

Adhesion 
wealth

An AssetMark Company

Unlocking Tax Alpha

A Comprehensive Guide for Financial Advisors



Introduction

As a financial advisor, one of your primary goals is to help your clients manage and preserve their wealth. Advisors need to become trusted guides, working alongside their clients to help improve after-tax returns. We call this added value - "advisor alpha." Advisor alpha is the additional value financial advisors bring to their clients through personalized financial planning, tax-efficient strategies, and other services beyond traditional investment performance. A key aspect of this process is understanding and optimizing tax efficiency. In this comprehensive guide, we will explore the concept of tax alpha and discuss how financial advisors can achieve advisor alpha and potentially add value by leveraging tax alpha strategies

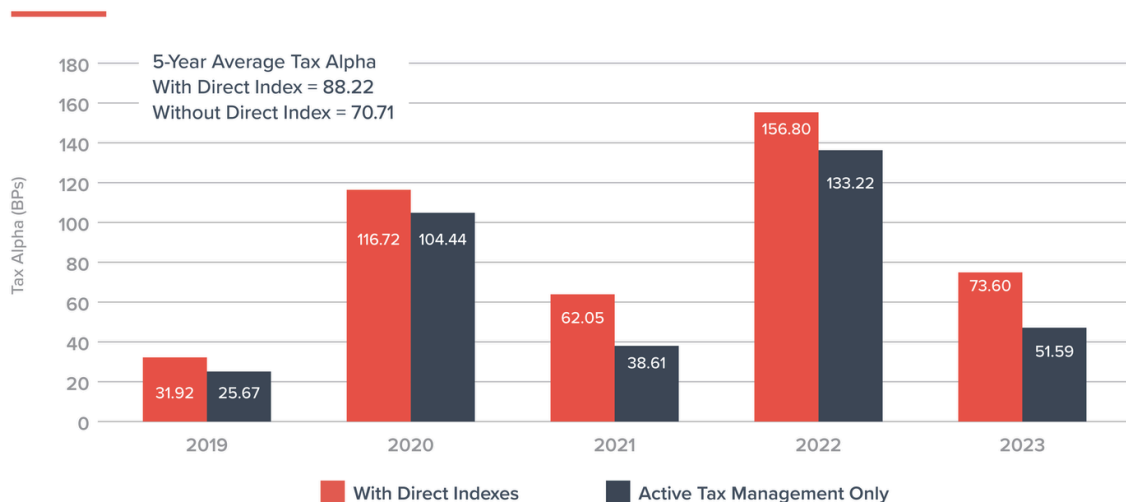
What Is Tax Alpha? Why Does It Matter?

Tax alpha refers to the additional value generated through **tax-efficient investment management strategies**. Tax alpha is designed to enhance a portfolio's after-tax returns by minimizing the tax burden on investment gains. This concept has gained prominence as investors and financial advisors increasingly recognize the importance of tax efficiency in wealth management.

Taxes can significantly impact a client's investment returns. By employing tax alpha strategies, financial advisors can optimize their clients' portfolios, potentially improving outcomes and increasing client satisfaction. The ability to add tax alpha sets apart top-performing advisors, highlighting their expertise in managing complex financial situations.

Historical Tax Alpha (in BPs)

Adhesion Clients Enrolled in Active Tax Management



Tax Alpha refers to actual client accounts based on Adhesion's tax harvest program, using presumed highest short- and long-term gain rates. This illustration does not consider outside, non-managed taxable events. Tax Alpha is cited as a % of improvement where the liability reduction is compared to the client's portfolio valuation.

The illustration only reflects accounts fully enrolled in the Tax-Loss Harvesting program for an entire calendar year. Accounts that had no starting tax liability (where total losses generated are 'banked' for future tax years) were excluded.

Strategies to Achieve Tax Alpha

Advisors have several popular strategies to reach tax alpha and enhance their clients' portfolios. These tax alpha strategies include:

1

Tax-loss harvesting

Tax-loss harvesting is a strategy that sells underperforming investments to offset realized gains, reducing tax liability, and improving after-tax returns by potentially deferring taxes and leveraging lower future tax rates.

