TOWERPOINT
WEALTH

MINIMIZING THE "NECESSARY EVILS" OF INVESTING

Let's talk! 916.405.9140

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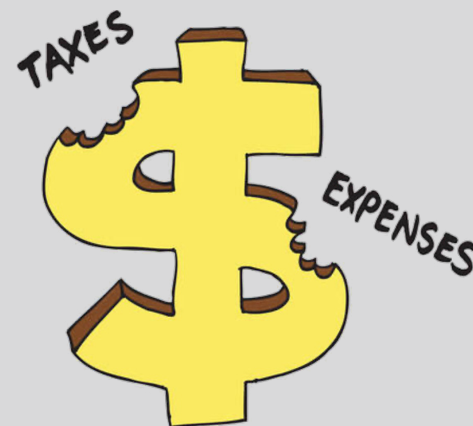
The movements of the financial markets, ever-shifting political winds, and a dynamic and sophisticated domestic and global economy are all essential elements to consider when building and managing your portfolio, and working to grow and protect your net worth. However, they are also completely uncontrollable. And while it is certainly important to pay attention to these external variables, we believe it is of limited use to expend unnecessary amounts of attention and energy on them.

Alternatively, at Towerpoint Wealth, we prefer to focus more of our attention, scrutiny, and planning on variables we do have some control over – how a client is diversified, how much risk a portfolio bears, the rate and sustainability of portfolio withdrawals, and to some degree, our own investment behavior and emotions.

Two additional and very important areas where we have some say and some sway in how we help clients build and protect wealth are in the reduction of the two "necessary evils" of investing – income taxes and investment expenses. And while taxes and expenses certainly create drag on your portfolio, there are many meaningful planning opportunities to assist you increase your "gas mileage" and keep more of your money.



In this whitepaper, we're offering you FIVE actionable strategies to help you minimize the income taxes on your portfolio, and FOUR ideas to help you keep your investment expenses low.

The following are 5 important planning points when seeking to minimize the tax drag of your portfolio.

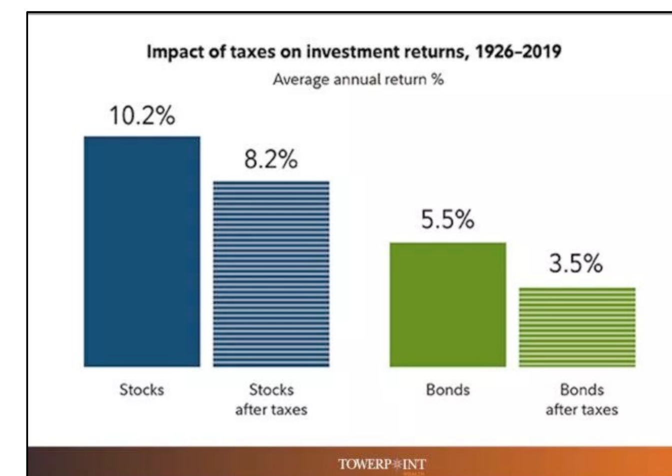
Locate your investments strategically

The location, or type of account, where your investments are held is essential for tax planning: If you have a regular taxable account and also a tax-deferred retirement account, understanding which account to hold which of your investments makes a huge difference. Specifically, knowing which components of your portfolio to hold inside of your tax-advantaged retirement accounts such as IRAs and 401(k)s can have a significant influence on your net, after-tax returns.

Investments that pay a lot of ordinary, taxable income, while nice to own, should generally be held in a tax-advantaged retirement account, thereby reducing the amount of income reported to the IRS.

Investments that pay qualified dividends (typically at the tax-advantaged 15% federal rate), or no income at all, should generally be held in "regular" taxable accounts.

Which account holds what investments can play a huge part in reducing your obligation to Uncle Sam.



