

Tax Management – Client Study

Meet Ryan



- 35-year-old high-net-worth client
- \$2.5 million in investable assets
- Long-term investor: growth focused but highly tax sensitive
- Has substantial short-term capital gains from company stock options

He designs a Tax Managed Unified Managed Account (UMA) to achieve his objectives. This allows for a holistic view of his portfolio, enabling seamless integration of diverse investment strategies while applying sophisticated tax management across his account.

Ryan's Goals Include



Achieving diversified exposure to equities, fixed income, and alternatives.



Minimizing current-year tax liabilities through tax loss harvesting.



Gradually deploying cash amid concerns that the market is overvalued and volatile, following a period of rapid gains in 2025.

How We Help



- ✓ Total Portfolio Tax-Smart Solutions For SMAs, ETFs, and Mutual Funds
- ✓ Dollar Cost Average Into the Market Over Time
- ✓ Customizable Tax Preferences to Manage Your Money on Your Terms

Ryan's Investment Approach

The UMA's tax management feature scans the portfolio daily for opportunities to sell securities at a loss, replacing them with similar (but not "substantially identical") assets to maintain market exposure while realizing losses to offset gains.

Ryan elects systematic dollar cost averaging (DCA) to invest his \$500,000 cash monthly—approximately \$83,333 per month for 6 months. This phased approach addresses his market timing concerns, injecting capital during potential dips rather than all at once.

He also elects to set custom tax preferences to increase his loss capture aggression on both a scheduled and opportunistic basis to take advantage of market dislocations. Due to his tax sensitivity, he elects to limit short term gain taking within daily portfolio trading.

Benefits of Dollar Cost Averaging Combined with Active Tax Loss Harvesting

DCA works in volatile or elevated markets by spreading investments over time. This strategy interacts powerfully with loss harvesting.

Creation of Multiple Tax Lots: Monthly purchases generate distinct cost bases for each security. For example: Ryan buys shares of an ETF sleeve at varying prices (\$100/month 1, \$95/month 2, \$105/month 3), he ends up with three tax lots per purchase cycle. The tax management system can harvest both scheduled and opportunistically the losses from higher-cost lots (e.g., selling the \$105 lot if it drops to \$90) while holding lower-cost lots for potential gains. This allows for precise targeting, potentially harvesting \$15,000+ in losses annually without disrupting the portfolio's overall strategy.

Wash Sale Rule Compliance and Flexibility: Losses are disallowed if a "substantially identical" security is repurchased within 30 days. DCA's staggered buys create a buffer; a harvested loss from month 1 can be offset by holding month 3's lot (if not identical in timing). UMA's algorithm tracks lots and only harvesting eligible ones, turning time-based purchases into a tax optimization engine.

Benefits of SMAs and Their Enhancement of Tax Loss Harvesting



CUSTOMIZATION:

Holding direct positions allows portfolios to be tailored to suit each investor's needs and circumstances, with customization around asset classes.



TAX EFFICIENCY:

SMAs can improve after-tax returns through active tax management, including tax-loss harvesting. SMAs can be funded with securities already owned which can help reduce any tax impact at inception. Tax managed accounts have an average of 1.3% in estimated tax savings annually since 2014.



TRANSPARENCY:

Investors know what they own in real time. Helps clients make better-informed decisions by showing individual securities in the portfolio, how each is performing, and details like cost basis, performance, trade history and maturity ladders.



COMPETITIVE FEES:

Morgan Stanley's fractional share trading technology uniquely democratizes SMAs, enabling minimums as low as \$5,000 per sleeve. This lets Ryan 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%). If Ryan had a \$1.25 million SMA allocation, this could save \$6,250-\$18,750 annually in fees.

Outcomes and Lessons

Over the first three months, Ryan's UMA harvested \$12,000 in losses from lots created via early DCA buys, offsetting gains and reducing his current tax bill. His portfolio returned 4.2% net of taxes, versus 5.1% for a lump sum benchmark, with 25% less volatility.

This case illustrates how Morgan Stanley's Tax Managed UMA, powered by DCA and SMAs, balances growth, taxes, and caution tailored for discerning clients like Ryan. Always consult a tax advisor, as individual results vary based on circumstances.

Disclosures

Any type of continuous or periodic investment plan does not assure a profit and does not protect 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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Annuities are long-term investments designed for retirement purposes and are subject to investment risk, including the possible loss of principal.

Withdrawals and distributions of taxable amounts are subject to ordinary income tax and, if made prior to age 59½, may be subject to an additional 10% federal income tax penalty.

Early withdrawals will reduce the death benefit and cash surrender value. Living benefits are optional and are available for an additional cost. When evaluating a living benefit there are several key factors that must be considered such as: cost investment limitations, holding periods, liquidity, withdrawals and your age and risk tolerance.

All guarantees are based on the claims-paying ability of the issuing insurance company.

If you are investing in an annuity through a tax-advantaged retirement plan such as an IRA, you will get no additional tax advantage from the annuity. Under these circumstances, you should only consider buying an annuity because of its other features, such as lifetime income payments and death benefits protection.

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- 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
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Tax-loss harvesting: IRS rules stipulate that if a security is sold by an investor at a tax loss, the tax loss will 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.