

# PMC Tax Management Service

*Powered By Metamorphosis Money Management*



## **An Overview**

Historically, individual investment portfolios were created for the purpose of providing an opportunity for the affluent investor to work directly with an investment manager, and create a portfolio that delivered the investment philosophy of the manager and also meet the tax needs and investment goals of the client.

In the early 1990s, the development of the wrap account provided a mechanism to deliver the investment strategy of asset managers to a wider audience utilizing lower account size minimums. The business became scalable at the expense of the personalization and ongoing tax management. Advisors and their broader universe of clients needed a solution that could provide both. The need was driven by the desire to mitigate the affluent investor's single largest expense—capital gains taxes—and reduce the administrative burden.

# Introducing the PMC Tax Management Service

Powered by Metamorphosis Money Management

Portfolio Management Consultants (PMC), the investment consultancy of Envestnet, and Metamorphosis Money Management (M3), a pioneer in discretionary tax management services, is introducing the PMC Tax Management Service, a turn-key, discretionary overlay service designed to minimize the impact of capital gains taxes so investors *keep more of their money*.

The PMC Tax Management Service is for tax sensitive clients:

- With more than \$750,000 in investable assets
- With a low basis, single- or multiple-stock portfolios
- Who have separate account strategies and want ongoing tax management
- Who have sold or plan to sell their company and may face large tax bills
- Needing to transition investments between platforms or managers, but do not want to realize significant realized gains

At the heart of the PMC Tax Management Service is the ability to add potential value through proactive tax loss harvesting year round.

## The Inception of the PMC Tax Management Service

PMC designed the Tax Management Service (TMS) to provide advisors with a tax management solution they could use to unlock frozen assets, prospect new business and attract assets held in custody elsewhere.

The TMS aims to offer the following compelling benefits for investors who seek to:

- Potentially reduce their tax liabilities while diversifying their portfolio using active or passive strategies

- Add value independent of performance by the potential improvement of net after-tax returns by the reduction of their tax bill, and compounding money that would have otherwise gone to pay taxes
- Diversify their concentrated portfolios in a tax efficient manner
- Reduce sector or industry overweights when diversifying a concentrated position—customizing their account based on their specific situation

## Year-Round Tax Loss Harvesting

At the heart of the PMC Tax Management Service is the ability to add potential value through proactive tax loss harvesting year round.

Often, tax loss harvesting is a passive strategy, initiated towards the end of the year, at the request of the advisor or client. This calendar-based strategy has value, if losses exist at that time. Ideally, the ability to recognize losses should not be limited to year-end. Price fluctuations throughout the year should be used to the client's advantage.

TMS tax loss harvesting is a systematic, active management strategy that is executed everyday in accordance with the client's Statement of Investment Selection. The Tax Management Service, driven by M3's methodology and global trading system, seizes upon the daily price movement in the stock market to either offset investors' capital gains, or accumulate tax losses that can be used against future gains indefinitely.

## Tax Losses Are a Gift Forever

An often overlooked value of stock losses is that they carry forward forever. That means losses taken today, can be applied against gains in 2010, 2011 or even 2020. Depressed market environments present an opportunity

to harvest losses today that can be used well into the future. The PMC Tax Management Service is designed to help you decide what to hold, and what to harvest, in order to put your client's portfolio in the best after-tax position.

### The TMS Process

The PMC Tax Management Service reduces the administrative burden, and lets the advisor focus on the relationship with their client. PMC manages all client holdings in one account and acts as the trader over the entire equity portion of the portfolio, trading the account in accordance with the Investment Policy Statement and the underlying manager's stock selections.

Utilizing an automated, quantitative trading engine powered by M3 (and originally created for the institutional transition business), PMC evaluates the client's account daily and determines what, if any, trades should be made based on the Investment Policy Statement that the advisor has created. This approach is built to support the advisor.

When using TMS, the Advisor will:

- Establish the tax management goals
  - Diversify low basis holdings
  - Stockpile all losses for future use
  - Attempt to offset all gains with losses

- Collect cost basis data from the client (preferably in electronic format)
- Determine appropriate asset allocation and select the managers' models
- Provide the client with the Optimal Portfolio Solutions Report
- Establish the client's capital gains budget (confirm annually)
- Complete necessary paperwork

Upon completion of these tasks, the tax overlay manager will optimize the portfolio to seek the stated objective by utilizing daily market volatility to perpetually harvest losses (gains).