TAXABLE ACCOUNTS Ideal for:	TAX-ADVANTAGED ACCOUNTS* Ideal for:
Individual stocks you plan to hold for more than one year	Individual stocks you plan to hold for more than one year
Tax-managed stock funds, index funds, exchange-traded funds (ETFs), low-turnover stock funds	Actively managed funds that may generate significant short-term capital gains
Stocks or mutual funds that pay qualified dividends	Taxable bond funds, zero-coupon bonds, inflation-protected bonds or high-yield bond funds
Municipal bonds, I bonds (savings bonds)	Real estate investment trusts

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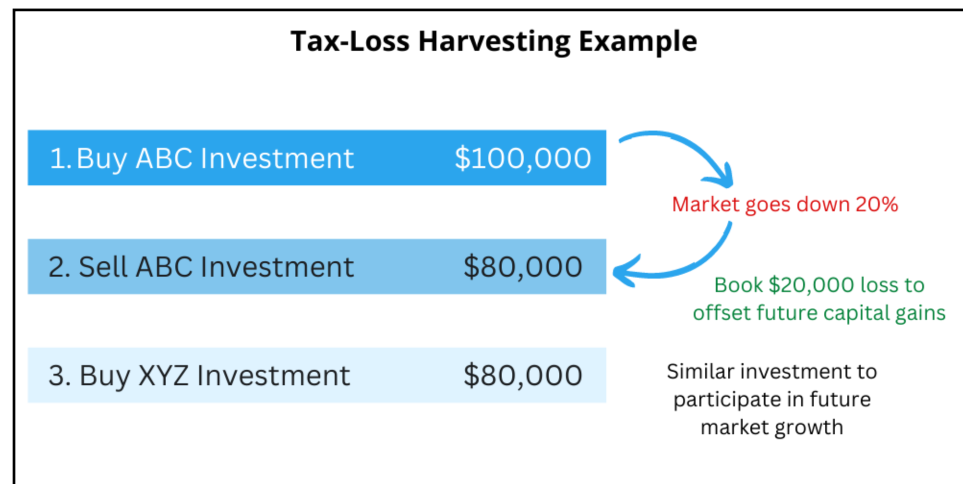
Have a plan to sell and "harvest"

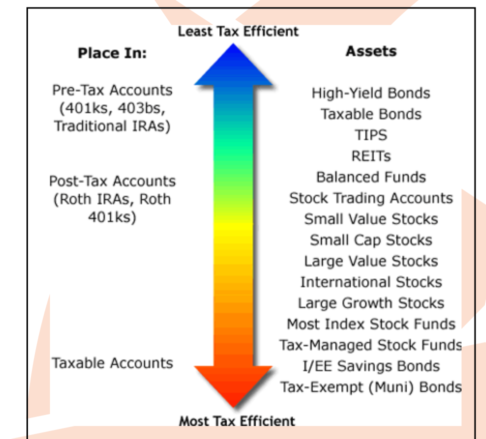
Carefully think about when to buy and sell your investments. Should you sell an investment before or after December 31? Should you "harvest" (or "realize") tax losses before the end of the year? Throughout the year? How and when you decide to realize capital gains can make a huge difference when managing and reducing the overall tax drag of your portfolio, and something that you have direct control over. Additionally, being mindful about recognizing and leveraging the differences between short-term capital gains, taxed Federally at higher ordinary income rates of up to 37%, and long-term gains, which are usually taxed at the lower 15% Federal capital gains tax rate, is essential when reducing your obligation to Uncle Sam.



Additionally, up to $3,000 of capital losses may also be used to offset ordinary income every year, after all capital gains have first been offset. Any additional losses may also be carried forward on your tax return, indefinitely, to potentially be utilized in future years.

