STEWARD

MARCH 2025

A QUARTERLY PUBLICATION OF ALLODIUM INVESTMENT CONSULTANTS ▪ VOLUME 18, ISSUE 1

Bringing Order to Your Investment Universe

Part 3: Optimizing Your Investments

In part 2 of our three-part series on bringing order to your investment universe, we looked at balancing sensible tax management with effective investment planning.

In this issue, we will wrap up our series with additional ways to ease your transition from chaotic to more orderly investing. Some steps are purely practical. Others help you remain calm and confident along the way. We can mix and match them as needed to contribute to your investment strategy.

Taxes, Taxes, Taxes. In a the same way as "location, location, location" often dictates where you'll buy your next home, tax efficiency is usually integral to more organized investing. If you have a multiyear plan for your investment portfolio, there are various tax-planning strategies you can pursue within *taxable* accounts to help optimize results.

Monitor Your Annual Income: You might experience a low-income year if you're between jobs or shifting into retirement. Other years, you might receive a big pay raise, sell your business, or take on extra taxable income. You may be able to speed up your transition by deliberately incurring extra taxable gains in lower-income years, and move more cautiously in higher-income ones.

Watch for Tax Thresholds: Try to avoid the "gotchas" that can be triggered when realized taxable gains add to your overall annual income. For example, if the extra income pushes you into a higher tax bracket, your overall marginal tax rate may increase. Access to other government benefits can also be affected by your reportable income, such as whether or not you are subject to additional IRMAA fees when you qualify for Medicare.

Skip the Short-Term Gains: If you sell a taxable position you've held for a year or less, gains are taxed at typically higher short-term rates. It may be worth waiting to sell significant positions until you've owned them for more than a year, so the sale qualifies for long-term gain rates.

Harvest Some Losses: Even if your investment plans don't call for selling particular investments in your taxable accounts, you may still be able to tap them for *tax-loss harvesting*. By selling any positions in your taxable portfolio at a loss—and promptly reinvesting the proceeds in a similar (but not identical) asset—you can generate realized losses to offset realized taxable gains, ***without altering your overall portfolio mix***. This may free you to realize more taxable gains among the positions you do want to permanently sell.

Be Strategic About Lots: Instead of selling an entire fund, ETF, or stock holding, you can sell targeted lots, or share batches, within each. For example, your earliest lot comes from your initial purchase. You also may acquire additional lots through dividend reinvestments, or by buying more shares over time. When it comes time to trade, you might sell particular lots with lower embedded gains, keep those that would incur short-term gains, and/or use specific lots to harvest capital losses.

Seizing the Days: As you transition toward your ideal portfolio, life may send you opportunities to seize and obstacles to avoid. Following are examples.

Take Advantage of Market Declines: When markets decline, stocks go on sale. If your plan calls for selling some positions and buying others, you may be able to take advantage of market downturns to enjoy lower taxable gains as you sell, and lower prices as you buy.

Add New Money to the Mix: Whenever your plan calls for holding more of a particular type of investment, it's often best accomplished when you can add new money to your portfolio. Have you recently experienced a pay raise, equity compensation event, or inheritance? Any such "found" money can be ideal for this role.

Withdraw Money Mindfully: Likewise, as you withdraw money from your investment accounts, you can be deliberate about selling positions in which you are overweight, to reduce your exposure.

Shift Money from Taxable to Tax-Sheltered: Each year, you can add new money to your tax-sheltered accounts. Consider moving assets from your taxable to your tax-sheltered accounts, where trades do not incur taxable gains. This may offer more flexibility for achieving and maintaining your ideal portfolio mix.

Give Your Money Away: If you are charitably inclined or planning to gift assets to loved ones, you may be able to move your portfolio closer to your ideal targets through charitable giving and/or gifting. You might as well be deliberate about which investments you tap for it.

To build and maintain a comfortable pace for you and your financial wellbeing, we suggest hiring a planner to help with the practical and emotional challenges involved.

Until next time, no regrets!

Eric Hutchens
President & Chief Investment Officer

FINANCIAL PLANNING TIP

Counterintuitive Money Advice?

