Tax Loss Harvesting+™

Tax Loss Harvesting+ is powered by Betterment, our custodial and technology partner.

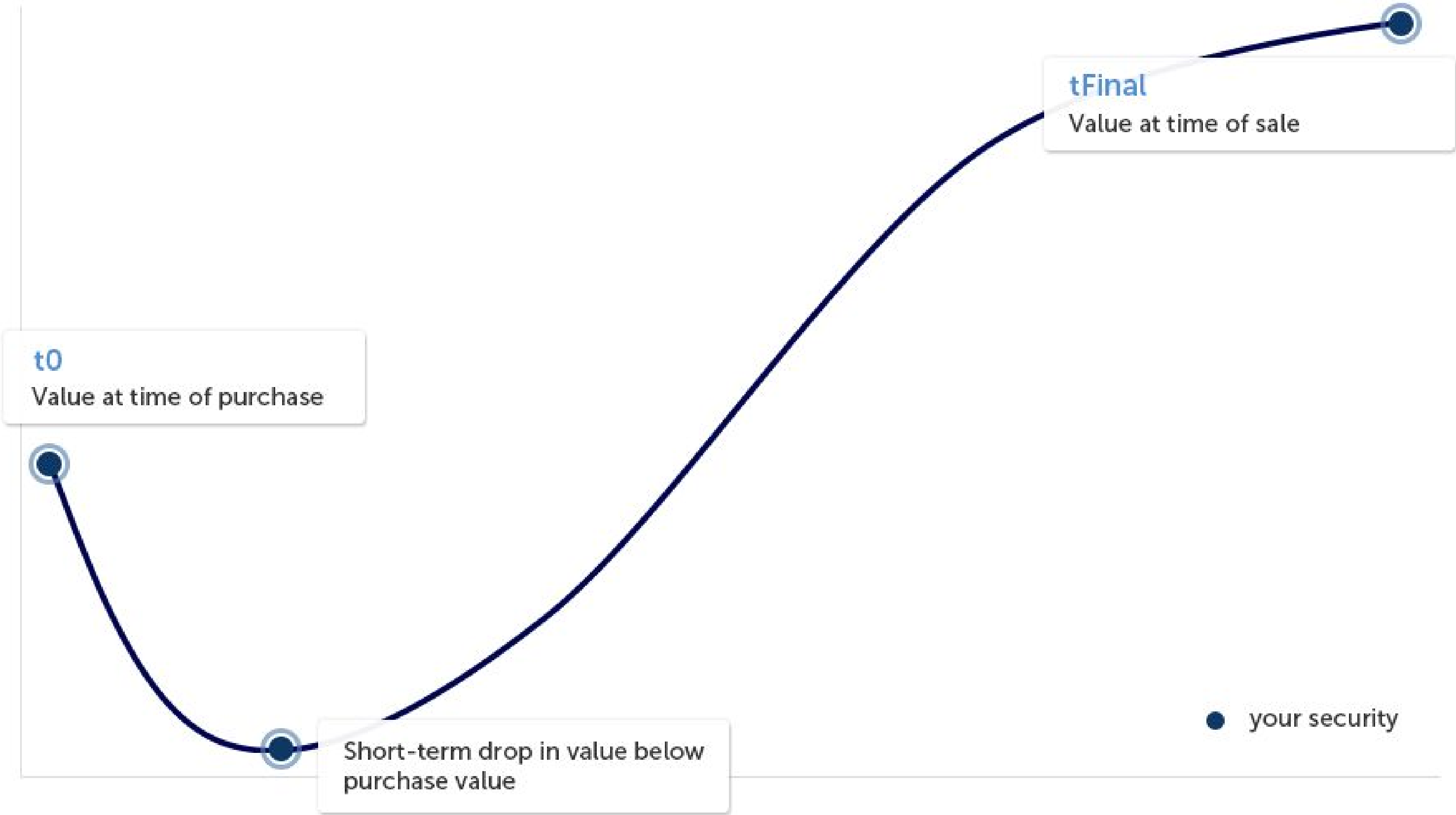
What is Tax Loss Harvesting (TLH)?

TLH is a tax-saving strategy that uses investment losses to offset investment gains and other income.

The result is often less taxes and thus a better after-tax return.

With a long-term investment approach...

Your investments rise and fall with the tides of the markets. Over time, your investment's value may look something like this:



TLH sells securities to recognize or "harvest" losses

When you sell a security at a price that is lower than what you purchased it at, you have a loss. With TLH, you can use the loss to reduce your future taxes.

Doesn't selling off securities hurt the overall diversification of my portfolio?

When a security is sold for a loss, it is replaced with a similar security to ensure your portfolio stays balanced and well diversified.

In the world of TLH, a similar security to your original security should have comparable:

- Liquidity
- Cost
- Behavior – rise and fall together (Correlation)

Example of similar securities
Security A – Vanguard Value ETF
Security B – iShares S&P 500 Value ETF

Why can’t you just buy back the same security after you sell it?

The “wash sale rule” disallows a loss from selling a security if a “substantially identical” security is purchased 30 days after or before the sale.

An investor should not be able to benefit from a loss if he did not truly dispose of the security.

TLH in action:
A simple example

When you “harvest” a loss, you can use that loss to offset capital gains or income, earnings you otherwise would have to pay tax on.

