot that was purchased first. With Adhesion UMAs, the overlay manager uses a best tax outcome methodology instead of FIFO. This allows you to keep lower cost holdings in your account.

Wash Sale Prevention

Your **large cap growth** investment manager sells a stock at a loss. A few days later, your **large cap value** investment manager buys the same stock because he believes that it is now undervalued in the marketplace.

You have just run afoul of IRS wash sale rules. A **wash sale** occurs when you repurchase a stock within 30 days of selling it. Any loss realized from the sale cannot be used for tax purposes.

With Adhesion UMAs, we take precautions to help avoid this all-too-common scenario. When a stock is sold for a loss, that security will be protected for 30 days and only bought back 31 days after the sale. If you have multiple equity portfolios in the UMA, it will block that security across all separate managers involved.

Tax Loss Harvesting

The end of the year has become known as "tax swap season" for many advisors. It's a time-consuming search of their clients' portfolios for losses that can be used to offset the gains realized earlier in the year, potentially decreasing the taxes owed.

With Adhesion UMAs, if an account has a net realized gain at the time of tax harvesting, we will attempt to offset the gain by selling positions that are currently held at a loss. This allows the account to take advantage of market movement throughout the year — not just during the year-end scramble.

Numerous studies have shown material enhancement to long-term performance from proactive and tax–sensitive rebalancing methodologies.

> The ultimate goal is **tax alpha** — the added return due to tax management — achieved with low deviation.

What is Tax Loss Harvesting?

Tax loss harvesting is the practice of selling a security that has experienced a loss.

By realizing or "harvesting" a loss, investors are able to offset taxes on both gains and income. The sold security is replaced by a similar one, maintaining the target asset allocation and expected returns.

Tax Loss Harvesting in Action

$500,000 UMA
has generated $25,000 in **realized gains**

We review your entire portfolio and identify several positions with **unrealized losses** totaling **$25,000**

We sell the losing positions, thereby providing you with losses to **offset** your gains

We invest the proceeds in **exchange-traded funds (ETFs)** so you will still have market exposure and avoid sacrificing potential growth

After the **30-day** wash sale period elapses, we sell the ETFs and repurchase the sold positions, unless it is no longer held in the investment manager's model

Harvesting Tax Savings

Realizing losses can pay off at tax time by offsetting gains.

USE	TO OFFSET
Short term-losses	Short-term gains
Long-term losses	Long-term gains
Leftover losses, either short- or long-term	Leftover gains, either short- or long-term
Remaining losses	Up to $3,000 in other income per year. Excess losses may be carried forward for use in subsequent years.

Show Clients Your Added Value

Tax burden reduction report

Learn More

phone / **888-295-8351**
email / **solutions@adhesionwealth.com**
website / **adhesionwealth.com**

ADH–FS/TAX OVERLAY/V2–11/19