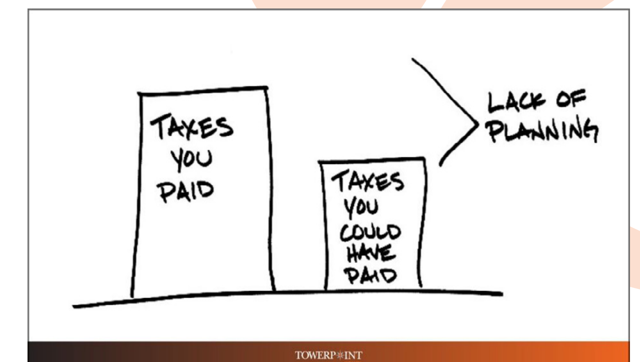
Select accounts to trade in strategically

Be strategic about which accounts you trade in. Should you buy and sell in your tax-deferred IRA or 401(k) account? Or would it be better to take advantage of the 15% long-term capital gains tax rate, or even zero-tax return-of-principal opportunities that a regular, non-retirement account offers? Each situation is nuanced when considering how to reduce the necessary evil of income taxes, but working closely with your financial and tax advisor can have huge benefits to how much of your portfolio you end up keeping!



Buy with tax efficiency front of mind

To minimize your tax drag, always consider the type of investments and funds you own. Certain mutual funds trade less and have lower turnover, tending to be more tax-efficient, as compared to funds that do a lot of active buying and selling, which can generate unwanted income and capital-gain distributions. Additionally, exchange traded funds, or ETFs, inherently trade less and almost always have a lower tax burden than do regular mutual funds.



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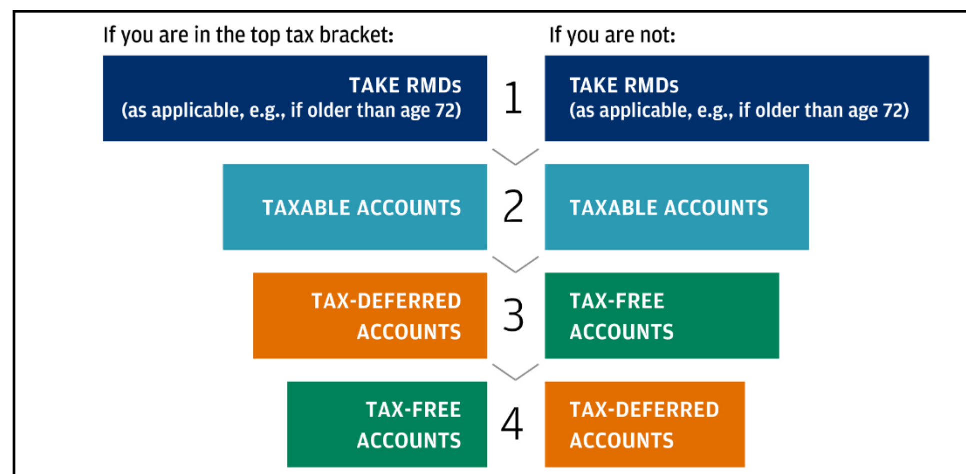
Withdraw wisely

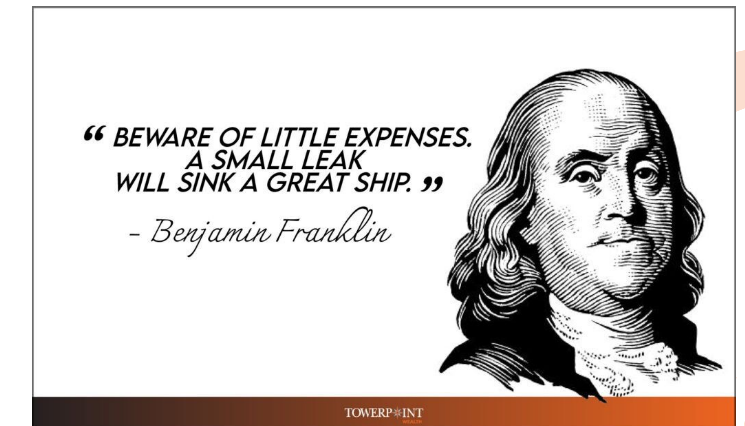
Be smart about which accounts to make withdrawals from. Don't forget – you are working to build and grow your portfolio to eventually begin taking and spending from it! And it is extremely important that when you begin to consider how to take withdrawals, you are mindful of the type of account you decide to draw from, your tax status in the year of the proposed withdrawal, and your potential future tax status.

