



# MAXIMIZING TAX EFFICIENCY AND CUSTOMIZATION: A DEEP DIVE INTO DIRECT INDEXING

Greg Reabold, MBA Financial Advisor  
537 Market St. Suite 105 Chattanooga, TN 37402

423.756.6166

---

RAYMOND JAMES



## **Greg Reabold, MBA**

*Financial Advisor*

423.756.6166

[Greg.Reabold@raymondjames.com](mailto:Greg.Reabold@raymondjames.com)

Greg Reabold joined Raymond James as a Financial Advisor in 2019 after beginning his career at Wells Fargo Advisors. His focus is on providing clients efficient strategies that help answer questions such as: How do you transition a business? How do you replace income in retirement? How do you plan for future expenses such as Long-Term Care? How do you transition your wealth?

## GOALS FOR TODAY

Understand the basics of  
Direct Indexing

Understand the use cases  
Of Direct Indexing

Understand how to investors  
Implement Direct Indexing

## *Table of Contents*

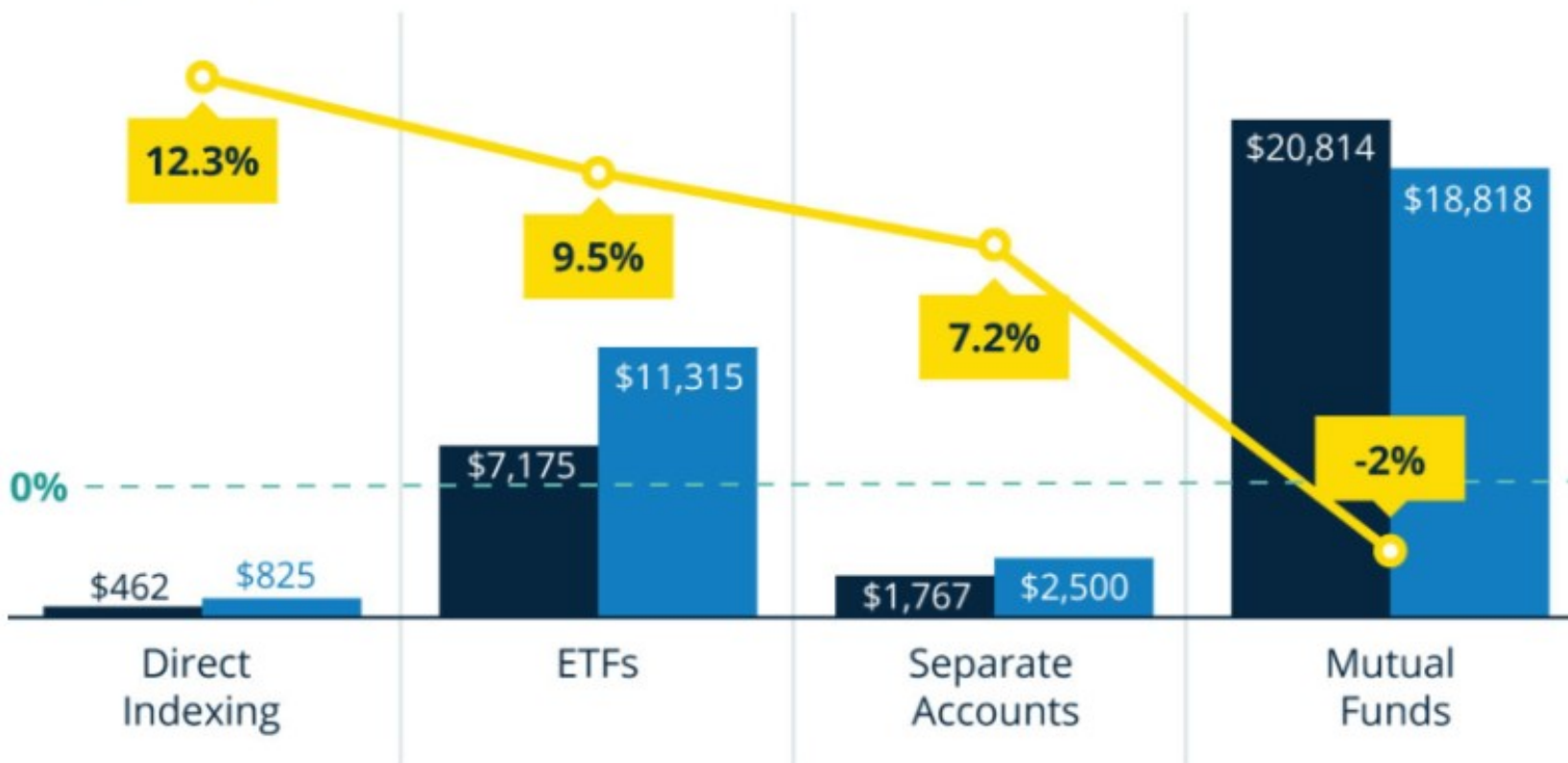
- I. Evolution of Investment Strategies
- II. Understanding Direct Indexing
- III. Mechanics of Direct Indexing
- IV. Benefits/Risks of Direct Indexing
- V. Use cases for Direct Indexing
- VI. Conclusion and Key Takeaways
- VII. Q&A

