GAMMA INVESTING
CUSTOM INDEX SMAs

Enhance Client Outcomes with Tax Alpha

Achieve Tax Alpha Systematically

Unlike Alpha which is very difficult to consistently obtain, Tax Alpha can be achieved in a reliable process with index-tracking portfolio strategies.

Use Custom Index SMAs to Maximize Tax Alpha

Potential tax hikes and the US equity market at an all-time high provide an opportunity to consider investing in tax-managed index tracking SMAs.

Our Tax management Capabilities

Tax-managed solutions are implemented using GAMMA's sophisticated platform to help advisors maximize after-tax wealth for their clients.

Research has shown that an optimized approach to tax loss harvesting can provide significant tax alpha

As illustrated below, the tax alpha was 1.98% annualized for a tax-managed strategy tracking the Russell 1000 Index with a predicted tracking error limit of 0.50% since 2008 (shortly before the Global Financial Crisis). Using the same strategy over a 30-year period, the tax alpha was 0.85% annualized since 1990. Note that tax alpha can vary depending on an investor's target index, tracking error tolerance, as well as other factors. To deliver the best post-tax performance, advisors must carefully balance a client's pre-tax investment goals against their tax objectives. GAMMA can work with advisors to navigate these challenges and seek to deliver the best results for investors.

	Tax-Managed Russell 1000 Strategy	
Backtested Period	Jun 2008 – Jun 2020	Mar 1990 – Jun 2020
Tax Alpha (annualized)	**1.98%**	**0.85%**

Source: "Generating Tax Alpha with Optimized Index Tracking", Sercan Yildiz, Qontigo, March 2021.

Four Ways to Enhance After-Tax Returns with Custom Index SMAs

1. Harvest losses as they become available

Consider a tax-managed SMA invested in a custom portfolio of securities that track the performance of a target index. After the initial portfolio is constructed, GAMMA monitors for risk and tax-loss harvesting opportunities. Stock candidates for tax loss harvesting opportunities become available as prices fall below their original purchase price. These circumstances materialize even in the face of a rising stock market, as there are always stocks in the index that decline in price. The tax lots exhibiting a loss are sold and a replacement set of securities is bought. Additional care is taken to avoid wash-sales. The resulting portfolio is designed to closely track the target index on a pre-tax basis, while also producing excess realized losses to offset realized gains and lower taxes. In the end, tax-managed SMA portfolios closely track the target index while helping investors pay less in taxes. Furthermore, the compounding effects of tax savings add significant value to an investor's wealth creation over time.

2. Defer gains as long as possible

Deferring investment gains is just as important as regular tax loss harvesting, as taxes saved remain invested in a portfolio which compound over time.

3. Transition portfolios efficiently

Portfolio transition is another opportunity to defer gains. GAMMA can help advisors transition a client's portfolio positions to a new account/target strategy with in-kind securities without incurring unnecessary capital gains.

4. Manage consequences of harvesting losses

By regularly harvesting losses, the overall cost basis of the portfolio is reduced. This increases the unrealized gains embedded in the portfolio over time. There are several ways to address such outsized gains:

Gifting / Charitable Contributions

Investors can gift securities with steep unrealized gains to remove them from the portfolio.

Strategic gain realization

Realizing gains opportunistically instead of deferring them may make sense in some cases. This is an option if (1) a portfolio has lots with shallow unrealized gains, (2) there is an expiring loss carryforward, or (3) tax rates are expected to be higher in the future. In each case, an investor can realize gains and reinvest the proceeds at current prices.

Add cash to portfolio

A constant stream of new cash can be used to purchase securities at current prices and increase the portfolio's cost basis. This in turn can create more favorable conditions for tax loss harvesting in the future.