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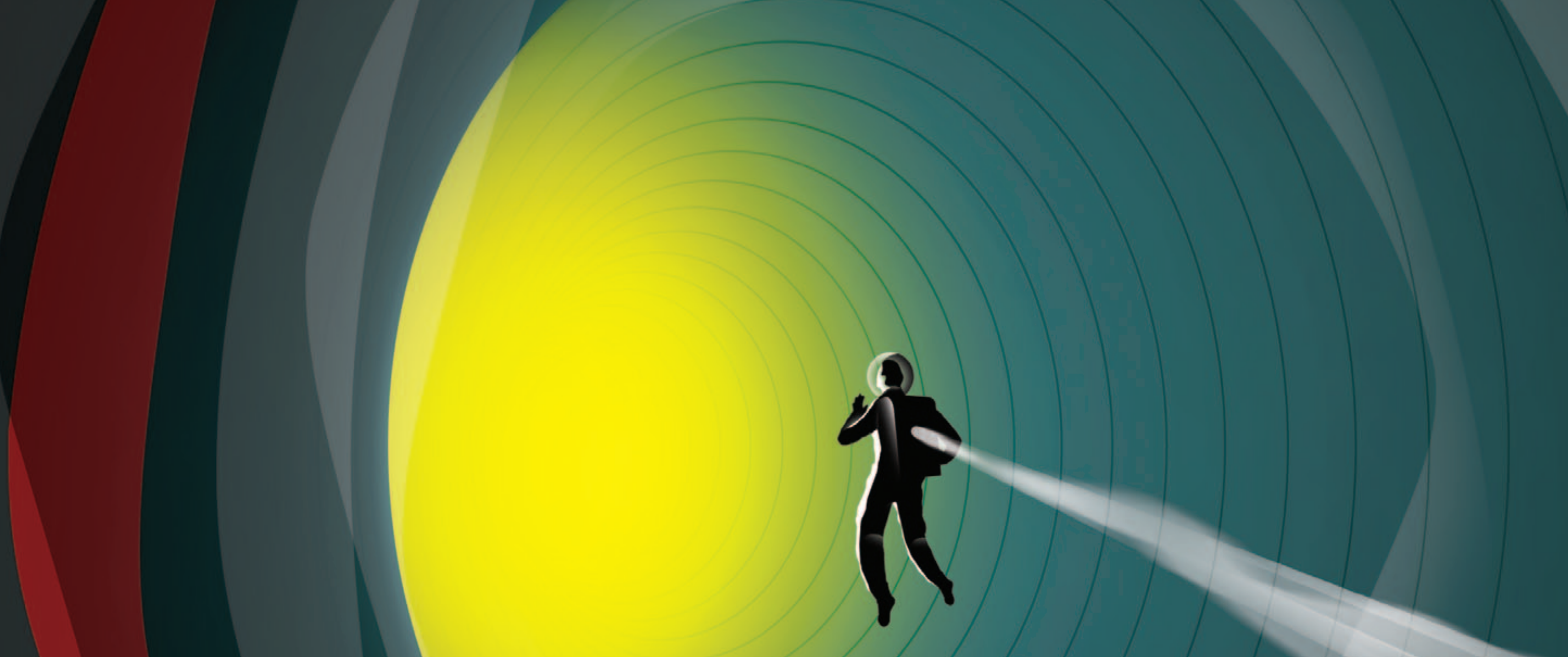

THE WAY FORWARD

MAKING SMART CHOICES IN INVESTING AND LIFE IN 2015

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Waldron Private Wealth

John Waldron, Founder, Chief Executive Officer; Matthew Helfrich, Managing Director, Chief Investment Officer; Jeff Howden, Managing Director, Chief Investment Strategist; Jim Mendelson, Managing Director; Michael Krol, CFP®, CPA, Managing Director; Chris Roe, CPA, Managing Director

"How can I manage my portfolio for efficient after-tax outcomes?"

By Jeff Howden

Within the field of high net worth portfolio management, the implications of tax costs can be significant, posing an obstruction for clients. We find that many clients view these taxes as an increased "cost" to portfolio management they are not comfortable absorbing. As advisors, we see a challenge in trying to manage and rebalance for better after-tax outcomes. We also find that these highly appreciated and concentrated securities create significant portfolio-management complexities. A potential solution is engaging a manager to provide a tax overlay for more disciplined after-tax portfolio management.

Tax and management complexities have increased: Stemming from the health-care legislation and the expiration of prior tax legislation in 2013, the landscape for federal income taxation has significantly changed. Most notably, top earners' maximum marginal rates for short-term capital gains have increased from 35.0 percent to 43.4 percent. Rates for long-term capital gains have increased from 15.0 percent to 23.8 percent (a staggering difference of nearly 60 percent).

In conjunction with these increases, broad equity market returns have been resoundingly positive since the market's nadir in 2009. The impact of elevated tax rates on high net worth individuals can be profound when gains are realized as part of a rebalancing process, but clients often loathe the ensuing taxes: They feel "trapped" in a portfolio that contradicts their target asset allocation.

Further complicating this conundrum, high net worth investors often hold highly appreciated and concentrated securities that need to be reduced to lower their "single stock exposure" and free up cash for lifestyle demands. While this seems technically straightforward, the act of selling highly appreciated and concentrated securities to lower a portfolio's risk profile is often emotionally unacceptable. We find that clients resist this disciplined approach to reduce the risk of their portfolio.