Making withdrawals from a tax-deferred retirement account such as an IRA or 401(k) will generate ordinary income, typically taxed at higher rates. Withdrawals from a "regular," non-retirement taxable account may be taxed at lower capital gains rates, or even have zero tax liability if structured properly. This is not to suggest that avoiding withdrawals from a retirement account is always the best idea, but simply meant to highlight the importance of proactive tax planning when beginning to consider taking income from your portfolio and retirement nest egg.



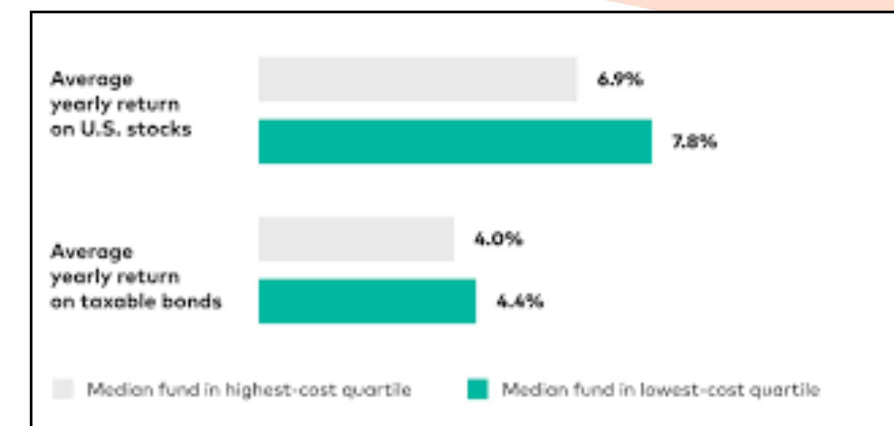
The following are 4 important planning points when seeking to minimize the drag of fees and expenses on your portfolio.

According to a study by *Consumer Reports*, four out of 10 investors do not know how much they are pay-ing in fees and investment expens-es.



Benjamin Franklin knew that these little expenses can add up, as he notes in his famous quote that reminds us, "A small leak will sink a great ship."

One of the easiest ways to bolster your returns, and better grow and protect your net worth, is through expense, fee, and cost reductions.



Here are four things you can do today to keep more of your money, and have more of it working for you:

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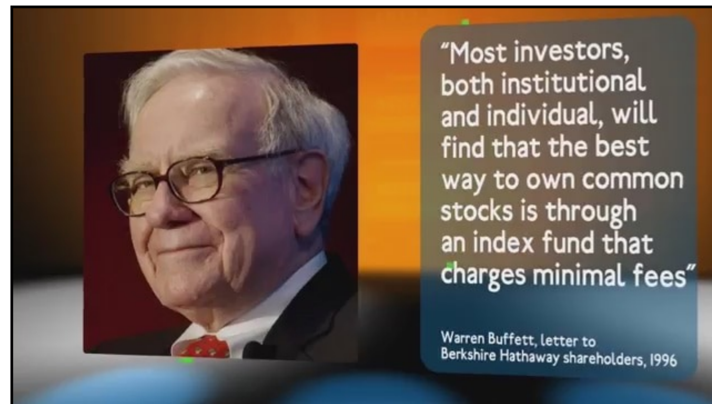
Choose low-cost funds

Own low-cost index funds and ETFs instead of actively managed funds. In the world of investing, you don't receive a bill in the mail to pay for the internal costs and investment expenses of your diversified investment funds; instead, you pay for these expenses directly from the gross return of your funds. This is money earned, but never seen, and while some may argue that active management is worth the extra cost, we believe the empirical data says elsewise.



