

Invest for after-tax returns

Don't bank on pre-tax returns.

Use the "Fill First" approach to maximize after-tax returns.

As you build portfolios, don't let taxes take a back seat to risk and cost considerations. Taxes can be a big drag on your returns, so work with your advisor to structure your accounts for what really matters – **after-tax returns**. Use the "**Fill First**" framework to help you get started.

Setting the stage

Take a total view across your investment accounts. Remember, money is money, no matter where it sits, so make sure your qualified account and taxable accounts work together towards a common goal. Let's start with two guiding principles that can help maximize your after-tax returns.

Rule #1 – Bonds

Fill your qualified account with taxable bonds, like corporates, before owning any bonds in your taxable accounts.*

Rule #2 – Equities

Anchor your taxable account with buy-and-hold equity ETFs.†

Investor profile

Next, let's introduce a hypothetical investor with assets spread across qualified and taxable accounts.

Investor assets

\$1,000,000, with \$500K in a qualified account
And \$500K in a traditional taxable account

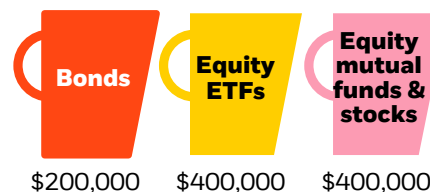
Asset allocation

80% stocks, 20% bonds – this is an aggressive growth risk profile

Investment preference

50% of equities in low-cost ETFs, 50% in mutual funds & stocks

The assets



The accounts



How should the investor fill the buckets?

Notes: In certain cases, there may be opportunities to tax optimize with certain accounts (e.g. Roth IRAs).

* Assumes bonds are part of a long-term asset allocation strategy and are not needed for current income. † For taxable accounts, also consider tax-managed SMAs for clients with large unrealized capital gains.

“Fill first” in three steps – seek to maximize after-tax returns.

1

Fill qualified accounts with bonds.

Fill your qualified account with taxable bonds that seek higher yields where you can defer taxes.* If you need more bonds than your qualified account can hold, complete your fixed income allocation in your taxable account.

2

Fill taxable accounts with ETFs.

Anchor your taxable account with buy-and-hold equity ETFs.†

3

Overweight MFs in qualified accounts.

Give your active equity managers a better chance to shine in the absence of capital gains taxes.

Starting client profile: \$1M in total assets (\$200k bonds, \$400k equity ETFs, \$400k equity MFs & stocks)
\$500k qualified; \$500k taxable



Talk to your financial professional about re-positioning your portfolio for after-tax returns.

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