Benefits of a tax overlay manager: A compelling solution to these barriers is a tax overlay manager. This approach emphasizes the synergies between tax-loss harvesting and tactical portfolio rebalancing. The manager builds a portfolio to match a relevant benchmark (or group of managers) and continuously harvests losses to build loss reserves for future use. Tax-loss harvesting involves constantly monitoring loss recognition opportunities (during down and up markets) across positions and trade lots. Harvesting losses throughout the year provides flexibility to potentially minimize short-term capital gains and future long-term gains. The manager will harvest losses by replacing existing positions with comparable companies during the 30-day wash sale period.

For example, selling Pfizer below its cost basis creates a realized tax loss and is replaced by shares in Johnson & Johnson, another health-care exposure with similar risk factors. The losses incurred should reduce the effects of highly appreciated and concentrated holdings that are contributed to the manager's portfolio. This approach lowers the eventual tax cost of rebalancing taxable accounts.

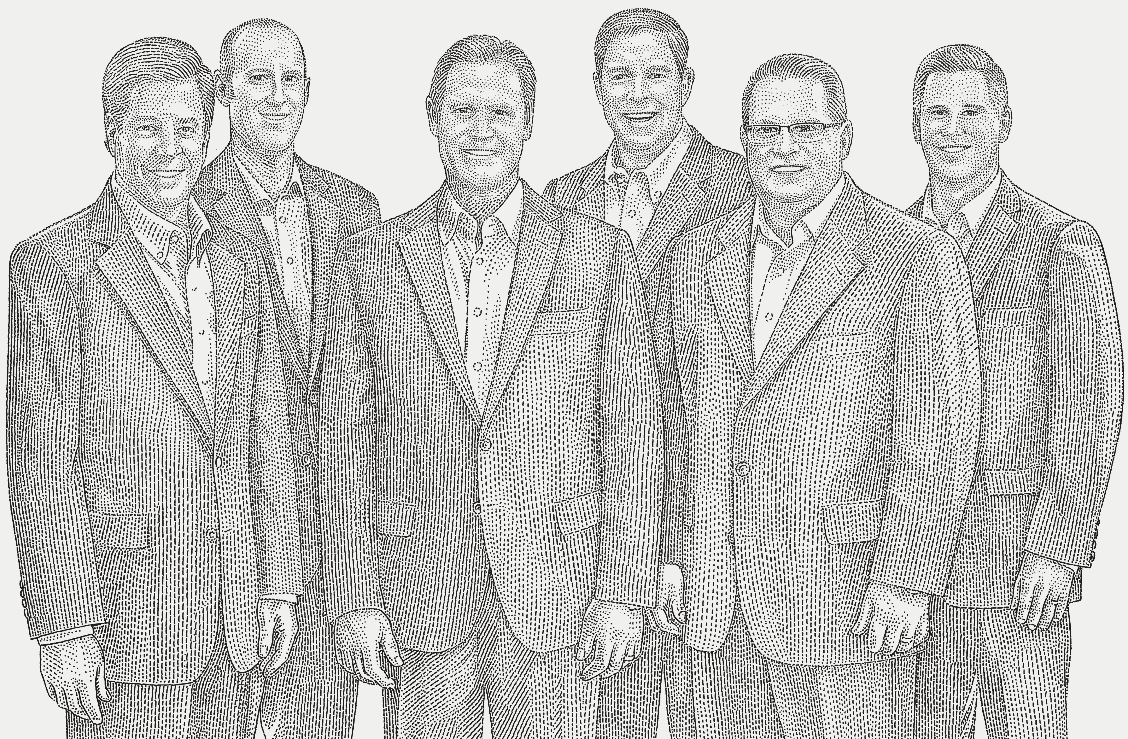
How to achieve this: Working with a firm that specializes in delivering more efficient after-tax outcomes is a reliable solution. Typically, a team will analyze a client's existing positions (using tax lot and cost-basis data) and map out investment-transition strategies to reduce unnecessary exposures and minimize the tax impact. Ultimately, the calculated transactions should streamline the asset allocation to better meet the client's needs. The transition strategies can also be tailored to encompass varying scenarios in terms of tax cost versus tracking error of a target benchmark (e.g., a global equity strategy with a large cap tilt that focuses on dividends).

Rebalancing is a prudent approach for optimal long-term portfolio goals, but the emotions and costs of taxes are real. Putting the right solutions in place creates a plan to balance these objectives.

> *"Rebalancing is a prudent approach for optimal long-term portfolio goals, but the emotions and costs of taxes are real."*
>
> —Jeff Howden

How to reach Waldron Private Wealth

You can reach Waldron at 412.221.1005, and we would be happy to discuss our process and approach with you.



Left to right:
Jim Mendelson, Matthew Helfrich, John Waldron, Jeff Howden, Chris Roe, Michael Krol

About Waldron Private Wealth

Waldron Private Wealth is a boutique private wealth management firm that advises a select group of high net worth individuals, families and family offices. By limiting the number of clients it serves, Waldron can offer greater focus on how to best simplify the complexities of significant wealth, so all clients can achieve what's important in their lives. Waldron's advisory team is prepared to serve its clients across a wide range of key financial disciplines. The advisory team includes: three CPA's, seven CFP's, an attorney, a certified divorce financial analyst and three members holding certificates from the Institute for Preparing Heirs.

Financial Services Experience
112+ years (combined)

Assets Under Management
$1.1 billion (as of 6/30/2014)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$5 million

Largest Client Net Worth
Confidential

Compensation Method
Asset-based (investment services), hourly and fixed fees

Primary Custodians for Investor Assets
Fidelity Family Office Services and Pershing

Professional Services Provided
Planning and investment advisory services

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