December 10, 2018

TAX LOSS HARVESTING

We want to provide an update regarding year-end planning within your taxable investment accounts. As noted in our previous communications regarding the recent market backdrop, 2018 has been a period of increased volatility coupled with mixed performance. We understand that experiencing these fluctuations can be unsettling, however, these conditions potentially present a silver lining during an otherwise less than desirable investment environment.

We have been and will continue reviewing portfolios for opportunities to employ a strategy known as “tax loss harvesting.” This strategy enables an investor to recognize a loss for income tax purposes by selling a security and simultaneously purchasing a similar security to maintain market exposure. While there are imposed limitations established by the Internal Revenue Service on how this loss can be applied, this can serve as a valuable tool for reducing your taxable burden. Additionally, any losses that exceed current year gains can be carried forward to offset any capital gains realized in future years.

We’ve also been actively monitoring mutual fund capital gains distributions, which generally take place around the end of the calendar year. These distributions vary in size from fund to fund, based primarily on portfolio turnover, and are passed through in the form of short-term and/or long-term gains. This creates the potential for a substantial taxable event to the shareholder, and we’re continuously reviewing the sizes of the distributions relative to the individual investments so that we can possibly navigate around any gains that would exceed unrealized gains within each position. While a majority of our managers have stated their expected 2018 distributions to be nominal, there have been instances that warranted action to avoid exposure to an undesirable tax consequence.

We are regularly reminded that successful investing requires an ability to live with a good bit of uncertainty. This reinforces the importance of focusing on the things we can control, such as

1. using a thoughtful, risk-based approach to portfolio design,
2. reducing manager fees and expenses, and
3. minimizing tax consequences.

As such, we'll continue to be proactive and use available tools and strategies as we monitor and assess ongoing market actions. If you have any questions, please don't hesitate to reach out. We thank you for your continued trust and allowing us to serve your family.