



Bringing Order to Your Investment Universe

www.tvamp.com



Contents

Part 1

The Beauty of Being Organized

Part 2

Transitions and Taxes

Part 3

Optimizing Your Organized Investments

When it comes to investing, our message
has long been loud and clear:

Build a well-structured portfolio to capture
available market returns while managing
the risks involved.

Shape it to meet your individual goals
and risk tolerances.

Keep a lid on the costs.

Stay on target over time.



That's all well and good, but...

What if you've been investing a
while, but you don't yet have that
“well-structured portfolio”?

Part 1

The Beauty of Being Organized

It stands to reason: The more wealth you accumulate, the more chaotic your assets and accounts can become. What begins as a manageable assortment (hopefully) grows. That's a good "problem" to have, but the sheer volume can eventually overwhelm your organizational efforts.

Then what? Fortunately, it's never too late to bring order to your investment universe. Today, we'll take a look at how to move from random results to a more organized approach.

Step One: Take Stock of What You've Got

A great way to get started is to figure out where you stand today. What do you currently own? Where are you holding it, and why? Bonus points if you can determine how much your current holdings are costing you in apparent and hidden fees.

Step Two: Decide Where You'd Like To Go

Next, it's time to plan—and document—what your orderly investment universe looks like, and how you expect to get there. Having a plan in place can feel incredibly empowering if your investments have gotten out of hand. You can stop taking pot shots at your wealth, and begin aiming at your tailored targets.

Strategy: How much risk and expected return are you shooting for? Do you have the time and temerity to take on more investment risk, hoping for higher returns? Or are you better served with a more modest approach—less "exciting" but less likely to fall apart in a pinch?

Target: If you could start with a clean slate for creating your "perfect" investment portfolio, what would that look like?

How many stocks vs. bonds, international vs. domestic, and so on? What would be the best funds or securities for achieving your aim?

Tactics: Which of your current investments no longer make sense for your plans? Which might be replaced with better-managed, lower-cost equivalents? What pieces are missing?

Step Three: Proceed as Planned

If you've accumulated a vast clutter of capital, you're likely to want to do some remodeling: selling unnecessary or overpriced positions, buying others that are a better fit, streamlining duplicate assets and accounts, and otherwise rearranging your financial furniture.



In a tax-free world, you could proceed at full speed. In real life, when you sell positions for more than you paid for them, there can be burdensome capital gain taxes realized in the year of the sale.

Plus, if you generate enough taxable gains in a year, it could bump you into a higher tax bracket, which could increase your tax rates across a wider swath of your total annual income.

How do you pursue a tidy transition, given the challenges involved? It helps to identify which trades can be placed promptly, and which may be better managed over time.



Part 2

Transitions and Taxes

Easy Assignments

Here are two conditions under which you should be able to fast-track your transitional trades:

In Tax-Sheltered Accounts:

Depending on the account type, you may pay ordinary income taxes when you eventually take money back out of a tax-sheltered account. But there are no tax consequences to the trades you make within these accounts along the way. Because realized gains are not taxed in your tax-sheltered accounts, we can usually place trades promptly within any of them.¹

In Taxable Accounts: In your taxable accounts, we can sell targeted positions that have not grown much in value over time, since these trades will incur few, if any taxable gains. If a holding has actually declined in value, you may even be able to incur a capital loss on it, which can be used to offset gains incurred elsewhere.

Deliberate Decisions

What if your plan calls for selling taxable positions that have substantially appreciated (gone up in value)? It's not as easy to decide whether and when to trigger these taxable gains. Should you sell sooner than later? Bide your time? Skip it entirely? Let's look at each possibility.

Selling Sooner

Nobody enjoys paying taxes. But remember...



¹) Tax-sheltered accounts include traditional, Roth, SEP, and other types of IRAs; 401(k) and 403(b) employer plans; and similar types of accounts.

Tax Costs Are Relative: Moving toward a low-cost, tax-efficient, well-structured portfolio should leave you better positioned to earn the highest expected returns for the costs and other risks involved. If a careful analysis suggests the expected rewards should readily outweigh the upfront costs, it may make sense to go ahead and pay those taxes anyway.

Your Mindset Matters: The sooner you're able to sell positions that are no longer serving your needs, the sooner you can establish a better sense of control over your money. With the improved clarity, you're less likely to make costly, "buy high, sell low" investment mistakes in ever-moving markets. Failing to invest consistently can cost far more than the tax hit you may need to take to acquire greater investment resolve.

You're Buying Low and Selling High: If you sell a position for a taxable gain, you're also locking in a profit.

Since that's exactly what an investor ultimately wants to do, it may be worth paying reasonable taxes to periodically take some of your overweighted "winnings" off the table.

Biding Your Time

So, yes, there are times it may make sense to pay some upfront taxes to speed your plan along. Other times, it may make more sense to take a multiyear course toward your ideal transition. By preparing to sell targeted positions across several years, you may be able to strike a happy medium between minimizing the impact on your annual tax rates while successfully moving toward your preferred portfolio.

"Pretty Nice" May Need To Suffice

Your plan also may include keeping some of your less-ideal investments indefinitely. Even if a holding isn't THE perfect position for the job, close enough may be good enough if the tax and/or trading hurdles are high enough.

Also, some of your net worth may be tied up in an employer's retirement plan, equity incentive program, or similar account where your choices are limited. These assets still need to be considered within your overall portfolio, but may call for a different level of planning.

