Tax-efficient investing

Red Rose Investment Group

We believe many financial advisors and money managers ignore taxes when making investment decisions for their clients. We strive to set ourselves apart from other financial advisors by the fact that we consider the tax implications of our investment decisions and recommendations. Although taxes are only one factor in the investment decision making process, they can have a very powerful influence on the total return of a portfolio and efforts are made to minimize the tax drag on investment returns.

Review the tax situation of each client and every account:

- Determine the client's likely tax bracket.
- To aid in this effort, we request every year that our client provide us with their taxable income and if applicable, any capital loss carry forwards. This information is maintained in ClientView.
- Determine the taxability of each account.

Accounts are classified as tax-averse or tax-indifferent:

- Tax-averse accounts are those where taxes are minimized. Generally they are any taxable account where the client is subject to meaningful taxable income on the investment returns from the account.
- Tax-indifferent accounts generally include tax-deferred accounts such as IRAs and retirement plans, as well as accounts of clients with very little taxable income.

Tax-averse investing:

- In tax-averse accounts, we avoid short-term gains as much as reasonably possible.
- In tax-averse accounts, we concentrate on municipal bonds instead of fully taxable bonds for the traditional bond income portions of strategies.
- In tax-averse accounts, we concentrate on stocks that pay tax qualified dividends and avoid stocks with fully taxable dividends.
- In order to avoid short-term gains, it may take time to make investment changes and reallocations in tax-averse accounts.
- Tax-averse discretionary accounts often differ somewhat from our standard model strategies while we hold on to securities and wait for them to go long-term for tax purposes.
- In tax-averse accounts, we look at the taxable gain and loss situation for each client as we approach year end. If appropriate, we will try to offset taxable gains with losses, if any are available.

Tax-indifferent investing:

- In tax-indifferent accounts, we take short-term gains and invest in taxable bonds for the traditional bond income portions of strategies.
- Tax-indifferent discretionary accounts are generally changed and rebalanced within a few days of making investment decisions because we can automate most of the transactions.

In all accounts, we will generally avoid Master Limited Partnerships or any other investment vehicle that is likely to generate a K-1 tax form.