



**Efficient Tax**<sup>™</sup>  
PORTFOLIO OPTIMIZER

## *Analysis Inputs*

### *Explained*

In this briefing paper, we will describe the five different categories of inputs required in order to process an **Efficient Tax Portfolio Optimizer Analysis** properly, along with all the individual inputs necessary. It is important to remember the old computer adage, “Garbage In, Garbage Out”. You will only achieve a quality Results Set if the inputs are accurate in terms of facts, and reasonable in terms of expectations.

The first category of inputs includes the individual tax-lots in a portfolio. A tax-lot is a number of shares purchased on a particular day at a particular price, for a total cost of the tax-lot, or cost basis, including any commission. Shares of the same company purchased on the same day at a different price, or even at the same price on the following day, represent a different tax-lot. As the tax-lot goes long-term a day later. A tax-lot generates a taxable event when it is sold. Tax-lots may be Uploaded into a portfolio from an external file, under the Portfolios Tab, and by clicking the Import Tax Lots button, browsing for the Upload File, and then clicking the Upload File button, as shown below. Please be patience, if an Upload contains many tax-lots.

### **Import Tax Lots**

[Download Import Template](#)

#### Upload Template

New Portfolio

Replace Portfolio

Upload Type:

Upload Excel Template:

 No file chosen

[Upload File](#)

Individual tax-lots may also be created manually, again through the Portfolios tab, by Creating a new portfolio and adding tax-lots. Or by Selecting an existing portfolio and by clicking the “Add a new Tax Lot” button. Whereby the following tax-lot input page is displayed;

## Add Tax Lot

Fields	
Ticker	<input type="text"/>
Public	<input type="checkbox"/> <a href="#">Click here if publicly traded on the NYSE, AMEX or NASDAQ for automatic delayed price retrieval.</a>
Company Name	<input type="text"/>
Total Lot Cost	<input type="text" value="0.01"/>
Number Of Shares	<input type="text" value="0.00"/>
Purchase Date	<input type="text" value="11/13/2013"/>
<input type="button" value="Create"/>	

[Back to Tax Lots](#)

A prerequisite for a successful **Efficient Tax Portfolio Optimizer Analysis** is accurate tax-lot information. By inputting a stock ticker in the tax-lot input page, and then clicking Enter, we will retrieve the company name and automatically Click the Public company box, if it is a domestic public company listed on the NYSE, Nasdaq, or AMEX. (An investor may have non publically traded, or foreign stocks owned that they may want to include in a portfolio optimization analysis. We provide for that flexibility.) Of course inputting the correct number of shares, the total cost of the tax-lot purchased, including commission, the number of shares purchased, and the date of purchase, is critical. If a company has declared a stock split since a tax-lot has been created, please go to the Stock Splits tab in order to apply the correct adjustments to the number of shares held for all tax-lots in **all** portfolios tied to a specific ticker. (An Imported portfolio likely will already have the adjustments made. And therefore the User wants to be careful not to double-apply stock splits by doing an Import and then applying a stock split.)

The Second category of inputs are reflective of facts regarding each Investor that are pertinent to the tax impacts of selling a security. “Investor Inputs” are displayed below, and include the following:

1. *State of Residency*; **Efficient Tax Portfolio Optimizer** is a tax analysis impact tool that will help investors who are subject to U.S. tax law. State taxes impact the economics of each taxable tax-lot. **Efficient Tax** is not a tax consultant or preparer, but we maintain individual state tax rates available in the public domain, and provide a drop-down menu containing each State’s tax rate, as a default option, in order to assist Users. Users may Edit and Save each portfolio’s Defaults, via the Portfolio tab. (We do not separately account for city taxes.) A User may select a State of Residency in the drop-down menu. After-which a defaulted value will appear in the State Marginal Tax Rate field. A User or an Investor may over-write or input their own marginal tax rate value that they may be subject to, over and above Federal tax rates. **Efficient Tax Portfolio Optimizer Analysis** calculates the aggregate total tax impact on a tax-lot, or series of tax-lots, with the following formula; Total Marginal Short-term Tax Rate = (Federal Short-term Tax Rate)

+ (1-Federal Short-term Tax Rate)X(State Marginal Tax Rate). As State taxes are deductible for Federal purposes. We repeat the formula taking proper consideration for long-term marginal tax rates.