Don't pay custodial fees or high commissions

Reduce or eliminate account custodial fees, as well as trading commissions and costs. It is simple: research, and then use, a custodian or brokerage firm that doesn't charge for these things. At Towerpoint Wealth, we believe this is an absolute no-brainer, and one of the many reasons we have partnered with Charles Schwab as our custodian – our clients do not pay any account custodial fees, and do not pay any stock nor ETF trading commissions. Just don't do it!

Reject the "load"

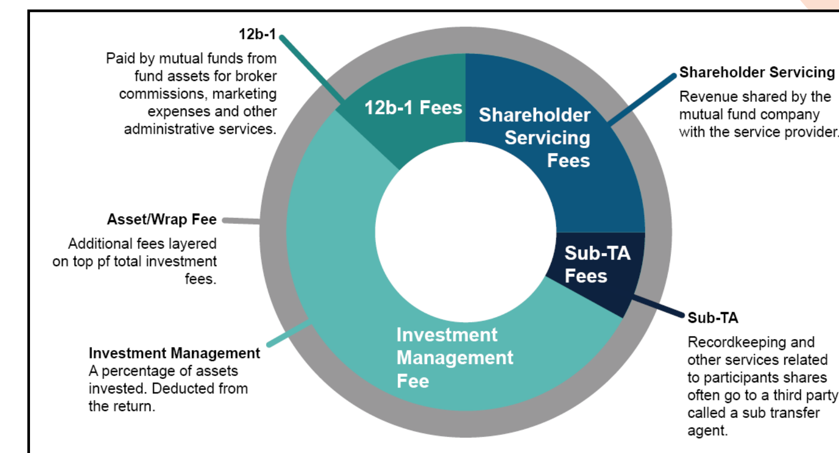
Do not pay a "load" when investing in a mutual fund. A "load" is another word for commission. Don't pay them, and instead seek out no-load and institutional funds, and financial advisors who recommend them.

Load vs. No-Load Funds

- A "load" fund charges a commission upfront to pay the broker who sold you the fund.
- There are front-load and back-load funds.
- No-load funds = no sales commissions
- These funds are cheaper and sold directly by the fund company to customers.
- If performance is equal, why pay commissions?

Query your employer

Pay close attention to any hidden fees found within your company-sponsored retirement plan. Ask to see the summary plan description (SPD), also known as the plan document, of your 401(k), 403(b), 457, or TSP plan. Review it for any plan-based fees that are borne by you, as a participant. Additionally, if your menu of investment choices is a limited selection of high-expense/high-fee funds, ask your plan administrator why, and inquire about what lower-cost options are available to you.



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At Towerpoint Wealth, we are not sure which we detest more – investment expenses or income taxes. Recognizing that both are "necessary" evils that create drag when helping our clients build and grow net worth, we continue to be laser-focused on reducing and minimizing taxes and expenses wherever and whenever we are able.

At Towerpoint Wealth, we are a legal fiduciary to you, and are fortunately required to work in your best interests 100% of the time. If you would like to further discuss reducing the costs of your investments and minimizing the tax drag on your portfolio, please visit us at www.towerpointwealth.com, or reach out at 916.405.9140 or info@towerpointwealth.com to open an objective, no- strings-attached dialogue.

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ABOUT THE AUTHOR

JOSEPH ESCHLEMAN, CIMA®

As Towerpoint Wealth's President and founder, Joseph provides customized financial planning and strategic wealth management counsel. In building an impressive 21 year career, he continues to help a select group of successful individuals, business owners and entrepreneurs, corporate professionals, and retirees both grow and protect their personal net worth. Joseph's extensive training, experience, and expertise in portfolio and investment management, sustainable income generation, and comprehensive wealth protection and asset transfer planning has helped him move clients toward their ultimate goal – complete economic peace of mind.

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