

# InvestmentNews

## Firm issues warning on tax management

**By Brooke Southall**

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SAN FRANCISCO - Aim before you pull the trigger.

That is what Parametric Portfolio Associates in Seattle told financial advisers in a recently published report titled "The Dangers of Heavy-Handed Year-End Tax Management."

The report highlighted as the primary danger, failing to distinguish between short-and long-term gains. The report pointed out that 2004 is likely to be the second year in a row with positive returns, hence realized capital gains - some of them short-term.

"Even though both rates were reduced last year, short-term rates are very high compared to long-term rates," the report stated. "This affects investors whose strategies produce short-term gains."

But there are other pitfalls for tax-conscious investors, the report stated. For example, investors shouldn't become enamored of mutual funds with imbedded losses.

While the losses may be favorable on tax day, they may also indicate poor tax management in the past and high rates of withdrawals. "A high imbedded loss may ironically be evidence of an undesirable fund," the report stated.

But the No. 1 supplemental "tax tip" issued by the study is: not to wait until the end of the year to plan. The problem is that other portfolio managers are also pruning their own positions, which softens the market for those securities.

"Any losses that you can realize earlier during the year serve the same tax purposes," wrote David Stein, managing director and chief investment officer of Parametric Portfolio Associates.

But Dr. Stein didn't say why he waited until late November to offer his sound advice.