

INVESTOR CHALLENGE

Helping Clients Keep Their Earnings with Tax-Managed Core-Satellite Portfolios

Direct indexing seeks to deliver tax-efficient market exposures that commingled vehicles can't match, potentially enhancing after-tax performance.



How can investors use realized capital losses to offset gains from other parts of their portfolios?

INVESTOR: Business owner | Seeking to invest in core equity | Holds gains from real estate

CHALLENGE

The client sought more tax-efficient market exposure than their previous advisor, whose portfolio mostly held ETFs and mutual funds, could deliver. The new advisor saw that the client was unaware of the possible after-tax benefits of directly owning the individual securities that make up a benchmark. They also recognized that upcoming realized gains from the client's real estate holdings could be helpful in demonstrating the value of active tax management.

SOLUTION

With a direct indexing strategy as the core of their new portfolio, the client was able to use year-round tax-loss harvesting to offset realized capital gains from their real estate holdings. The advisor diversified the portfolio's other satellite holdings around its core equity position, which aimed to mirror a popular index. This investment model helped the advisor as well, allowing them to add value by focusing on due diligence and portfolio construction outside the core.



FACT

According to a 2022 survey from Cerulli Associates, year-round tax management is by far the top advantage of direct indexing. Advisors have traditionally harvested most tax losses for their clients in the fourth quarter of the year. But this may force investors to miss out on many loss-harvesting opportunities earlier in the year. Cerulli notes that in the first half of 2022 alone, 81% of stocks in the S&P 500®—or 454 out of 500—suffered a maximum drawdown of 10% or more at least once. Direct indexing providers use algorithmic portfolio monitoring to capture losses like this while maintaining investors' desired risk and return characteristics.

Most investment managers are active in portfolio construction and security selection but passive on taxes. Parametric takes the opposite approach: We know it's not what investors gain but what they keep.

\$169B

Customized
SMA solutions
AUM

50k+

SMA's under
management

As of 3/31/2023

30+

Years of tax-
management
experience

Learn more about Parametric's [direct indexing solutions](#).

[Contact your Parametric representative](#) to get started with direct indexing.

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