2

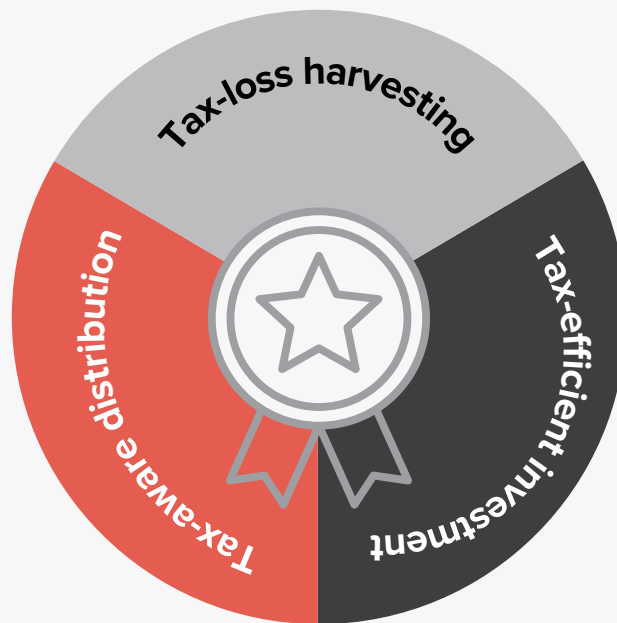
Tax-efficient investment selection

Tax-efficient investment selection focuses on choosing investments, such as ETFs, index funds, tax-managed mutual funds, and tax-exempt bonds, that generate lower taxable income to improve portfolio tax efficiency.

3

Tax-aware distribution strategies

Tax-aware distribution strategies revolve around planning the sequence of withdrawals from various account types to minimize taxes on distributions and optimize a client's financial situation.



These tax alpha strategies provide several potential benefits to investors, including:

Improved after-tax returns: By minimizing taxes on investment gains and income, these strategies help enhance after-tax returns, allowing investors to retain more of their earnings and grow their wealth more effectively.

Tax deferral: Strategies like tax-loss harvesting can enable investors to defer taxes on gains, which provides the advantage of lower tax rates in the future, compounding the growth of investments over time.

Greater tax efficiency: A tax-efficient investment selection contributes to increased tax efficiency in a portfolio, helping investors keep more of their returns and reduce tax liabilities.

Optimized retirement income: Tax-aware distribution strategies help investors plan the withdrawal of funds from various account types tax-efficiently, which may lead to more sustainable income during retirement and potentially preserve wealth for their heirs.

Holistic financial planning: By incorporating tax alpha strategies into a comprehensive financial plan, investors can align with their long-term goals and objectives, creating a robust and balanced approach to wealth management.

Enhanced client satisfaction: For financial advisors, implementing these strategies can result in higher client satisfaction as clients recognize the value of tax-efficient investing and its positive impact on their financial situation.

Competitive differentiator: Financial advisors who effectively employ tax alpha strategies can differentiate themselves in a competitive industry, showcasing their expertise in tax-efficient investing and their commitment to maximizing clients' financial success.

Achieving Tax Alpha Through Tax Overlay Management

The goal of tax overlay management is to minimize tax liabilities and maximize after-tax returns by implementing tax-efficient investment strategies.

Tax overlay management typically involves using a range of techniques, including tax-loss harvesting, asset location, and tax-efficient rebalancing. These strategies help to minimize tax liabilities and potentially improve after-tax returns for investors.

Adhesion's Full-Range Tax Overlay Management Services



Migrating Taxable Portfolios Cost-Effectively

Whether you are tasked with adding new client assets or making changes to existing strategies, you can show clients that you can migrate taxable portfolios effectively, while managing tax liability and enhancing tax alpha.

Effective approaches to tax overlay management

An effective tax overlay management strategy can provide the edge advisors need to add value to their clients' portfolios. With the help of **tax overlay management** services, advisors can:

- Extend the holding period for significant gains
- Optimize sale activity at the tax lot level
- Customize portfolio management for each client to protect legacy and affinity holdings
- Stay aligned with defined risk goals
- Demonstrate to clients the tangible results of your active tax management



Direct Indexing as a Tool to Achieve Tax Alpha

Direct indexing has emerged as a strategy that financial advisors should pay close attention to. Enhancing tax alpha with a mix of tax overlay management and tax transition services can potentially deliver significant benefits. Direct indexing is a valuable tool in an advisor's arsenal.