# **EVOLUTION OF INVESTMENT STRATEGIES**



# Projected Growth of Investment Vehicles, 2021-2026E (\$ billions)

— 5-year Projected CAGR ■ 2021 ■ 2026E



Sources: Cerulli Associates, JP Morgan, Morningstar Direct

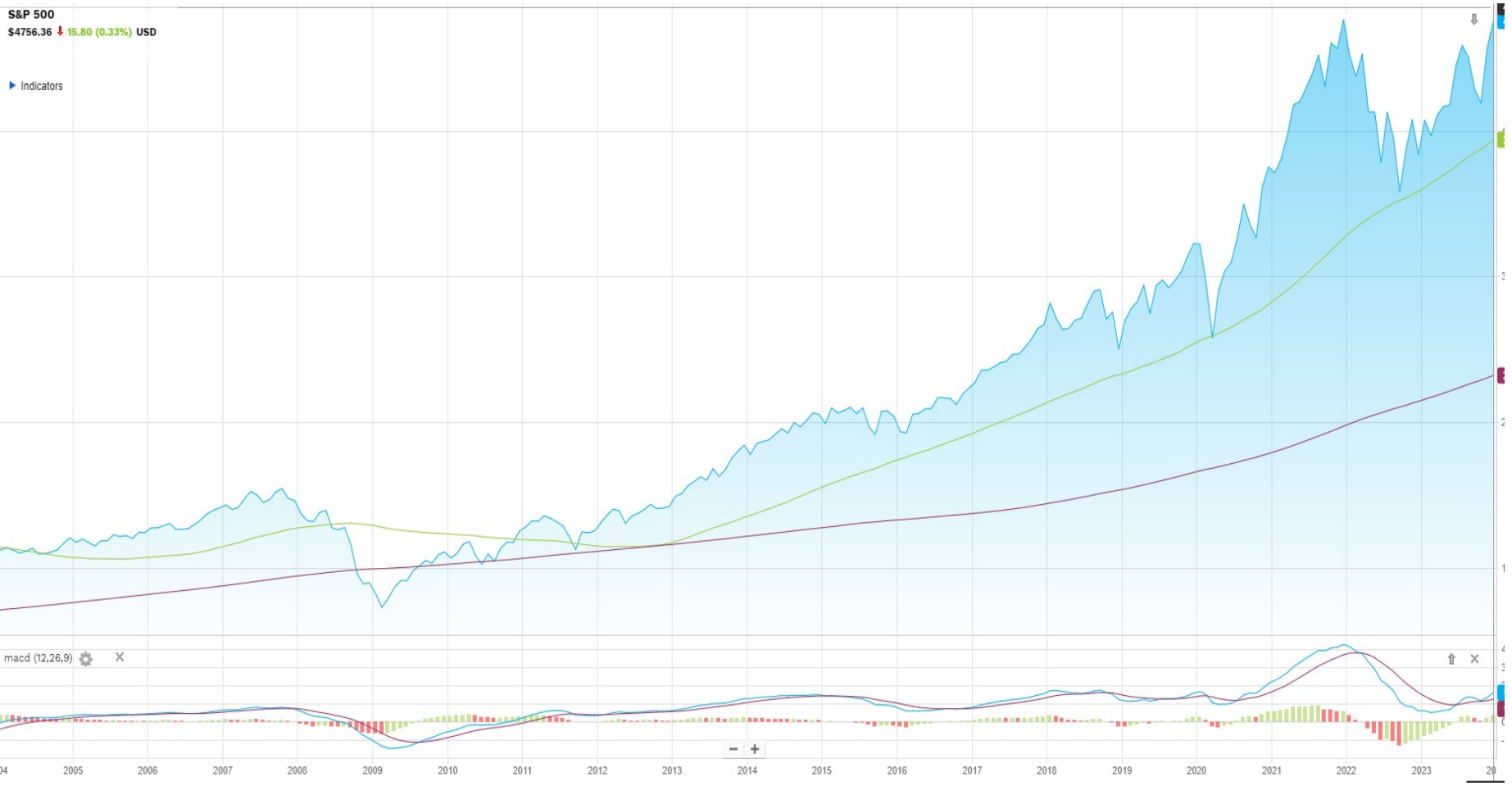
# UNDERSTANDING DIRECT INDEXING

# WHAT IS AN INDEX FUND

S&P 500

\$4756.36 ↓ 15.80 (0.33%) USD

Indicators





# United States

Percentage of All Large-Cap funds that underperformed the S&P 500®

**91.41%** of funds underperformed the S&P 500®

**8.59%** of funds outperformed the S&P 500®

1 YEAR

3 YEARS

5 YEARS

10 YEARS

15 YEARS

Source: <https://www.spglobal.com/spdji/en/research-insights/spiva/>

Raymond James does not provide tax or legal services. Please discuss these matters with the appropriate professional.