Portfolio Defaults	
<b>Investor Inputs</b>	
State of Residency	None
State Marginal Tax Rate	0%
Fed. Marginal Short-Term Tax Rate	39.60%
Fed. Marginal Long-Term Rate	20.00%
Realized Short-Term Gains/Losses	\$ 0.00
Realized Long-Term Gain/Losses	\$ 0.00
Other Income Offset	\$ 3,000.00
<b>Portfolio Inputs</b>	
Before Tax Reinvestment Rate	9.00%
Annual Portfolio Turnover	50.00%
Investment Horizon Year	4
Min. Compound Selling Advantage	0.00%
Brokerage Cost/Share	\$ 0.00
Brokerage Annual Wrap Fee	0.00%
Annual Advisor Fee Percent	0.00%
Price Targeting Option	Price
Expectations To Use	Value Line

Process Job Expectation Sources: [User](#), [DCM](#), [Value Line](#)

2. *Federal Marginal Short-Term Tax Rate and Federal Marginal Long-Term Tax Rate*; We default these values currently at 39.6% and 20.0% respectively. User's may modify these defaults in the Portfolios tab, and by Editing an individual portfolio. We do not take into consideration any Alternative Minimum Tax impacts, or the Medicare Surtax of 3.8% applicable for certain tax-payers. Please consult a tax professional for the best tax rate values to be used for any individual investor.
3. *Realized Short-Term Gains/Losses*; It is critical for a proper **Efficient Tax Portfolio Optimizer Analysis** to have as accurate as possible, values for Short-Term Gains/Losses in order to properly assess and take full advantage of any Tax-Loss Harvesting opportunities. This value should include the value of net Short-Term Gains and Losses year-to-date, plus any net Short-Term Tax-Loss Carry-Forward of previously realized short-term loss values, that have not yet been utilized to offset any gains. Please consult a tax advisor for an accurate accounting.
4. *Realized Long-Term Gains/Losses*; This value should include the value of net Long-Term Gains and Losses tax-year to-date, plus any net Long-Term Tax-Loss Carry-Forward of previously realized long-term loss values, that have not yet been utilized to offset any gains. Please consult a tax advisor for an accurate accounting.
5. *Other Income Offset*; Normally, capital losses generated from the sale of a capital asset, a stock for example, cannot offset ordinary income, and reduce ordinary income taxes. Except for a small exception. Single tax-payers may offset up to \$3,000 of capital losses each year against ordinary income. There are special considerations for married couples, depending upon how they file. Please consult a tax advisor to determine if a married couple, in aggregate, may be eligible to deduct capital losses against ordinary income,

greater than \$3,000 between the two of them. **Efficient Tax Portfolio Optimizer**, in an effort to maximize the value of this tax benefit, will preserve the value of a long-term capital loss eligible to reduce ordinary income, by not utilizing its tax savings impact to reduce a lower tax-rated long-term gain. Instead saving it for offsetting and reducing ordinary income, and its higher associated tax cost. For many investors, this is not a big item, but in order to be thorough, **Efficient Tax Portfolio Optimizer** chose to include it.

