OK, “Happy Tax Season” is an oxymoron. Still, the tax season is a good time to measure the success of how well you or your advisor increased your *after tax* returns. In my experience when reviewing prospective clients’ results, few investment advisors accomplish this fundamental goal because they don’t minimize taxes. And, they charge higher fees. Consider these hypothetical but realistic examples:

1. Example 1, a representative client, reaped a 12% return or $240,000 on a $2mm portfolio last year, half of which was in a rollover IRA. Of the $240,000, only $20,000 was taxable and she wrote off $3,000 against income because of capital losses. She paid me $5,000 (1/4 of one percent). Net After Tax Return: 11.6% or $231,485 after paying roughly $8,500 in total fees and taxes.

2. Example 2, a prospective client, achieved the same 12% return or $240,000 on her $2mm portfolio, but paid her advisor $20,000 (1%) and paid taxes on $10,000 in capital gains and $30,000 in investment income. Net After Tax Return: 10.4% after paying roughly $32,600 in total fees and taxes.

Bottom line: We helped our representative client pay $9,000 less in taxes than our prospective client and charged $15,000 less resulting in a 1.2% better overall net after tax return. We did it with two simple but effective strategies.

First, we harvest our losses when they occur. We don’t wait until the end of the year to recognize our various clients’ losses and last year took them when the stock market fell in January and February. Because we invested the proceeds in other underperforming stocks and Exchange Traded Funds (EFTs), we didn’t miss out on the ensuing market rally. Our representative client in example 1 reduced her taxes by $1,185 instead of paying the IRS $2,380 in capital gains like our prospective client.

Second, when possible, we allocate our clients’ least tax efficient assets (higher yielding fixed income bond ETFs, Closed End Funds and REITs) to their most tax efficient accounts (their IRAs and 401Ks). That way, the bulk of our clients’ income grows tax-deferred. In our representative case, the client earned 4% in taxable bond income but all in her Rollover IRA, so none of it was taxed. Her $1mm taxable portfolio only held stocks paying a 2% dividend rate taxed at an advantageous 23.5% rate. The potential client held the exact same investments, but they were split equally between her rollover IRA and taxable account so she paid a much higher blended rate (~34%) on a higher amount (3% of $1mm or $30,000).

Ask yourself: Do I care about my after tax net returns? Could I have paid less to the IRS? Are the fees I pay impeding me reaching my financial goals? If you answer “Yes”, please visit our website today:

http://seedwealthmgmt.com/investment-approach