**RAYMOND JAMES**

## What's the difference?

INVESTOR BENEFIT	Passive Mutual Funds	ETFs	Direct Indexing
Seeks to track the performance of a market index	Yes	Yes	Yes
Full index constituent replication	Yes	Yes	Yes
Low relative fees	Yes	Yes	Yes
Tax efficiency	No (subject to capital gains tax)	Yes – typically do not pay out capital gains	Yes – opportunity to implement a tax management strategy
Tax loss pass through	No – mutual funds cannot pay out realized losses to investors	No – ETFs cannot pay out realized losses to investors	Yes – potential to create tax alpha through tax loss harvesting
Ability to tax loss harvest	No	Only down market	Potential in all markets
Ability to customize the individual portfolio	No	No	Yes – can tilt toward sectors or ESG factors, or exclude certain areas

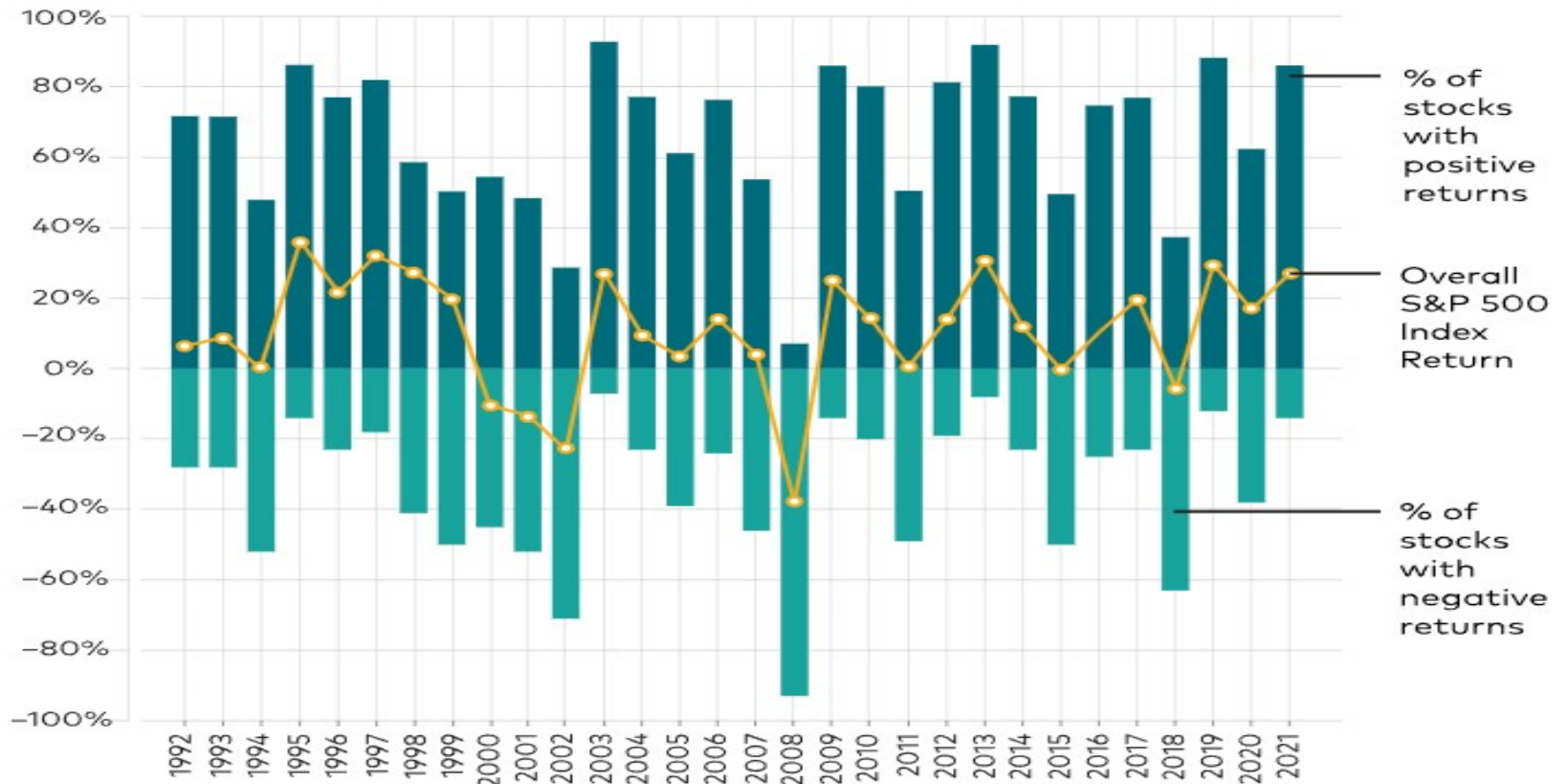
Source: FTSE Russell. For informational purposes only. Nothing contained in this presentation or stated today is intended to constitute tax or investment advice, nor an opinion regarding the appropriateness of making any investment through our indexes. Please see the end for important legal disclosures.