When it comes to your money, making wise decisions isn't always easy. In fact, there are a lot of times in investing where the intuitive move isn't the best. One example is risk. For the most part, our brains and bodies tell us to avoid it. While it may seem smart to dial down risk in your investment portfolio, taking a too-conservative approach might leave you short of your long-term goals. Sometimes making sound financial decisions involves embracing counterintuitive strategies. Let's explore a few more.

Less Action Often Leads to Better Results

Scenario: All too frequently, news headlines scream about stocks soaring or plummeting. When the alarm bells ring, your impulse may be to take action. Zoom out and you'll realize that a doom-and-gloom news cycle is practically a given. Buying and selling investments based on it is not a good idea.

Counterintuitive advice: The urge to act on market movements can be hard to resist. However, investing is a long-term endeavor, and often a better move is to do nothing at all.

Consider the story of the Voya Corporate Leaders Trust highlighted by Jason Zweig of *The Wall Street Journal* a few years back. Established in 1935, this fund was designed to counteract the speculative excesses that contributed to the 1929 market crash. The fund purchased equal shares of 30 stocks and committed to holding them indefinitely. No new stocks could be added, and existing ones could only be sold under extraordinary circumstances, such as bankruptcy or mergers.

Your Portfolio Shouldn't Match the S&P 500

Scenario: When the S&P 500 has had a bang-up year, you may be tempted to wonder why your portfolio didn't keep up. In fact, it might lead to what's known as "tracking error regret," which occurs when investors second-guess their diversified approach because their returns don't match a popular benchmark.

Counterintuitive advice: Your portfolio is not built to match the S&P 500, which represents just one slice of the market—the 500 largest U.S. companies. Instead, it's designed for reasons that are unique to you, whether it's funding retirement, paying for kids' college education or leaving your wealth for the next generation. A well-diversified portfolio is a powerful tool to help you meet those goals. Consider the classic 60/40 portfolio, which allocates 60% to equities and 40% to bonds. While it's not likely to outperform an all-equity portfolio over the long run, it is structured to provide a buffer during periods of market turmoil.

Embrace the Bear

Scenario: When bear markets happen, it certainly doesn't feel good. In fact, it may feel like you're watching your wealth evaporate before your eyes. The impulse might be to cut your losses and sell. But bear markets tend to change course.

Counterintuitive advice: Market downturns provide an opportunity to rebalance your portfolio. Bear markets can be prime buying opportunities. When prices are low, you are essentially given the chance to buy shares of a company or a fund when they're on sale. You may consider trimming positions in asset classes that have grown and buying more shares in those whose valuations have dropped. Rebalancing in this way helps you stick closer to the asset allocation strategy that's at the center of your financial plan.

Whether it's sticking to a diversified portfolio, viewing market downturns as opportunities or making smart spending decisions, counterintuitive strategies can help you stay on track toward your financial goals. Remember that your portfolio is unique to you. It's designed to meet your specific needs and long-term objectives. Sometimes, it may be better to simply to trust your plan and let time do the heavy lifting.

Upcoming Event

Join us for David Bromelkamp's book launch event May 6! Details for this event will be coming soon.

To learn more about ordering a copy of *AdvisorSmart for the Individual Investor: Your Guide to Selecting a Financial Advisor to Get Better Financial Advice, go to* **www. advisorsmartbook.com**

Headlines

- David Bromelkamp will be a featured speaker at NAPFA's Spring 2025 National Conference in Phoenix, Arizona, on May 8, 2025.
- Allodium welcomed seven new clients in the fourth quarter of 2024.
- Our office will be closed April 18 and May 26, 2025 for company holidays.

More about Allodium's news, visit **www.allodium.com**

Team Highlights

- We are thrilled to announce that Derek and Kelly Van Calligan welcomed their first child on January 10, 2025! Congratulations!
- Eric Hutchens worked on many building projects and gave out hundreds of reading glasses and children's clothing on a mission trip to Honduras.

Learn more news about Allodium's team members at **www.facebook.com/AllodiumInvestmentConsultants/**

WE APPRECIATE YOUR INTRODUCTIONS

Do you have a friend or family member who could benefit from independent, fee-only, fiduciary financial advice? We are here to help. Please contact us to arrange a friendly, no-obligation introduction. Our mission is to simplify and improve the financial lives of our clients.

Steward is published quarterly by Allodium Investment Consultants. Please contact iavraamides@allodium.com if you have any comments about this publication or wish to be added to or removed from our mailing list.