COMPASS PLANNING ASSOCIATES

Fee-Only Financial and Investment Planning

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On Course

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Welcome! A different look at portfolio management can give your after-tax returns a boost. Known as location optimization, the goal is to choose the right type of investment for each of the taxable, nontaxable, and tax-deferred accounts you have. This month we're giving you a primer on this sophisticated way of looking at your portfolio.

If you want to see how you can maximize after-tax return on your investments, remember we're here to help you stay *On Course!*

-Jennifer Lane, CFP

In This Issue

Jennifer's Hint

Once you've owned an investment for one year, it is considered a long-term investment and enjoys the lower tax rate on profits if you sell. Beware the wash-sale rule! If you re-buy the exact same investment within thirty days of selling, you erase the previous sale for tax purposes.

Get more tips in Jennifer's book

Portfolio Management for After-tax Returns

With some planning and thought, you can minimize taxes at the same time you are maximizing your after-tax returns.

Your investment accounts

- Rather than holding a full allocation within each account, you put investments in accounts where they make the most tax sense -- both short term and long term.
- There are three types of accounts:
    - **Taxable accounts** where income and gains are taxed as they are realized. Generally, taxable accounts are those you hold individually or jointly. You pay taxes on interest and non-qualified dividends at ordinary tax rates and you pay capital gains taxes only on appreciation when you sell securities.
    - **Non-taxable accounts**, where you do not pay taxes at all although the contributions are with after-tax money. The best example of this type of account is the Roth IRA.
    - **Tax-deferred accounts**, which include retirement, life insurance, and annuities. You pay taxes as ordinary income when you withdraw funds.

How it works

- This strategy works best when you have all three types of accounts.

- No two situations are the same so you need to evaluate each of your investments against the others in the portfolio. Consider both the types and timing of taxable income. Then put investments in the account type that will produce the highest ending value.
- Because you will be putting different types of investments in each account, you need to evaluate your investment performance by looking at the total portfolio rather than individual accounts because the investment returns may vary widely.
- Once you've done your analysis, here is how to allocate the investments across the accounts:
    - **Taxable accounts** - put US stocks, which are tax-efficient, and appreciating investments here.
    - **Non-taxable accounts** - put investments with higher expected long-term returns such as foreign stocks here. You will likely take money out of a Roth IRA last so a riskier investment works well here because of the longer time period you will hold them.
    - **Tax-deferred accounts** - put income producing investments such as bonds and fixed income products, which are tax inefficient, here. You will not have to pay tax on the interest paid while held in the account, only on the distribution, which would have occurred anyway.

As we mentioned, this is a complex portfolio strategy that takes into account many variables, so be sure to speak with your financial advisor on how best to implement it for your own investment portfolio.

Q&A

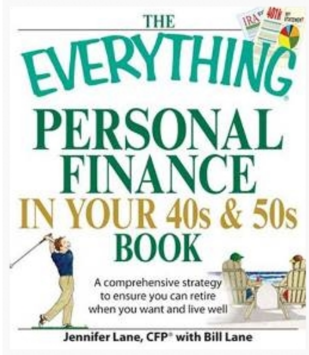
Q: My mom inherited an IRA fund that's invested in stocks. She doesn't want to sell anything, but I'm concerned about risk. The stocks are blue chip. Am I overreacting?
-- Jack, Hudson

A: Jack, this is the time to take a fresh look at the holdings and not be hesitant to make a change. Review each of the stocks; if you wouldn't buy that stock now, then sell it. The IRA will shelter gains until she needs to withdraw the money. Check also on how soon she needs to begin making the required minimum distribution, the rules of which vary depending on the circumstances. Click here to read more about inherited IRAs.

What's New

- Jennifer recently answered NECN viewer questions about ***Investing after Brexit***. Click **here** to watch the segment on her blog.
- Follow us on Facebook! Visit **www.facebook.com/AskJennifer** and like us!
- Jennifer appears on NECN every other Monday morning at 9:30 am in addition to her Tuesday 6:30 pm appearance.

Compass Planning Associates helps families, individuals, and small-business clients achieve financial security, knowledge, and control over their money. Our **fee-only, client-centered approach** provides education and guidance for



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Helpful Websites

Tax-Efficient Investing

Inherited IRAs

IRS on Capital Gains and Losses

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