Raymond James does not provide tax or legal services. Please discuss these matters with the appropriate professional. ETF shareholders should be aware that the general level of stock or bond prices may decline, thus affecting the value of an exchange-traded fund. Although exchange-traded funds are designed to provide investment results that generally correspond to the price and yield performance of their respective underlying indexes, the funds may not be able to exactly replicate the performance of the indexes because of fund expenses and other factors.

**RAYMOND JAMES**

# MECHANICS OF DIRECT INDEXING

## S&P 500 return versus % of stocks with positive and negative returns



Source: FactSet, as of April 8, 2022.

**Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.**

Raymond James does not provide tax or legal services. Please discuss these matters with the appropriate professional. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. This chart is for illustration purposes only.

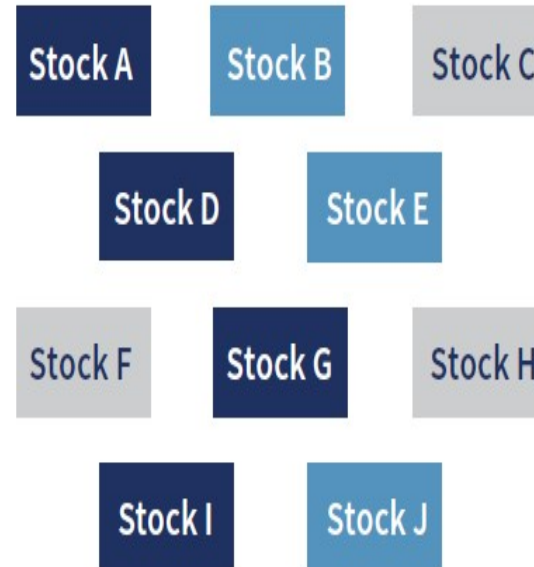
**RAYMOND JAMES**

## MORE CONTROL ALLOWS MORE CUSTOMIZATION

### INDEX ETF



### DIRECT INDEXING





## Rebalance Trades to Harvest Capital Losses

We sell a basket of securities trading at a loss to realize capital losses.

We replace the sold securities with similar names to ensure the portfolio continues to perform in line with the market.