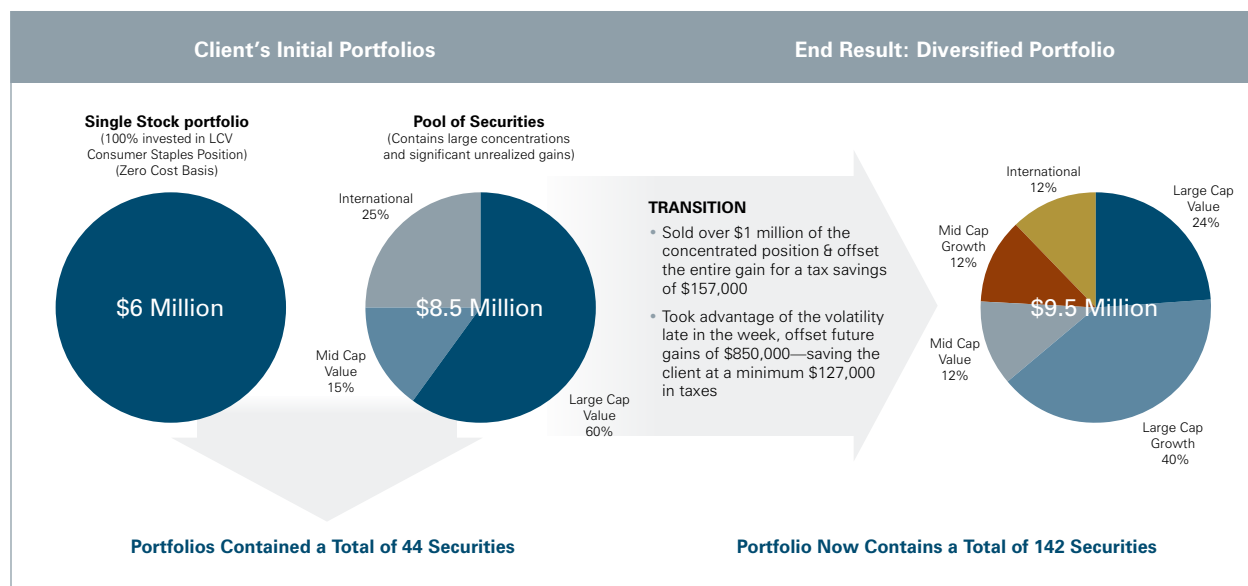
### Case Study

The power of the tax overlay is illustrated by a real case example from Metamorphosis Money Management (M3), which has pioneered the application of institutional tax management methods for the retail investor. M3 improved a new client's absolute return by 3.34% by saving the client in excess of \$184,000 in tax savings through effective tax trading as the market dropped over 18% during the week of October 5, 2008.

An advisor needed to diversify two portfolios belonging to a client. The first was an \$8.5 million pool of securities that contained concentrated positions (12% in a single stock), and held significant unrealized gains. The second was a \$6 million single stock portfolio with a zero cost basis in an unsupervised account. The advisor developed a new allocation for the client, and selected five complementary investment strategies for the \$8.5 million. If this account had been liquidated to buy the new strategies, the client would have been subjected to a capital gains tax bill in excess of \$227,000.

Over that historic five day span, M3 was able to implement the advisor's strategy, sell over \$1 million of the concentrated position and offset the entire gain for a tax savings of \$157,000. Additionally, M3 took advantage of the volatility late in the week, and offset future gains of \$850,000. In doing so, M3 saved the





client, at a minimum, \$127,000 in taxes (the savings could be higher if capital gains rates increase with the new administration).

Benefit achieved over the course of the week included:

- Generated 3.34% of “tax alpha”—the improvement of absolute returns through effective tax management
- Enabled client to retain \$1 million in gains while eliminating the tax bill
- Stock piled significant tax losses to offset future gains
- Maintained market exposure with individual equities that correlated to the five investment strategies chosen by the advisor

### Potential Benefits of the PMC Tax Management Service

The addition of the PMC Tax Management Service to our wide range of services is another step in our continuing effort to offer

advisors the most up-to-date investment solutions, helping them stay competitive in today’s rapidly changing marketplace.

The PMC Tax Management Service is designed specifically to provide the affluent investor with greater tax control, while providing the advisor with a powerful business development tool that reduces administrative burdens.

### Conclusion

PMC has always had one goal in mind: *perfecting the portfolio*. We strive to provide advisors and clients with tools and solutions that create the critical foundation for long-term investment success. We believe that the PMC Tax Management Service offers advisors a comprehensive service for expanding relationships and attracting new assets. To learn more about this program, you can contact client services at 888.612.9300.

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