

Singer Wealth



Direct Indexing

It is well known that most money managers do not beat the S&P 500 index. However, one of the ways to add additional after-tax returns to the S&P 500 index is through direct indexing. This is an investment strategy that allows investors to build and manage a personalized portfolio that directly replicates a market index by holding individual stocks instead of using an exchange-traded fund (ETF) or mutual fund.

This approach provides greater customization, tax efficiency, and flexibility compared to traditional index funds. Besides allowing investors to tailor their portfolio to align with personal values and eliminate companies in the index that they do not wish to invest in, direct indexing allows for tax-loss harvesting, where individual securities within the portfolio can be sold at a loss to offset taxable gains elsewhere. This strategy can help reduce overall tax liabilities.

For example, assume that over a given year, news is announced that will adversely impact drug companies causing the price of drug companies to fall. In that case the manager might sell Pfizer and purchase Merck to maintain the same asset allocation yet still harvest tax losses. This can be a highly effective strategy even in the years that markets are positive because over the course of the year various sectors of the market could be down at least temporarily.

Historically, direct indexing was limited to institutional or high-net-worth investors, but newer platforms have made the strategy more accessible. Investors can now gain access to direct indexing for as little as \$250,000. Tax loss harvesting has historically increased the after-tax returns of the index by 2-3% per year. This can be very valuable to investors who are in higher tax brackets.

Paper losses created by a direct indexing strategy can allow investors to reduce the tax burden associated with capital gains from other investments or the sale of real estate or a business. Additionally, direct indexing can allow investors who are holding a large position of highly appreciated single stocks to reduce their exposure while mitigating the tax impact of decreasing overconcentration risk.

Have you heard about our Vision Quest Process? Watch the video below to learn more!

Singer Wealth

www.singerwealth.com

561.998.9985



We are committed to helping you achieve your financial goals. Please feel free to contact us with any questions, comments, or a more in-depth discussion.

Sincerely,
Keith Singer

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