Let’s look at the following scenario:

1. You harvest a loss of $10,000 by selling a security below its purchase value

2. You have other capital gains of $10,000 (say taxed at 40%)

3. You can offset the $10,000 in other capital gains with the $10,000 loss, so you owe $0 in taxes

4. You saved $4,000 in taxes ($10,000 x 40% tax rate)

5. Now you can invest that saved $4,000 in taxes in the market to earn a return

The benefits explained

1. In this scenario, you didn’t have to pay taxes today - what we call *tax deferral.*

2. You can now invest the $4,000 saved, and have it grow.

3. When you eventually sell the replacement security, any gains will likely be taxed at a lower tax rate (the long-term capital gains tax rate (0~30%), is likely lower than your income tax rate, (10-40%+) – what we call *tax arbitrage.*

4. When you pay tax on that gain in the future, it will cost you less in *real* terms, because of inflation.

The advantages of Tax Loss Harvesting+

TLH+ is our automated TLH solution, powered by our technology partner, Betterment. TLH+ scans your portfolio regularly for opportunities to harvest losses, helping increase your after-tax returns.

The upside to capital loss.

Realized losses on investments can offset gains and reduce ordinary taxable income by as much as $3,000 per year.

Making it accessible.

Tax Loss Harvesting+ is automated and available at no additional cost to investors who are managing money with us.

Optimizing the strategy.

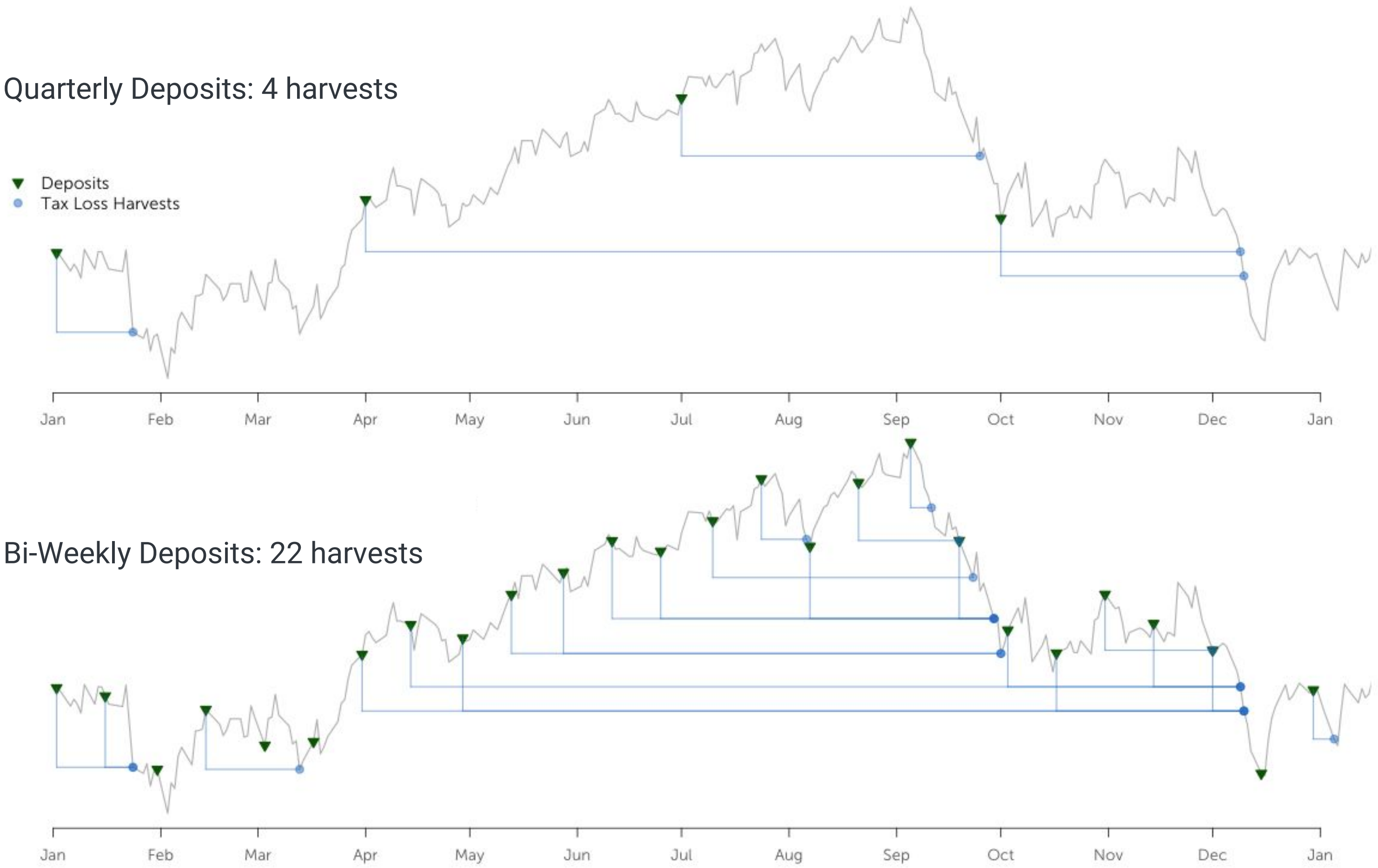
Tax Loss Harvesting+ runs regularly and can reduce tax exposure better than other automated harvesting tools.

More deposits = more harvests = more tax savings

Simple TLH algorithms restrict your frequency of cashflows to prevent wash sales.

Intelligent TLH+ actually works more effectively with frequent cashflows, so you have many price points to harvest from.

Consistent Deposits drive Harvesting Opportunities



This chart and data shown are hypothetical and for illustrative purposes and not intended to forecast returns

Disclosure

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For more information on tax loss harvesting please visit https://www.betterment.com/tax-loss-harvesting/ or https://www.betterment.com/resources/research/tax-loss-harvesting-white-paper/.

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