FOUR C FINANCIAL

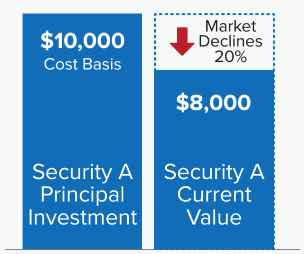
The Silver Lining of Investment Losses

Leveraging intelligent tax management to get more out of your portfolio.

No one wants to see their portfolio fall in value, but tax-smart investment management can reveal a silver lining at such times by using declines to reduce tax liability and potentially add value for investors. Even temporary market drops can provide opportunities to reduce your current tax bill and potentially increase your long-term wealth. Tax loss harvesting (TLH) is a key feature of tax-smart investing. TLH looks to capture investment losses in your portfolio that may be used to offset your near-term tax liabilities and increase your after-tax returns.

How does Tax Loss Harvesting work?

Traditional Buy & Hold

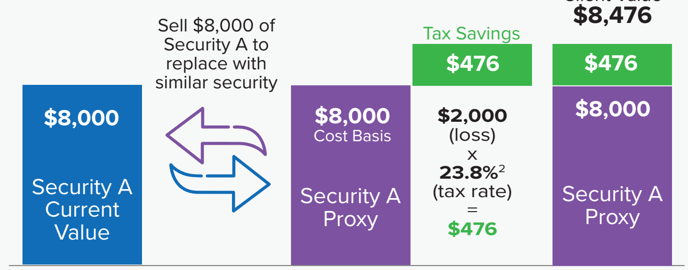


Loss: $2,000

Consider you hold $10,000 in Security A and the market declines 20%. At this point, your investment has lost $2,000.

You now have a choice:
Do nothing or **use the loss to lower your tax bill**. By selling Security A and replacing it with a similar security, your investment strategy remains intact, and you now can use this loss to offset gains in other parts of the portfolio.[1]

Turning the Loss into a Positive



By applying the appropriate long- or short-term capital gains tax rate to the loss, you can determine the potential dollar amount of saved tax dollars.

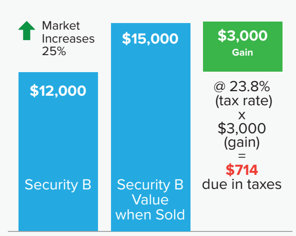
The difference that Tax-Smart Investing can make in your tax bill and long-term wealth can be significant.

Save on Taxes This Year

By using losses to offset gains, and potentially up to $3,000 of income, the investor can lower their tax burden in the near term.

Now consider elsewhere in your portfolio Security B has a long-term gain of 25%. If you were to sell this holding, and pay the maximum long-term tax rate of 23.8% on the $3,000 gain, you would owe $714 in taxes.

Applying the Tax Savings to Other Gains



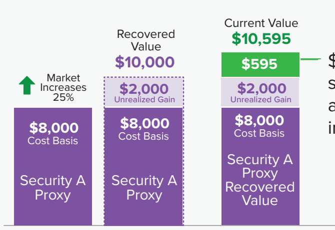
However, because you previously harvested the loss on Security A (above), you can **offset $2,000 of this gain and save $476** off the tax on this gain, allowing the investor to keep that money invested.

Capture Value Even When Market Recovers

If the market recovers its losses, the client retains the value created by tax-loss harvesting and can even keep the money invested, earning additional returns.

Now, let's say the market goes back up 25% and the security proxy you used to replace Security A grows in value with the recovery. **Excellent! You keep the tax loss you harvested and the money you saved can now be reinvested and grow.**

Invest your Tax Savings



$476 in original tax savings rises by 25% alongside the new investment.

Investment performance is not guaranteed. All investments involve risk, include the potential loss of principal.

Additional Benefits to Tax-Loss Harvesting

If the gains that get offset are replaced by a larger eventual gain on the replacement security, Security A Proxy in the example, these “tax savings” would actually become deferred gains that could be taxed later as the gain is now measured from $8,000, not the original $10,000. In addition to the near-term tax payment relief, there are three other potential future benefits of deferring the realization of taxable gains that could reduce the amount of taxes eventually paid:

1
Defer short-term capital gain to long-term[2]
TAX RATE

2
Defer until income bracket is lower
TAX RATE

3
Defer for cost-basis step up in estate plan
TAX RATE

Advanced Capabilities Customized to Your Portfolio Objectives

Effective tax management demands advanced capabilities customized to your unique portfolio and objectives

	Four C Financial
Who?	Available to clients with accounts over $50,000
When?	Systematically monitored monthly throughout the year
How?	Calculations and security selection powered by intelligent tax-management tools

Where is Tax Management Not Appropriate?

Tax-smart investment management is typically a good idea; however, we will review your portfolio and analyze the potential impact to your investment strategy and your overall financial picture. For example, tax loss harvesting may not be appropriate for clients:

- In non-taxable accounts, such as IRAs or 401(k)s
- In accounts where most tax lots have appreciated so substantially that market-based declines would be unlikely to result in prices below cost basis (although newer tax lots are created with each rebalancing)
- If the investor is in a very low tax bracket or expects that they may be in a higher tax bracket at withdrawal than they are today

Keeping an Eye on the Markets

While no one can predict the future, we believe it is a good idea to be prepared in case markets are volatile or turn downward, and tax-smart management is an important capability to add value during these times.

