

Income Insights: Asset Location Matters

Income Insights is a series designed to quickly describe important income tax concepts for advisors and their clients.

Authors	Date	Topic
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Asset Location Matters

When it comes to investing for after-tax returns, asset location can be just as important as asset allocation. While asset allocation focuses on the types of investments you hold (stocks, bonds, etc.), asset location considers where those investments are held—specifically, in which types of accounts. The goal is to reduce the tax burden on your investments by strategically placing higher income-generating assets in tax-advantaged accounts while holding more tax-efficient investments in taxable accounts. Your overall investment returns can be significantly affected by considering account characteristics and tax implications.

Let's look at a few common types of asset wrappers and the kinds of accounts they should ideally be located within to optimize after-tax outcomes.

Mutual funds often generate capital gains distributions and dividends, which can be taxable events outside of your control. Therefore, housing mutual funds in tax-advantaged accounts, like individual retirement accounts (IRAs) or 401(k)s, is generally a smart move.

Exchange-traded funds are generally more tax efficient than mutual funds because they typically generate fewer capital gains distributions. This makes them potentially suitable for a range of account types—including taxable, tax-deferred, and tax-exempt accounts.

Separately managed accounts (SMAs) offer the advantage of customization, allowing investors to tailor their portfolios to pursue certain investment and tax goals, such as controlling the timing of recognizing gains and harvesting losses to offset gains. Given their ability to accommodate these types of customizations, SMAs are generally best suited for taxable investment accounts.

By considering asset location, you may enhance your investment returns and optimize your tax situation, potentially positioning yourself for greater financial success. Always consult with a financial advisor to tailor these strategies to your own financial circumstances.

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For Mutual funds: Investing involves risk, including the possible loss of principal. Stock values fluctuate in response to the activities of individual companies and general market and economic conditions. Bond values fluctuate in response to the financial condition of individual

issuers, general market and economic conditions, and changes in interest rates. Changes in market conditions and government policies may lead to periods of heightened volatility in the bond market and reduced liquidity for certain bonds held by the fund. In general, when interest rates rise, bond values fall and investors may lose principal value. Interest rate changes and their impact on the fund and its share price can be sudden and unpredictable. Some funds, including non-diversified funds and funds investing in foreign investments, high-yield bonds, smaller company stocks, and/or more volatile segments of the economy, entail additional risk and may not be appropriate for all investors. Consult a fund's prospectus for additional information on these and other risks.

For Exchange-traded funds: Investing involves risk, including the possible loss of principal. It is possible that an active trading market for ETF shares will not develop, which may hurt your ability to buy or sell shares, particularly in times of market stress. Shares may trade at a premium or discount to their net asset value (NAV) in the secondary market. These variations may be greater when markets are volatile or subject to unusual conditions. There can be no assurance that active trading markets for the shares will develop or be maintained by market makers or authorized participants. Shares of the ETFs are not redeemable with the ETF other than in creation unit aggregations. Instead, investors must buy or sell the ETF shares in the secondary market at market price (not NAV) through a broker-dealer. In doing so, the investor may incur brokerage commissions and may pay more than NAV when buying and may receive less than NAV when selling. Investing involves risk, including the possible loss of principal. Consult a fund's prospectus for additional information on these and other risks.

For Separately managed accounts (SMAs): All investing involves risks, including the possible loss of principal. Stock values fluctuate in response to the activities of individual companies and general market and economic conditions. Bond values fluctuate in response to the financial condition of individual issuers, general market and economic conditions, and changes in interest rates. Changes in market conditions and government policies may lead to periods of heightened volatility in the bond market and reduced liquidity for certain bonds held in the portfolio. In general, when interest rates rise, bond values fall and investors may lose principal value. Interest rate changes and their impact on the portfolio can be sudden and unpredictable. A portion of the strategy's income may be subject to federal, state, and/or local income taxes or the alternative minimum tax. Any capital gains distributions may be taxable. Bond laddering does not ensure a profit or protect against loss in a declining market. Foreign investments may be subject to lower liquidity; greater price volatility; and risks related to adverse political, regulatory, market, or economic developments and may be affected by changes in foreign currency exchange rates. The use of derivatives may reduce returns and/or increase volatility. Style factor exposure, including but not limited to beta, growth, value, liquidity, etc., can perform differently and shift in and out of favor through a market cycle.

Investors should know that these strategies may be subject to additional investment risks. For important information about the investment manager and risks, please refer to the investment manager's Form ADV Part 2, which is available upon request.

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