

# Tax Management – Opportunistic Tax Loss Harvesting

## Meet Sally



- 56-year-old high-net-worth client.
- \$4.5 million in investable assets.
- Long-term investor: Growth focused with disciplined risk management. Large imbedded gains in a concentrated stock position. Large realized gains from portfolio rebalancing.

Sally's portfolio experienced meaningful equity-market volatility that created temporary unrealized losses across the portfolio. She implemented an opportunistic tax-loss harvesting strategy designed to: realize losses to help offset current-year and future taxable gains, maintain market exposure and improve after-tax outcomes while staying aligned with her long-term investment plan.

## Sally's Goals Include



Taking advantage of market volatility to capture losses and not wait for a scheduled harvesting to take place.



Minimizing current-year tax liabilities through opportunistic tax loss harvesting.



Gradually reduce the exposure to the concentrated equity and offset realized gains in the portfolio.



## How We Help



- ✓ Daily monitoring of accounts for opportunistic tax-loss harvesting.
- ✓ Wash-sale preservation to preserve harvested losses.
- ✓ Customizable Tax Loss Harvesting Preferences.

## Sally's Investment Approach

In volatile markets, Sally's Select UMA Tax Managed account is monitored daily for opportunities to harvest tax losses and take advantage of dips and dislocations throughout the year, rather than relying only on year-end harvesting.

When volatility creates temporary "loss lots," the strategy realizes those losses on purpose, reinvests promptly to stay invested, and uses the wash sale preservation rule to preserve the losses.

The core logic is losses harvested in volatile markets can be used to offset gains created elsewhere in the portfolio (ex., from rebalancing and trimming concentrated equity positions), improving after-tax results.

## Benefits of Opportunistic Tax Loss Harvesting

Opportunistic tax-loss harvesting allows for more flexibility in managing tax liabilities by capturing losses as they occur, rather than being restricted to a fixed schedule.

It enables investors to take advantage of market downturns, which can be unpredictable, to realize losses that can be used to offset gains elsewhere in the portfolio.

By systematically capturing losses, investors can improve their after-tax returns, as the tax savings from offsetting gains can be reinvested to compound over time.

## Benefits of Tax Management Services



### **Set Gain Limit:**

Option to set a customizable capital gain limit on realized gains within individual portfolios to help manage taxes.



### **Tax Loss Harvest & Certain Wash Sale Rule Adherence:**

Intent to use realized losses to offset realized gains through systematic and opportunistic tax-loss harvesting.

When equity securities are sold, they will only be repurchased at least 31 days after the sale (unless purchased by one manager and subsequently sold by another).



### **Transition to Target Portfolio:**

By actively tax-loss harvesting and using realized losses to offset realized gains on the account, additional equity securities can be sold up to the client directed gain limit. Proceeds from the sale can be reinvested into the target allocation to slowly transition over time.



### **COMPETITIVE FEES:**

Morgan Stanley's fractional share trading technology uniquely democratizes SMAs, enabling minimums as low as \$5,000 per sleeve. This lets Sally allocate modestly to niche SMAs (e.g., \$50,000 to sustainable energy) without high entry barriers, making them viable for core and satellite strategies. SMAs used to be reserved for ultra-high-net-worth clients; now, they're accessible for anyone. Morgan Stanley "zero management fee" SMAs as well. This is cheaper than typical ETFs (0.03-0.50% expense ratios) or mutual funds (0.50-1.50%).

## Outcomes and Lessons

Overall, opportunistic tax-loss harvesting can be a proactive way to help manage an investor's tax profile—by systematically realizing losses in a taxable account to offset realized capital gains, while keeping the portfolio aligned with its strategic allocation.

In Sally's case, implementing opportunistic tax-loss harvesting alongside portfolio rebalancing helped reduce the net realized gains from the rebalancing. Additionally, she was able to trim and diversify out of the concentrated equity positions.

Importantly, because market drawdowns and dispersion can occur at any point in the calendar year, a year-round, opportunistic approach can allow Sally to capture losses as they emerge during periods of volatility, rather than waiting for a traditional year-end tax-loss harvesting "window."

### Disclosures

Any type of continuous or periodic investment plan does not assure a profit and does not preserve against loss in declining markets. Since such a plan involves continuous investment in securities regardless of fluctuating price levels of such securities, the investor should consider their financial ability to continue their purchases through periods of low price levels.

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Alternative investments often are speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment. Alternative investments are appropriate only for eligible, long-term investors who are willing to forgo liquidity and put capital at risk for an indefinite period of time. They may be highly illiquid and can engage in leverage and other speculative practices that may increase the volatility and risk of loss. Alternative Investments typically have higher fees than traditional investments. Investors should carefully review and consider potential risks before investing.

- Loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices;
- Lack of liquidity in that there may be no secondary market for a fund;
- Volatility of returns;
- Restrictions on transferring interests in a fund;
- Potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized;
- Absence of information regarding valuations and pricing;
- Complex tax structures and delays in tax reporting;
- Less regulation and higher fees than mutual funds;
- Risks associated with the operations, personnel, and processes of the manager; and
- Risks associated with cybersecurity.

Diversification cannot ensure a profit or preserve against loss in a declining market. It is a strategy used to help mitigate risk.

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### Disclosures

Tax-loss harvesting: IRS rules stipulate that if a security is sold by an investor at a tax loss, the tax loss may not be currently usable if the investor has acquired (or has entered into a contract or option on) the same or substantially identical securities 30 days before or after the sale that generated the loss. This so-called "wash sale" rule is applied with respect to all of the investor's transactions across all accounts.

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There is no guarantee that tax-loss harvesting may achieve any particular tax result.