Sell



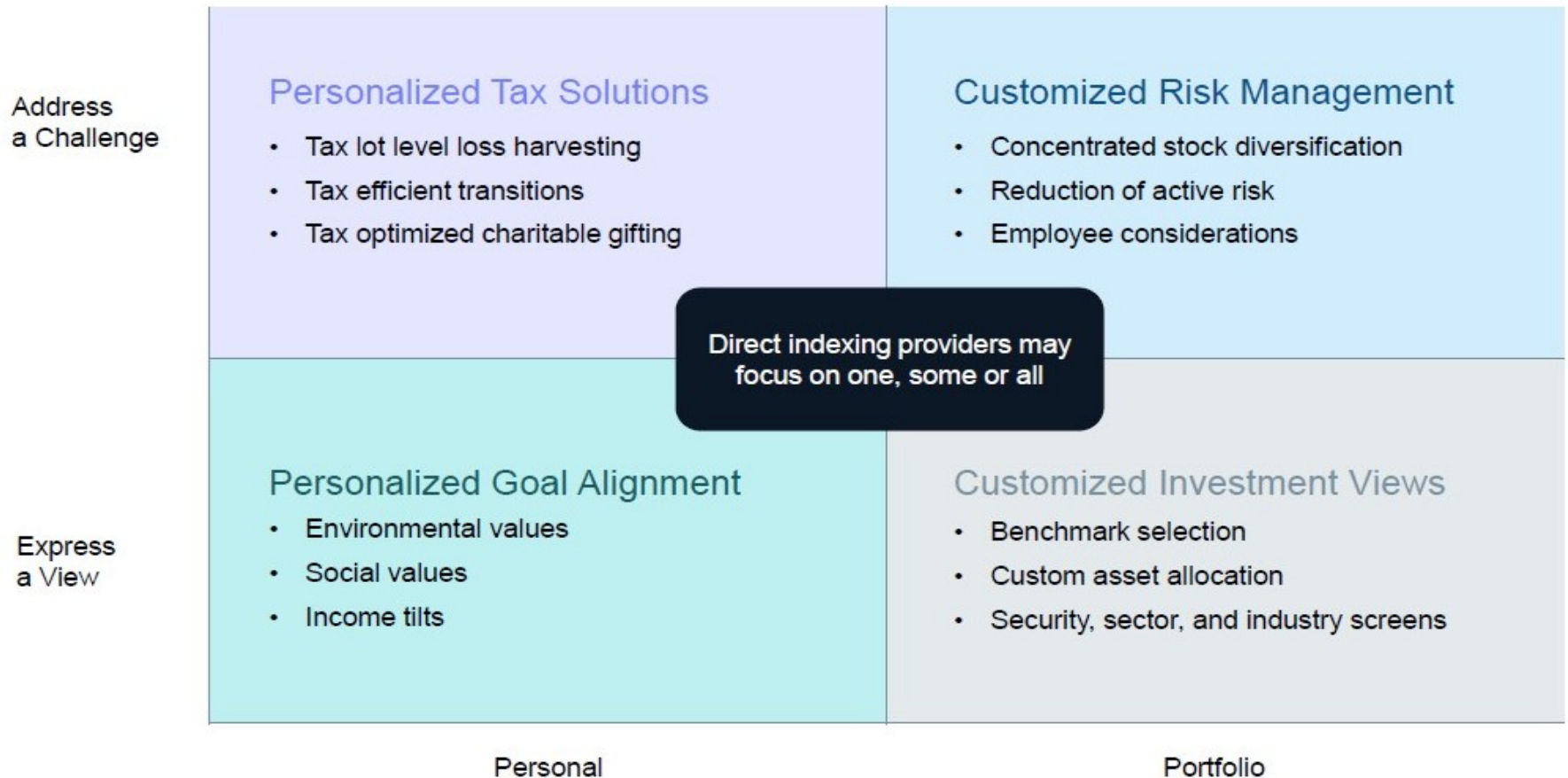
Buy



# **BENEFITS/RISKS OF DIRECT INDEXING**

# Why Use Direct Indexing?

Enables personalization and customization to meet investor objectives



There is no guarantee that objectives will be met. Goldman Sachs does not provide accounting, tax or legal advice. Please see additional disclosures at the end of this presentation. The portfolio risk management process includes an effort to monitor and manage risk, but does not imply low risk. Diversification does not protect an investor from market risk and does not ensure a profit. For illustrative purposes only.

Raymond James does not provide tax or legal services. Please discuss these matters with the appropriate professional.