The Third category of Inputs are those related to each portfolio. Investor Inputs affect all portfolios that may be owned by a single tax-payer, but each portfolio may have its own unique characteristics, and are described below:

1. *Before Tax Reinvestment Rate*; A tax cost related to the selling of a taxable security may be recovered by reinvesting any after-tax proceeds in an investment with a better return potential than an existing holding is expected to achieve. The Before Tax Reinvestment Rate is the rate an investor expects to achieve through reinvesting after-tax proceeds from the sale of a taxable security. It is important for this number to be realistic. A too optimistic number may have an investor selling too soon, and being more aggressive with turnover than can be economically justified. Too low a number may result in opportunities to sell and reinvest for higher after-tax returns, being missed. **Efficient Tax Portfolio Optimizer** provides a default value of 9% as a Before Tax Reinvestment Rate. . Representing approximately the long-term return history of the U.S. stock market, under normal market conditions. Please consider carefully what rate best applies to the portfolio under consideration. It can be affected by things such as asset allocation, investor risk tolerances, and current market valuations.
2. *Annual Portfolio Turnover*; If an investor has ten equally valued stock investments, and sells and replaces five of them in a year, then they are generating 50% in Annual Portfolio Turnover. It taking two years to sell and replace an entire portfolio value, with the investor holding onto each position an average of a year. In other words, a 50% or less Annual Portfolio Turnover input will result in **Efficient Tax Portfolio Optimizer** assuming all reinvested monies will be in positions that are held more than a year. If an investor sells and replaces all ten stocks, they have a 100% Annual Portfolio Turnover. Which assumes all stocks are held less than one year. Therefore the higher an Annual Portfolio Turnover, the higher effective tax rate an investor is likely to be subject to. **Efficient Tax Portfolio Optimizer** calculates an Effective Tax Rate influenced by portfolio turnover. A 50% Annual Portfolio Turnover is assumed to generate a capital gains tax rate on reinvested assets at the Long-Term Marginal Tax Rate, while a 100% or greater Annual Portfolio Turnover input value will generate an effective tax rate at the Short-Term Marginal Tax Rate. **Efficient Tax Portfolio Optimizer** calculates a linear relationship between those two values, such as, for example, a 75% Annual Portfolio Turnover will impact an Investor's Effective Tax Rate by being half way between the Marginal Short-Term Tax Rate and the Marginal Long-Term Tax Rate. The higher the Annual Portfolio Turnover inputted within the 50-100% range, the harder it will be to justify a sale.

3. *Investment Horizon Year*; The Investment Horizon Year is important for three key reasons. The first is that, the longer time horizon an investor allows themselves to recoup a tax cost and profit from a sale by the prospect of generating after-tax excess return over time through a more promising investment opportunity set, the more likely they are able to justify a sale. A shorter investment horizon will require a higher reinvestment rate of return, in order to recover a tax cost over the time horizon designated. The second key reason Investment Horizon Year is important is that stock price forecasting gets more difficult, the longer the horizon. Which means a longer investment horizon will generate more Alpha generating opportunities given a reinvestment rate of return, but is more difficult and risky to forecast. And thirdly, when an **Efficient Tax Portfolio Optimizer Analysis** is processed, even though each tax-lot evaluated has a three, four and five year analysis associated with it depicted in the Graph, only one ranking or sequencing of sale candidates is generated with each Job processed. That is governed by the Investment Horizon Year.
4. *Minimum Compound Selling Advantage*; Absent the use of this special tool, **Efficient Tax Portfolio Optimizer** will recommend the selling of a tax-lot whenever there is an advantage to do so in terms of generating an After-tax Annual Average Recommendation Advantage, or Alpha, even just one extra penny. But that would not be very constructive. We provide for the opportunity to put, in effect, a minimum after-tax annual Alpha value as a minimum criteria for a sale. If an investor inputs a 1% value in this field, **Efficient Tax Portfolio Optimizer** will artificially raise the end-of-horizon after-tax value for Holding a tax-lot, by 1% per year on a compound basis, making it more difficult for a reinvestment to catch up and beat a Hold decision. Therefore the After-Tax horizon value for a Hold will no longer be an Absolute number an investor could expect to have at the end of a chosen investment horizon, but rather an absolute number adjusted by a relative factor. The remaining values such as the Alpha number generated on the Results Page, and the Existing Tax-Lot After-Tax IRR values will remain correct, on an absolute basis. But the After-Tax Annual Average Recommendation Advantage percentage value will be adjusted by this input.
5. *Brokerage Cost/Share*; If brokerage costs are high, this value will materially impact an **Efficient Tax** analysis. If they are not, not so much. As many institutional brokerage costs are assessed on a cents per share basis, we put the brokerage cost input in that format. An individual investor, or manager who has brokerage impact costs as a flat rate for each trade, such as \$8.95 per trade, and on average invests \$5,000 per tax lot, (considering that stocks on average, as a result of stock splits, have prices in a distribution around \$30 per share), might then input in this value, 5.4 cents.  $(\$5,000/\$30)=166.7$  average shares per tax-lot.  $(\$8.95/166.7)= 5.4$ . In today's investing world, as brokerage costs are usually not significant, this value will not change Results Sets materially. But to the extent they are inputted, the Results will be more precise. For ease of calculation, since an assumption had to be made, we assume a reinvestment is done with the same number of shares as in the original investment, when calculating brokerage costs on reinvested