Learn More

Let’s review your portfolio and see how tax-smart investment management may benefit your long-term wealth creation goals.

55ip is the marketing name used by 55 Institutional Partners, LLC, an investment technology developer, and for investment advisory services provided by 55I, LLC, an SEC-registered investment adviser. Such registration does not imply a certain level of skill or training. These materials are intended for Registered Investment Advisors and their clients and describe a strategy that may not work as intended.

Past performance does not guarantee or indicate future results and there can be no assurance that any investor will achieve comparable results or that any return objectives will be met. No representation is made that any investor will, or is likely to, achieve results comparable to those shown. All investments involve risk, including loss of principal.

The impact of a tax-loss harvesting strategy depends upon a variety of conditions, including the actual gains and losses incurred on holdings and future tax rates. The results shown in these materials are hypothetical and do not represent actual investment decisions.

The tax-loss harvesting service is available for an additional advisory fee and the results shown represent the net effect of the advisory fees but may not consider the impact of fees charged by others, including transaction costs or other brokerage fees. The information contained herein is subject to change without notice, is not complete and does not contain certain material information about the investment strategy, including additional important disclosures and risk factors associated with such investment and information about fees, trading costs and taxes. Neither the U.S. Securities and Exchange Commission nor any state securities administrator has approved or disapproved, passed on, or endorsed, the merits of this document. More information at www.55-ip.com.

55ip does not provide legal or tax advice. The information herein is general and educational in nature and should not be considered legal or tax advice.

Footnotes

[1]Wash sale rules do not allow an investor to realize a capital loss for tax purposes and purchase a “substantially identical” security within 31 days of the realization of the capital loss. For reference see IRS Publication 550.

[2]Short-term capital gains tax rates correspond to ordinary income tax brackets and range from 10% to 37%. Long-term capital gains tax rates range from 0% to 20%.

FOUR C FINANCIAL

Money in Motion:

Getting the Most out of your Portfolio Today and Tomorrow

Most taxpayers and investors realize that tax planning is important, and it can be crucial when you have "money in motion" – money going into or coming out of investment strategies. What you may not know is how we can help you limit the impact taxes have on your investment decisions today and to position you to reap the benefits of those decisions in your future.

"Money in Motion":

GOAL: Hiring a Financial Advisor or Changing Investment Strategies

OBSTACLE: Taxes

Investors often face a dilemma when they consider enlisting the help of a financial advisor or transferring their taxable assets into a strategy that they think better meets their needs.

The dilemma? Selling their current holdings to make these changes may come with a large tax bill, due to capital gains taxes, that they feel like they can't afford.

Unfortunately, inaction can be risky. It is typical for investors to want to avoid taking tax hits, but the cost of your investments being misaligned with your risk tolerance or your long-term objectives may be catastrophic. For example, elevated portfolio risk may result in larger than anticipated losses, and should the need to sell those investments arise, the consequences of capital impairment could surpass the headwind due to taxes!

Fortunately, paying for the cost of the transition is not an "either or" decision

SOLUTION: Tax Smart Portfolio Transition

At Four C Financial, we incorporate intelligent tax management technology into this decision process to help investors optimize for a portfolio that is customized to their long-term objectives while minimizing the tax impact during transition.

Tax Budget - % of Total Tax Bill[1]	0%	20%	60%	100%
% of Portfolio Transitioned	14.8%	40.9%	70.0%	100%
Tracking Error[2]	+/- 3.0%	+/- 1.6%	+/- 0.6%	+/- 0.0%

This chart is for illustrative purposes only and is not representative of actual model performance.

In this example, you can see what percentage of an investor's current portfolio can be transitioned for a defined tax budget of some, all, or none of the full tax cost of transition.

GOAL: Efficiently Accessing Savings

OBSTACLE: Taxes

An investor's tax burden may also be impacted by how tax-efficiently they access their savings, either for major life expenses or later in retirement – just like losses diminish the power of the portfolio to grow and generate income, so do taxes.

Withdrawing needed savings is a balancing act for the investor. Simply liquidating securities to minimize the current tax hit could leave the portfolio increasingly imbalanced. Pro-rata liquidation could lead to excessive and unnecessary tax bills.

SOLUTION: Tax Smart Withdrawal

At Four C Financial, we incorporate intelligent tax management technology into this process to illustrate the tradeoffs in balancing the portfolio's long-term investment objectives with the realized capital gains taxes while meeting the investor's withdrawal needs.

Estimated Tax Bill	$1,000	$1,400	$1,600	$2,000
% of Portfolio Value	2.5%	3.5%	4.0%	5.0%
Tracking Error	+/- 7.7%	+/- 2.7%	+/- 1.5%	+/- 0.0%

Discuss with your Four C Financial representative today to learn how we can employ intelligent tax management technology to help you get the most out of your portfolio today and tomorrow!

1. Assuming tax rates of 23.8% for long-term capital gains and 40.8% for short-term capital gains
2. Tracking error is a measurement of how closely a portfolio is tracking its intended target holdings