



## **Tax-Efficient Portfolio Transitions**

The significant rise in equity prices over the last eight years has left many individuals with sizable unrealized gains in their portfolios. As we move through the business cycle the appropriateness of a strategy for a client may change over time. This presents an important challenge for clients transitioning between asset classes/strategies- how to limit tax liabilities? Most clients have an aversion to sizeable realized gains (both financial and psychological) that often leads them to inaction, even though an existing strategy may not be appropriate. In addition, the majority of SMA managers will immediately sell all holdings that are not currently in their model, therefore incurring substantial realized gains.

At Abner Herrman & Brock, we offer clients a customized tax-efficient approach to transitioning into a new strategy.

1. **Transition** – The timing of the transition can be crucial to limiting taxable gains and market volatility. AHB will not liquidate all existing positions on “day one” and reinvest proceeds into our strategy. We will coordinate with clients’ objectives and tax sensitivity to orchestrate an efficient transition.
2. **Limit Realized Gains by Calendar Year** -We often work with advisors to limit the specific dollar amount of gains per calendar year. A transition may take up to three calendar years for clients with sizable concentrated positions.
3. **Customized Separate Account Manager** – Unlike a model strategy where every client has the same exact portfolio, each AHB portfolio is managed to specifically meet the needs of each client.

**Example:** Client with an unrealized gain of \$120k, transitioning portfolio to AHB vs Model Money Manager.

AHB	Capital Gains Realized	Taxes Owed Assumes 20% Capital Gains Tax		Model Money Manager	Capital Gains Realized	Taxes Owed Assumes 20% Capital Gains Tax
Year 1	\$40,000	\$8,000		Year 1	\$120,000	\$24,000
Year 2	\$40,000	\$8,000	Year 2	Year 2	\$0	\$0
Year 3	\$40,000	\$8,000		Year 3	\$0	\$0

**AHB's Strategy:**

We work with advisors to create customized transition proposals that include hypothetical timing of transitions and tax liabilities. If an advisor sends us the client/prospect's current portfolio tax lot and cost-basis information, we can evaluate the portfolio to analyze the changes and propose a recommended transition approach. At AHB we manage customized portfolios of individually owned Large Cap Equity and Investment-Grade Fixed Income securities.