---

# RISKS TO CONSIDER

Tracking  
Error

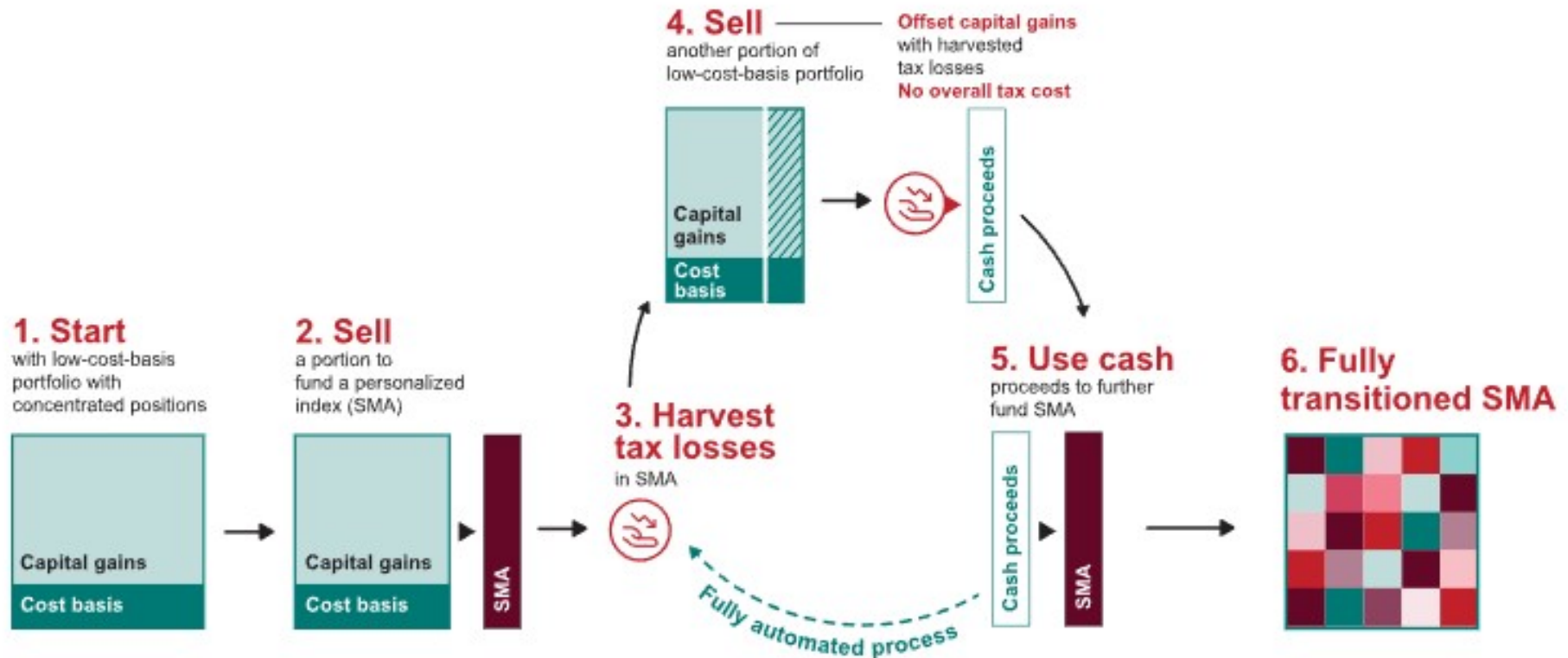
Fees

Diminishing  
Benefit over  
time

# USE CASES

# USE CASE: DIVERSIFY A CONCENTRATED, LOW BASIS POSITION

## Diversify large existing stock holdings, minimize taxes

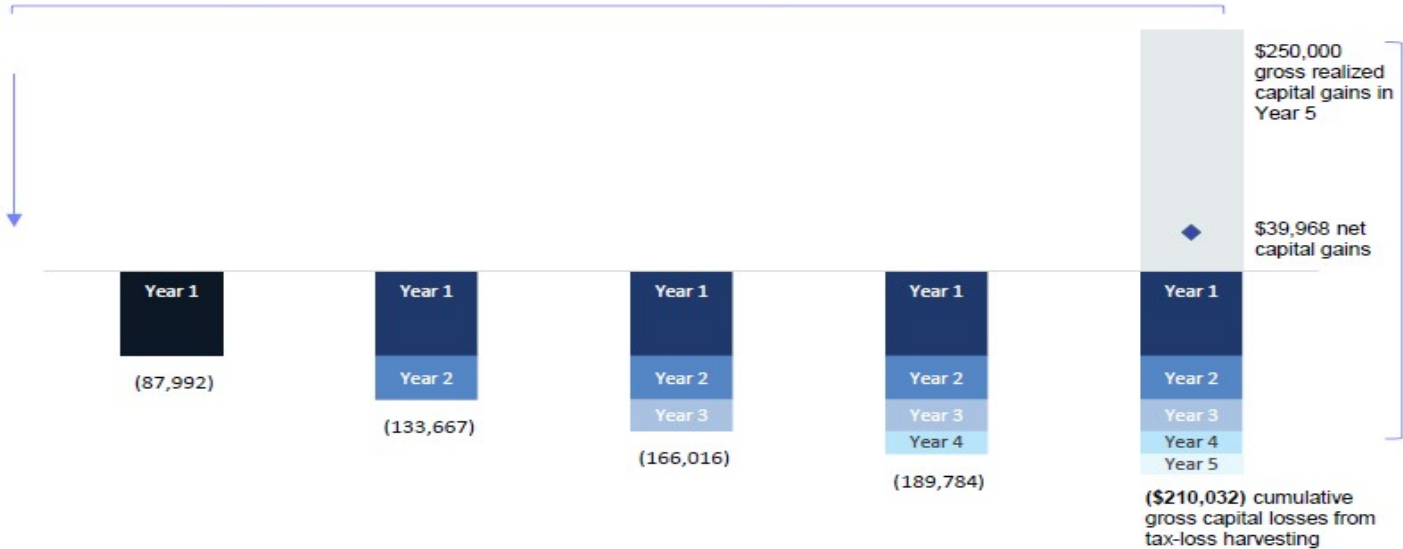


# USE CASE: HELP OFFSET FUTURE REALIZED CAPITAL GAINS

Client Situation: Investor seeking to plan for future realized capital gains, i.e. from the anticipated sale of an asset, and has \$1mn to invest today.

