Investing with a Tax-Efficient Eye

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Manage Your Portfolio Tax-Efficiently

But don’t let the tail wag the dog

US Treasury 5% Note

Maturing in 1 year
12 month interest rates 2%
Price 103
You can either do nothing and pay a 35% tax on $5
or
Sell the bond and repurchase it
Thereby paying a 15% long-term gains tax on $3
And a 35% tax on only $2
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<td>Current Capital Gain</td>
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<td>Years Remaining</td>
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<td>State in which you pay tax</td>
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<td>After-Tax Internal Rate of Return (IRR)</td>
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Bond Calculator

What type of long-term profitable bond do you hold? Government

Current Capital Gain $3.00
Years Remaining 1
State in which you pay tax NY

After-Tax Internal Rate of Return (IRR) = 74.96%

Choose investment tools carefully
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Buy Funds with Built-in Losses

Typical Equity Fund
Year 2000 30% in Gains
Year 2002 28% in Losses
SEI Index S&P 500 Fund-82% in Losses
Invesco S&P 500 Fund-143% in Losses

Harvest Losses All Year

Recognize losses within the wash sale rule
Research shows annual increase of 80 b.p. after-tax
Making Hedge Fund Investing More Tax-Efficient

- Profits taxed annually without cash distributions
- Most strategies’ profits taxed at +35%
- Fees are “miscellaneous itemized deductions” and may not be deductible

Paying Tax on More Than You Make

If a fund of funds earns 9%
11% from the hedge fund portfolio
less
2% in management and performance fees

Result

- Taxed on 11% when only earned 9%
- Problem multiplied if hedge fund not a trader
Solution

Invest in a way that profits are only realized net—not gross

• Derivatives
• Mutual Funds
• Offshore Hedge Fund Entity
• Insurance

1 to 1 Derivative on a Hedge Fund Index

Synthetic Long Position
Realize Profits Net
Realize Profits only upon Disposition
Realize Profits as Long Term Gains
No Performance Fee

Twenty-First Securities Corporation
Hedging Low-Basis Stock

Constructive Sale Rule and Collars
Straddle Rules
Hedging Employee Options

Non Recourse Loans

Dividend Taxed at 15% not 35%
Deduction of Interest Costs
Can Age Short Term Gains to Long Term
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