

Managing wealth with tax-advantaged long/short

Major wealth events, like selling a business or receiving a substantial stock distribution, create unique opportunities, as well as significant tax considerations.

A tax-advantaged long/short strategy seeks to generate investment losses strategically to offset your taxable gains while keeping you fully invested. This lets you manage your wealth event on your timeline, preserving more capital and deferring immediate taxes, turning a tax burden into a strategic advantage.

Maximizing tax efficiency



Direct indexing allows you to own individual stocks in an index, like the S&P 500. When stocks decline in value, you systematically sell them to capture tax-saving losses and then reinvest to stay in the market.



Long/short extensions add an overlay to amplify the tax optimization for situations that require more losses.

Examples:

- Selling a business
- Concentrated stock position
- Highly appreciated legacy portfolio
- Distributions from alternative investments



Think of your after-tax outcomes like fishing

Traditional strategies only catch when markets fall, like fishing at low tide.

A long/short strategy gives you two nets: one for declining markets, one for rising markets.

You're always fishing, always generating losses to offset gains, regardless of which way the tide flows.

How it works

Traditional portfolio:

- You invest \$100 in stocks. This investment rises and falls with the prices of the stocks.

Long/short strategy:

- You invest \$130 in stocks you expect to outperform (long) and invest \$30 in stocks you expect to underperform (short).
- Your actual market exposure stays at \$100, but you now have \$160 of activity generating potential tax losses.
- You're creating more opportunities to harvest losses that can offset your taxable gains.



Strategy in action: diversifying highly concentrated stock



Meet Danielle:
A former Silicon Valley executive with a significant position in her former company's publicly traded stock.

Situation

- **Danielle's single tech stock was worth millions, with almost no original cost** — if she sold it all at once to diversify, she'd face an immediate and massive tax bill

Strategy

- **She used her stock as collateral to build a 130/30 portfolio** — working toward \$130 in diversified S&P 500 stocks and \$30 in shorts, maintaining 100% market exposure while creating more positions to generate tax losses.
- **This created \$160 of total positions actively generating tax losses** — from declining longs and from shorts she bought back at higher prices as markets rose.
- **As losses accumulated, she gradually sold her stock** — using harvested losses to offset capital gains and transition into a diversified portfolio without triggering immediate taxes.

Result

- **After several years, she successfully transformed her portfolio** from what started as a potentially risky single-stock position to a fully diversified S&P 500-like portfolio, AND she deferred the immediate tax hit throughout the transition.
- **Danielle stayed fully invested while systematically reducing her concentration risk and managing taxes on her own timeline.**

Talk with your financial advisor today about how this strategy could help you keep more of what you earn while staying fully invested in your financial future.

This strategy typically is most appropriate for investors facing significant capital gains. It may not be suitable if you're in a lower tax bracket or have limited gains to offset.

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All investments carry a certain degree of risk, including possible loss of principal, and there is no assurance that an investment will provide positive performance over any period of time. It is important to review investment objectives, risk tolerance, tax liability and liquidity needs before choosing an investment style or manager.

Equity investments are subject to market risk or the risk that stocks will decline in response to such factors as adverse company news or industry developments or a general economic decline. Investments in foreign securities are subject to special risks, including currency fluctuation and political and economic instability. These risks are often heightened for investments in emerging markets.

Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, and income risk. As interest rates rise, bond prices fall. Below investment grade or high yield debt securities are subject to liquidity risk and heightened credit risk. Investments in mortgage-backed and asset-backed securities are subject to prepayment risks. There is no assurance that the private guarantors or insurers will meet their obligations.

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Tax-Managed Investing Risk: Investment strategies that seek to enhance after-tax performance may be unable to fully realize strategic gains or harvest losses due to various factors. Any reduction in taxes will depend on an investor's specific tax situation. Market conditions may limit the ability to generate tax losses. A tax-managed strategy may cause a client portfolio to hold a security in order to achieve more favorable tax treatment or to sell a security in order to create tax losses. A tax loss realized by a U.S.

investor after selling a security will be negated if the investor purchases the security within thirty days. Although portfolio managers can seek to avoid such a "wash sales" and temporarily restrict securities sold at a loss within the same portfolio, a wash sale can inadvertently occur for a variety of factors, including trading in other accounts, including accounts managed by the same investment adviser, client-directed activity and account contributions, withdrawals or rebalancing. Investment strategies that employ tax-loss harvesting also involve the risk that a replacement investment could perform worse than the original investment and that such factor, as well as transaction costs, could offset any potential tax benefit. Investors should discuss the implications of tax-managed strategies with their tax advisor.

Model and Quantitative Risks: Certain strategies, such as direct indexing, use proprietary quantitative tools to assist portfolio managers in making investment decisions. If these tools have errors or are flawed or incomplete and such issues are not identified, it may have an adverse effect client investment performance.

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