



“Tax Alpha” Opportunities in Your Portfolio

Through a unified managed account (UMA), you can benefit from a customized investment strategy with the opportunity for additional benefits of active tax management. With a UMA, your financial advisor can carefully align tax and investment strategies to meet your unique needs.

Product Neutrality

A UMA provides the ability to implement a customized investment strategy using a combination of mutual funds, exchange traded funds (ETFs) and separate account asset managers. With access to such a diverse array of investment vehicles, you and your financial advisor are able to personalize a portfolio that fits your investor profile. The unique feature of a UMA is that it allows you to combine your portfolio of mutual funds, ETFs and separate account asset managers inside a single account, providing greater visibility, consolidated reporting and greater control of the realization of capital gains within the separate accounts.

Tax Efficiency

Because they purchase or sell individual securities, the separate account asset managers in your UMA account provide you and your financial advisor with the unique ability to manage both your initial and ongoing tax liabilities, by avoiding the recognition of certain gains and engaging in periodic tax loss harvesting.

Because separate account asset managers manage individual security positions in your account, your cost basis is established when your securities are purchased. This is different from traditional mutual funds where you may be subject to capital gains tax on any gains generated by the portfolio before you invested. This potential tax liability can serve as an initial “drag” and may hinder your ability to reach your long-term goals and objectives. Separate account asset managers, through direct ownership in individual securities, avoid the “shared” ownership of traditional mutual funds. Investors cannot control taxes associated with mutual fund dividends or capital gains in the UMA account. The combination of separate account managers and mutual funds within a UMA account allows you to potentially offset capital gains realized by mutual funds through the “tax harvesting” capabilities of the separate account managers within the account.

“Tax harvesting” means strategically “realizing” certain gains or losses in your portfolio based on your unique tax considerations. Year-round tax harvesting allows you and your financial advisor to manage your investments and your taxes more efficiently. Since taxes serve as a “drag” on investment gains, careful, strategic management of taxes is an important, and too-often ignored, part of a successful investment program. Through efficient tax harvesting, you can help to minimize tax “drag” and maximize your “after-tax” return potential. Tax *loss* harvesting involves the selective realization of losses by selling securities that have dropped in value, and using these losses to offset gains realized in either the same UMA account or even in other accounts. If your capital losses outweigh the amount of realized capital gains, you may still use \$3,000 of these losses each year as an offset to your ordinary income.

Individual bond ownership also plays a role in a successful tax-advantaged investment program. Since a UMA allows you and your financial advisor to utilize “tax-exempt” bond asset managers, your investment portfolio can be tailored to reduce the tax burden of investment income. In a typical “taxable” investment strategy, income generated from fixed income securities is taxed at higher ordinary income tax rates. For individuals in higher tax brackets, this tax can be a significant “drag” on after-tax investment returns. With access to professional bond managers who can create a customized portfolio of tax-exempt municipal bonds, you and your financial advisor can personalize your investment strategy to maximize your “after-tax” return potential.





Source: Morningstar Advisor Workstation Hypothetical

This chart illustrates the growth of \$100,000 from 01/31/2002 through 01/31/2007 on a pre-tax and after tax basis. Each portfolio assumes the same asset allocation, mutual fund makeup¹, annual rebalancing, and hypothetical advisory fee of 1.75%², and all gains and distributions reinvested. The calculation assumes the maximum federal tax rate of 15% on long-term capital gains and 33% on short-term capital gains. This calculation assumes a 33% ordinary income tax rate and no state tax. **This chart is shown for illustrative purposes only and is not intended to predict or depict the returns of any particular investment. Past performance does not guarantee future results.**

¹Portfolios include the mutual funds held within the IMS Select Moderate over \$100,000 portfolio. For more information on the IMS Select Portfolios please contact your 1st Global Advisor. Use of the IMS Select Moderate over \$100,000 portfolio is purely for illustrative purposes and not intended to predict the future returns of the portfolios. **Past performance does not guarantee future returns.**

²The advisory fee shown is hypothetical and may or may not represent the actual fee charged within an advisory account. The advisory fee shown does not account for internal mutual fund expenses. Client’s account will be subject to internal mutual fund expenses in addition to the expenses associated with the advisory account.

Finally, any investment advisory fees charged to your taxable accounts may be deductible from your federal income taxes each year, subject to a 2-percent miscellaneous deductions floor. This potential tax savings is another means of potentially maximizing your after-tax portfolio return, thus helping to ensure reaching your goals and objectives. Mutual funds generally require lower minimum initial investments than separate accounts. Further, an investor may be subject to additional fees and expenses when investing in a consolidated account.

Coupling Customization With Tax Awareness

The ability to access a broad range of investment vehicles and investment management strategies allows you and your financial advisor to construct a fully customized, tax-advantaged investment program to achieve your goals and objectives, in harmony with your personal investor profile. The ability to manage taxes effectively within your UMA account offers you and your financial advisor the potential to maximize your after-tax returns by minimizing the “tax drag” that can make you fall short of your long-term goals and objectives.

For more complete information on the tax management benefits of 1st Global’s IMS Unified Choice Program, please contact your financial advisor today. This article is not intended to provide tax advice and should not be relied upon as such. You should consult with your tax professional to discuss any potential tax effects or benefits of using the strategies mentioned.