Bottom line: don't be blindsided by taxes. **But neither should an aversion to taxes blind you to the practical and emotional costs of clinging to a position longer than warranted.** Fortunately, there are many ways to manage a smoother transition.

We'll cover some of them next.



Part 3

Optimizing Your Organized Investments

Especially if your plans call for a multiyear shift toward your ideal investment portfolio, there are a number of tactics we can take to ease the transition toward more orderly investing. Some of them are purely practical. Others help you remain calm and confident along the way. We can mix and match them as needed to contribute to your investment success.

Taxes, Taxes, Taxes

Just as location, location, location often dictates where you'll buy your next home, tax-efficiency is usually integral to your move toward more organized investing. Within your taxable accounts, there are a number of tax-planning strategies we can pursue to minimize the damage done.

Mind Your Annual Income: Be mindful of your total annual income as you proceed.

For example, you might experience a low-income year if you're between jobs or shifting into retirement. Other years, you might receive a big pay raise, sell your business, or otherwise take on extra taxable income. You may be able to speed up your transition by deliberately incurring extra taxable gains in lower-income years, and move more cautiously in higher-income ones.

Watch for Those Tax Thresholds:

Try to avoid the "gotchas" that can be triggered when realized taxable gains add to your overall annual income. For example, if the extra income pushes you into a higher tax bracket, your overall marginal tax rate may increase.² Access to other government benefits can also be affected by your reportable income, such as whether or not you are subject to additional **IRMAA** fees when you qualify for Medicare.

2) Entering into a higher tax bracket does NOT mean you must suddenly pay a higher rate on ALL of your reportable income; you only pay a higher rate on the amount that exceeds the previous bracket. In techy terms, the total rate you pay across all your brackets is called your marginal tax rate.

Skip the Short-Term Gains: If you sell a taxable position you've held for a year or less, gains are taxed at typically higher short-term rates. It may be worth waiting to sell significant positions until you've owned them for more than a year, so the sale qualifies for long-term gain rates.

Harvest Some Losses: Even if your investment plans don't call for selling particular investments in your taxable accounts, you may still be able to tap them for **tax-loss harvesting**. By selling any positions in your taxable portfolio at a loss—and promptly reinvesting the proceeds in a similar (but not identical) asset—you can generate realized losses to offset realized taxable gains, **without altering your overall portfolio mix**. This may free you to realize more taxable gains among the positions you do want to permanently sell.

Be Picky About Lots: Instead of selling an entire fund, ETF, or stock holding, you can sell targeted lots, or share batches, within each.

For example, your earliest lot comes from your initial purchase. You also may acquire additional lots through dividend reinvestments, or by buying more shares over time. When it comes time to trade, you might sell particular lots with lower embedded gains, keep those that would incur short-term gains, and/or use specific lots to harvest capital losses, as described.



Seizing the Days

As you transition toward your ideal portfolio, life may send you additional opportunities to seize and obstacles to avoid. Following are a few examples.

Take Advantage of Market Declines: When markets decline, stocks go on sale. If your plan calls for selling some positions and buying others, you may be able to take advantage of market downturns to enjoy lower taxable gains as you sell, and better (lower) prices as you buy!

Add New Money to the Mix:

Whenever your plan calls for holding more of a particular type of investment, it's always best accomplished when you can add new money to your portfolio, and investing it accordingly—no taxable strings attached. Have you recently experienced a pay raise, equity compensation event, or inheritance? Any such “found” money can be ideal for this role.

Withdraw Money Mindfully:

Likewise, as you withdraw money from your investment accounts, you can be deliberate about selling positions in which you are overweight, to reduce your exposure to them as planned.

Shift Money from Taxable to Tax-Sheltered:

Each year, you are given fresh opportunities to add new money to your tax-sheltered accounts. You might use these annual opportunities to move assets from your taxable to your tax-sheltered accounts, where trades do not incur taxable gains. This may offer more flexibility for achieving and maintaining your ideal portfolio mix.

Give Your Money Away: If you are charitably inclined or planning to gift assets to loved ones, you may be able to move your portfolio closer to your ideal targets through charitable giving and/or gifting. In short, if you're planning to give some money away anyway, you might as well be deliberate about which investments you tap for it.

Acting on Your Orderly Resolve

Are you ready to bring more order to your investment universe? Consider hiring a planner to step you through the tactics just described. Your planner can also provide you with a robust cost/benefit analysis to help you:

- Decide how fast or slow you'd like to go.
- Know where you stand as you proceed.
- Resolve second thoughts you may encounter along the way.

There's a caveat, though: **Seek a planner who clarifies rather than confuses your planning...**

Your ideal ally will not only provide you with solid numbers to consider, they should be able to ***explain them in a way that makes sense to you.***

The goal is to gain an empowering sense of control over your investments. Proceed with caution if someone is instead trying to dazzle you with daunting data that leaves your head spinning.

Also, be sure to give yourself some grace as you proceed.



To build and maintain a comfortable pace for you and your wellbeing, we suggest hiring a planner to assist with the practical and emotional challenges involved.

And remember, even the most orderly universe usually contains some chaos, to fuel the work in progress. Money management is no different. The more accurately you aim for perfection, while embracing the essential uncertainties involved, the more effectively you can pursue your ideal financial goals.



Change—even change for the better—can be scary. While your head may be telling you it's time, your heart may be hesitating.

Ready to make smart financial decisions?



Fiduciary Wealth Advisors.
Ready to help you.

Schedule your 15-minute introductory call today:

www.tvamp.com