IT'S NOT ABOUT WHAT YOU MAKE; IT'S ABOUT WHAT YOU KEEP.

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IMAGINE YOU INHERIT $1,000,000 AND YOU NEED TO FIGURE OUT HOW TO INVEST IT.

What would be the first thing you looked at?

Likely, you would start with the average annual rate of return for each investment option. But investments don't live in a vacuum; they exist within complex legal structures and delivery systems that can't be ignored. Then there is the emotional fortitude required for successful investing (which many people don't have given the persistent gap between returns posted by various indices and returns realized by actual retail investors). Plus, various investments have vastly differing tax treatment. Finally, you have the impact of your investments on personal and political values.

When folks quote a cliched portfolio return of 8% per year, they should also rattle off the following disclaimer: *minus* my advisor's 1%+ fee; *minus* my portfolio's fund fees of 1%+ (and I also love paying the infamous hedge fund fee of 2 and 20); *minus* trading costs; minus any kickbacks that the fund paid the advisor to sell the investment in the first place. Oh yeah, and *minus* my 46% tax rate (if I'm in the top bracket). Needless to say, most folks are keeping a lot less than the oft-quoted 8%.

All this adds up to a simple truth: it's not about what you make; it's about what you keep.

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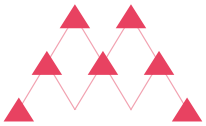
PART 1: MAKING FRIENDS WITH UNCLE SAM, AKA TAX PLANNING



WHAT'S YOUR ADVISOR WORTH?

Your financial advisor can be a great ally to help you focus on the levers that drive your net portfolio returns. Of course, the first step is to make sure your advisor is delivering a reasonable value for the fee they charge.

Since the advent of robo-advisors like Betterment, Ellevest, and the granddaddy of the bunch Vanguard, there's been downward pressure on the cost of portfolio management. **But research now shows advisors can have a significant positive impact on overall returns (beyond prudent investment management) via tax planning, behavioral support, and proactive portfolio maintenance.** These services make an advisor who provides systematic financial planning and investment management well worth their price.

WHY TAX PLANNING?

The social contract means that we must contribute our fair share to pay for things we all enjoy - roads, schools, Forest Park. But the taxation system is complicated, and if you're not a CPA it can be hard to tell if you are paying what you owe, or overpaying. Here's what you can do about it:

01 TAX-MANAGED INVESTMENT VEHICLES

It's important to make sure that your investments

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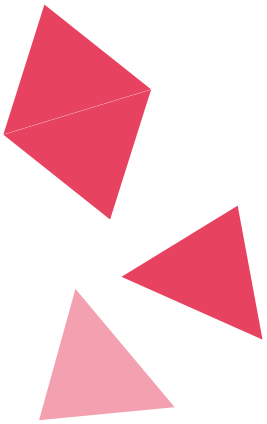


(mutual funds, private equity, etc.) consider tax impacts when trading decisions are made. Funds that have high internal turnover (lots of buys and sells in the assets they hold) can produce higher tax liability because of short term capital gains. You won't see this activity on your monthly statement, but you may be surprised when you receive your Form 1099 next year.

Tax liability is a clear drag on the returns you keep, so it is worth that extra bit of investigation at the outset. Also, high turnover means high trading costs, which can add even more to internal fees.

02 ASSET LOCATION (NOT ALLOCATION)

At the portfolio level, tax planning can also take the form of asset location (not to be confused with asset allocation). It refers to placing assets with specific attributes (high growth and gains, dividends, taxable income) into accounts with different tax treatment (Roth IRAs, Traditional IRAs, taxable brokerage accounts). Asset location can make for more efficient tax planning today, growth over time, and distributions once you're retired.

For example, real estate and emerging markets are two asset classes that have comparatively higher expected returns and volatility over time. Locating these assets in your Roth IRA (as opposed to a Traditional IRA or brokerage account) to grow until you retire, allows them the chance to realize their higher expected long-term returns. **The Roth IRA is also a favorite tool of financial planners because it allows you to take money out without paying taxes (after the age of 59.5, as well as for your heirs).**

03 MAKING SURE YOU MEET YOUR DEADLINES

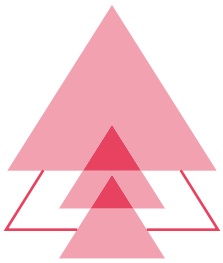
Aside from paying close attention to the tax implications of your investment portfolio, there are some bigger-picture activities your financial advisor could undertake to facilitate strategic tax planning. The most basic of these is to keep you up to date on the deadlines for your Roth conversions, charitable contributions of stock, or contributing to your retirement accounts every year. Holiday season is busy - but that still shouldn't mean missing out on your maximum SIMPLE IRA or Solo 401k deferral.

For example, if you are an Oregonian in the highest tax bracket, maxing

out your retirement contributions could result in 46.9% savings on your tax bill. **This is all while helping you prepare for your dream retirement by saving AND letting your money compound in a tax-deferred account until your fabulous retired self needs it!**

04 MAKE YOUR CPA AND FINANCIAL ADVISORS INTO BFFS

If you like where this is going, but want to step it up a notch, you could ask your financial advisor to host an annual meeting with your CPA to hash out the optimal tax planning strategy for your situation. Should your business become an S corp? Should you open a Solo 401(k) plan? Should you donate more appreciated stock to KairosPDX than you were



already planning to? You won't know until your CPA and financial advisor get together on the case.

In conclusion, your work with your advisor is a great opportunity for taking a big-picture approach to growing your net investment returns. **Forget top-level "vanity" returns and use the points above to double check: Is your tax planning strategy structured to maximize your ability to fund your goals?** ▲