2 Earn market-like returns while harvesting capital losses that can be carried forward to offset future gains

1 Invest \$1mn in our tax-advantaged direct indexing strategy



3 Offset capital gains using losses harvested in the tax-advantaged portfolio to create tax savings

	Year 1	Year 2	Year 3	Year 4	Year 5
Beginning Market Value	1,000,000	1,080,000	1,166,400	1,259,712	1,360,489
Ending Market Value	1,080,000	1,166,400	1,259,712	1,360,489	1,469,328
Cumulative Pre-Tax Return	8.0%	16.6%	26.0%	36.0%	46.9%
Yearly Realized Loss	(87,992)	(45,675)	(32,349)	(23,767)	(20,249)
Cumulative Realized Loss	(87,992)	(133,667)	(166,016)	(189,784)	(210,032)

For illustrative purposes only. Performance results vary depending on the client's investment goals, objectives, and constraints. There can be no assurance that the same or similar results to those presented above can or will be achieved. Goldman Sachs does not provide accounting, tax or legal advice. Please see additional disclosures at the end of this presentation

# USE CASE: VALUES ALIGNMENT

## Exclusions

Pre-Defined Thematic Customizations

Gun Violence	Environmentally Aware	Animal Friendly	Catholic Values	Vices
--------------	-----------------------	-----------------	-----------------	-------

Thematic Customizations

Abortion	Stem Cells	Contraceptives	Tobacco	Adult Entertainment
Alcohol	Gambling	Predatory Lending	Animal Testing Non Pharma	Animal Testing Pharma
Fur and Specialty Leather	Factory Farming	Pork Products	Private Prisons	Board Gender Diversity
Small Arms Distribution Civilians	Small Arms/Military Law Enforcement	Small Arms Manufacturing Civilians	Military Contracting	Controversial Weapons
Tar Sands	Thermal Coal	Arctic Oil and Gas	Nuclear Power	Omsa
Palm Oil	Pesticides			

Selected Customizations

Thematic Customizations	# Stocks	Weight %
Arctic Oil and Gas	3	2.12
Thermal Coal	13	1.07
Small Arms Distribution Civilians	1	0.53
Board Gender Diversity	3	0.25
Controversial Weapons	19	1.77

Data as of March 24, 2022

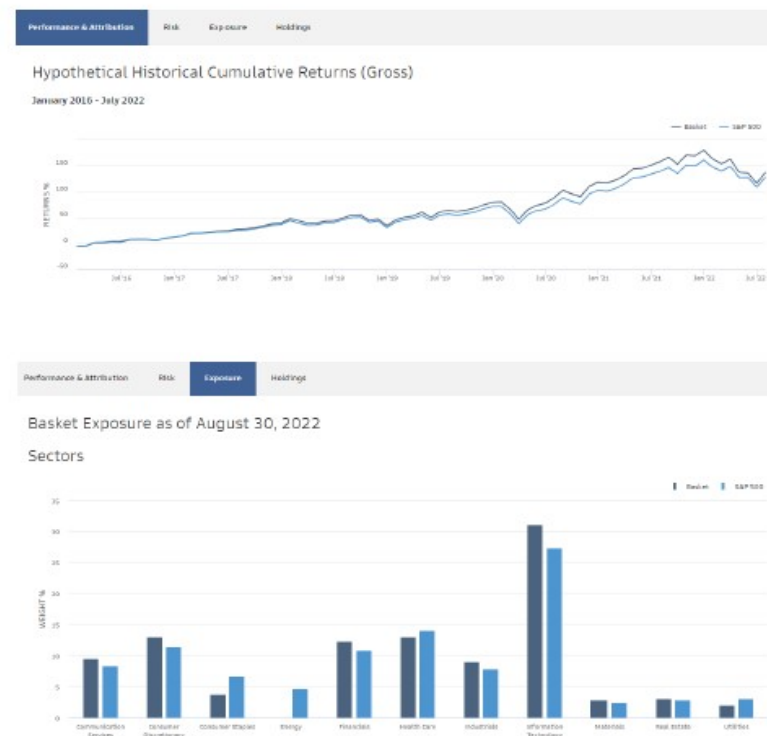
**Controversial Weapons**

Company is involved in the core weapon system or components/services of the core weapon system considered tailor-made and essential for the lethal use of the weapon. Controversial weapons may include: anti-personal mines, biological or chemical weapons, cluster weapons, depleted uranium ammunition, white phosphorus weapons and nuclear weapons.

Benchmark: 10 Stocks, 1.77% Weight

[View Customized Stocks](#)

## Portfolio Impact



Source: Sustainalytics, GICS, Goldman Sachs Asset Management. The portfolio management team may change the definitions of these variable to potentially better capture the theme. Updates will be made periodically but may not coincide with changes to the screens. For illustrative purposes only. Performance results vary depending on the client's investment goals, objectives, and constraints. There can be no assurance that the same or similar results to those presented above can or will be achieved. Hypothetical Historical performance shown is not actual performance and in no way should be construed as indicative of future results. Hypothetical historical performance results are created based on an analysis of past market data with the benefit of hindsight, do not reflect the performance of any GSAM product and are being shown for informational purposes only. Please see additional disclosures. Performance derived using chosen index and removing themes/subindustries/companies. Performance is calculated monthly and time frame chosen due to data availability of thematic topics.

