Tax Optimization

AllocateRite offers automated tax optimization to asset managers allowing tailored tax solutions for individual customers. And although AR rebalances its three Composites once a month to maintain its low volatility posture and enhance risk adjusted returns, AR is very much attuned to the benefits of tax optimization.

Firstly, AllocateRite only invests in ETFs for all its portfolios. ETFs are built to be tax-efficient.

Secondly, since each customer has their own separate/segregated account, asset managers can select the tax lot treatment the works best in each circumstance (LIFO, FIFO, etc.).

And finally, all positions and trades are then uploaded and evaluated to optimize to gains and losses using a proprietary algorithm.

AR uses all benchmark Index ETFs which are tax-efficient. Most Index ETFs have very little turnover, and thus amass only nominal capital gains, much less than an actively managed investment. Also, the selling of an ETF by other investors does not create capital gains/losses. When they redeem shares, the ETF issuer doesn't typically rush out to sell stocks to pay the Authorized Participant "AP" in cash. Rather, the issuer simply pays the AP "in kind"—delivering the underlying holdings of the ETF itself. Since there is no sale, no capital gains. The ETF issuer can even pick and choose which shares to give to the AP—meaning the issuer can hand off the shares with the lowest possible tax basis. This leaves the ETF issuer with only shares purchased at or even above the current market price, thus reducing the fund's tax burden and ultimately resulting in higher after-tax returns for investors.

Additionally, AR has developed an algorithm that evaluates gains and losses for each ETF held within the portfolio. The algorithm can accommodate various costing methodologies (LIFO, FIFO, Average, Specific ID, etc.) to derive unrealized gains and losses by ETF, by tax lot. Separately, it calculates correlations and covariances across the portfolio's ETFs and projects it against unrealized gains and losses for each respective open position. It is further calibrated to take into consideration an account's tax situation and the time of year. This result allows AR to substitute, where possible, one security for another to generate a greater loss or lower gain to benefit the individual investor's taxable income. The goal of any trade related adjustment is to have little to no impact on the future performance of the portfolio. Note: The algorithm is designated by the client prior to each rebalancing date, and then employed accordingly.