Direct indexing provides advisors with greater control and customization over their clients' portfolios. Unlike traditional investment vehicles such as mutual funds or ETFs, direct indexing allows clients to own individual securities, tailoring the portfolio to meet specific tax optimization strategies. This level of control opens opportunities for tax-efficient techniques, like tax-loss harvesting and tax-efficient rebalancing.

Direct indexing allows for investing with a purpose, creating the opportunity for advisors to reduce overall product costs for their clients. Additionally, direct indexing is versatile:

- As a core module inside of a larger core/satellite portfolio
- To adhere to a client's values that could generally not be achieved through an ETF or mutual fund
- As a tax-loss harvesting module within a portfolio that demonstrates index-like tracking characteristics

Tax-loss harvesting

With direct indexing and tax management, advisors have the flexibility to identify and **harvest tax losses** at the individual security level, potentially providing a higher degree of precision compared to traditional investment vehicles.

By implementing tax-efficient investment strategies, such as Direct Indexing—which can range from a handful of ETFs to thousands of individual stocks—financial advisors can showcase their expertise. Delivering comprehensive tax-efficient and tax-aware strategies not only highlights their competency, but also underscores the importance of staying current with ever-evolving tax changes. This helps advisors build trust with clients and potentially long-term financial success. Financial advisors who prioritize advisor alpha can deliver comprehensive and tailored financial planning services.

Adhesion Wealth: Supporting Financial Advisors in Tax Alpha Strategies

Adhesion Wealth provides financial advisors with an outsourced managed account solution that allows them to focus on building client relationships and growing their practice.

By outsourcing investment management to Adhesion Wealth, financial advisors can access a variety of investment strategies, including tax-efficient portfolios designed to maximize tax alpha. Delegating investment management tasks to Adhesion Wealth allows advisors to leverage their expertise in tax planning and focus on nurturing client relationships.

One of the primary advantages of Adhesion Wealth's platform is its tax management tools, including the tax overlay strategy. The strategy is designed to manage tax liabilities and enhance after-tax returns for clients. With techniques, such as tax-loss harvesting, advisors can help clients keep more of their investment returns, designed to achieve better long-term outcomes.

Adhesion Wealth's platform also provides a variety of features for creating and managing customized portfolios for each client, with numerous tools for portfolio management, trading, rebalancing, and reporting, simplifying the management of clients' assets in one location.

With Adhesion Wealth, financial advisors have the potential to achieve both tax alpha and advisor alpha that demonstrate more value to clients

Achieving Advisor Alpha

By implementing tax-efficient investment and tax-aware strategies, financial advisors can showcase their expertise, and build trust with clients, to enhance long-term financial success.

Overall, financial advisors who prioritize advisor alpha can deliver comprehensive and tailored financial planning services, positioning themselves as trusted guides in their clients' financial journeys.

Conclusion

Tax alpha is a powerful tool that financial advisors can leverage to help clients grow and preserve their wealth more effectively. By understanding and implementing various tax alpha strategies, advisors can potentially improve after-tax returns, enhance client satisfaction, and differentiate themselves in the competitive financial services industry. To stay ahead of the curve, financial advisors should prioritize ongoing education and skill development, embrace technology, and continually refine their tax planning processes.

Working with a trusted provider like Adhesion Wealth can help empower financial advisors to deliver tax alpha more efficiently and enable them to focus on cultivating client relationships and growing their practice.

To learn more about how Adhesion Wealth can help you generate tax alpha and enhance after-tax returns for your clients, [contact us](#) today.



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Tax-Loss Harvesting and tax management strategies (“tax management”) are designed to improve the after-tax return for the client’s account. Tax management may cause account to deviate from the investment models and can affect the risk profile and performance, which can impact tax and investment results. Tax analysis reports may vary over time. Actual tax management results are subject to change based on investment holdings, market conditions, timing, and other factors. Securities may be partially traded or not traded due to market movements and illiquidity, rebalancing, client activity, and other factors. Adhesion, at its discretion, will determine when to take tax management actions based on any client restrictions or other instructions, such as client withdrawals. The timing of trading in tax-managed accounts may differ from non-tax managed accounts.

Tax analysis reports are not a replacement for other tax reports for tax filing purposes. Investors seeking more information should contact their financial and/or tax advisors.