Sustainable investing may incorporate criteria beyond traditional financial information into the investment selection process. This could result in investment performance deviating from other investment strategies or broad market benchmarks. Please review any offering or other informational material available for any investment or investment strategy that incorporates sustainable investing criteria, and consult your financial professional prior to investing.

Raymond James does not provide tax or legal services. Please discuss these matters with the appropriate professional.

**RAYMOND JAMES**

## WHAT TO LOOK FOR

<b>Key Characteristics</b>	
High Tax Rate	Wants their investments to align with their values
Taxable accounts	Concentrated Positions
Wants Index like returns	Potential for realized gains in the future

# CONCLUSION

KEY TAKEAWAYS, WHERE WE FIT IN, QUESTIONS

---

## MAIN TAKEAWAYS

---

- Innovative strategy that allows for greater customization and tax efficiency
- Not right for everyone – concentrated positions, future capital gains, value oriented
- Be wary of Tracking Error



# DISCLOSURES

Every investor's situation is unique and you should consider your investment goals, risk tolerance and time horizon before making any investment. Prior to making an investment decision, please consult with your financial advisor about your individual situation.

Raymond James Trust N.A. currently serves as the service provider for Raymond James Charitable, a public charity. Raymond James Trust is affiliated with Raymond James & Associates, Inc.

© 2022 Raymond James & Associates, Inc., member New York Stock Exchange/SIPC.

The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any opinions are those of Greg Reabold and not necessarily those of Raymond James. Expressions of opinion are as of this date and are subject to change without notice. There is no guarantee that these statements, opinions or forecasts provided herein will prove to be correct. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. Indices are not available for direct investment. A person who purchases an investment product which attempts to mimic the performance of an index will incur expenses such as management fees, transaction costs, etc. which would reduce returns. Asset allocation and diversification does not ensure a profit or protect against a loss. There is no assurance that any investment strategy will be successful. Separately managed accounts (SMAs) may not be appropriate for all investors. SMA minimums are typically from \$100,000 to \$250,000, may be style specific, and may be more appropriate for affluent investors who can diversify their investment portfolio. Past performance is no guarantee of future results. Tax-loss harvesting involves certain risks, including, among others, the risk that the new investment could have higher costs than the original investment and could introduce portfolio tracking error into your accounts. There may also be unintended tax implications. Prospective investors should consult with their tax or legal advisor prior to engaging in any tax-loss harvesting strategy. Factor investing is subject to investment style risk, which is the chance that returns from the types of stocks selected will trail returns from U.S. stock markets. Factor investing is subject to the risk that poor security selection will cause underperformance relative to benchmarks or funds with a similar investment objective. Though some clients will benefit from personalized equity portfolios, many may also find that pooled products such as mutual funds and ETFs meet their needs. Goldman Sachs Asset Management, L.P. (GSAM), is a New York-based investment manager. For Raymond James Consulting Services ("RJCS") SMA accounts they primarily run index-based tax management strategies. Raymond James fact sheets are available upon request for further information regarding any of these specific strategies, as well as additional index definitions. Important information regarding managers that trade away: The wrap fee assessed by Raymond James covers the cost of brokerage commissions on transactions effected through Raymond James within the RJCS program. In the event this manager elects to use brokers or dealers other than Raymond James to effect a block order in a recommended security ("trade away" from Raymond James), brokerage commissions and other charges may be assessed by the executing broker or dealer which will be in addition to the wrap fee assessed by Raymond James. Gross and net composite performance presented by AMS reflects these additional costs. Additional information related to why the manager may choose to trade away, best execution guidelines, the frequency of such trades, and average additional costs related to investing in this discipline is available via the public website at <https://www.raymondjames.com/legal-disclosures/disclosure-trading-practices>. In a fee-based account, clients pay a quarterly fee, based on the level of assets in the account, for the services of a financial advisor as part of an advisory relationship. In deciding to pay a fee rather than commissions, clients should understand that the fee may be higher than a commission alternative during periods of lower trading. Advisory fees are in addition to the internal expenses charged by mutual funds and other investment company securities. To the extent that clients intend to hold these securities, the internal expenses should be included when evaluating the costs of a fee-based account. Clients should periodically reevaluate whether the use of an asset-based fee continues to be appropriate in servicing their needs. These additional considerations, as well as fee schedules, are listed more fully in the Client Agreement and the Raymond James & Associates Wrap Fee Brochure.

Securities are: Not Deposits • NOT Insured by FDIC or any other government agency • NOT GUARANTEED by the bank • Subject to risk and may lose value