capital. And input 5 cents per share as a Portfolio Input System Default as an approximation, in order to get a User started. Users may want to review this number.

6. *Brokerage Annual Wrap Fee*; Many brokers charge a fee as a percentage of the assets under management, as an aggregated cost of both management services and brokerage transaction costs. The Brokerage Annual Wrap Fee, when inputted, will reduce the accumulating after-tax horizon values by this percentage amount, on an annual basis.
7. *Annual Advisor Fee Percentage*: Registered Investment Advisors generally charge for their services, a percentage of the assets under management. 1% for example. As with the Brokerage Annual Wrap Fee, this value will be deducted from accumulated end-of-horizon values.
8. *Price Targeting Option*: **Efficient Tax Portfolio Optimizer** provides for two methods of price targeting. Price based, and Earnings based. We are benign as to which method a User utilizes, but offer a variety of price targeting options. Because of the importance of price targeting in After-Tax Portfolio Optimization. The Price based method maintains an inputted price target as a static value across the three, four and five year horizons. Alternatively, the Earnings based method, requires a current year earnings estimate, an annual compound growth rate, and a Price Earnings Multiple to apply against an end-of-horizon projected earnings forecast, in order to arrive at a price target. Which will result in a different price at the end of each investment time horizon. If a User toggles the Price based option, then the price targeting input fields below, by Position, (a collection of tax-lots of the same company), will just have one input field for price target provided. A selection of the Earnings based option, will convert the input fields to the ones described. Please be patient while this occurs, as a lot of data movement takes place when the price targeting toggle is utilized.
9. *Expectations To Use*: Users may toggle and select to utilize, as stock price forecasts over their chosen investment horizon, either their own User saved expectations, for either Price or Earnings based options. Or Value Line if utilizing the Price based option, and Dynamic Capital Management's forecasts, if using the Earnings based option. If a User selects Value Line's forecasts as their primary stock price forecasting resource, and there are stocks in a portfolio Value Line does not follow, then a User saved forecast will be used to supplement the Value Line forecasts. If the User selects User Expectations as their forecast system driver, and there are missing values, then Value Line or DCM forecasts will supplement the User expectation sets, depending upon the price targeting method chosen, and if the alternate Expectation source has any forecasts available. The source of the expectation is color coded to the left of each position itemized. A User may input their own User Expectations within the Input Page, and save them as User Expectations from the Input Page.

The Fourth set of inputs required for a successful **Efficient Tax Portfolio Optimizer Analysis** submission includes inputs related to each company, regardless of how many tax-lots may be

owned within a multi-lot position. The picture below illustrates the Position Inputs for a Job utilizing Price Based price targeting:

**Selected Positions in Job**

Highest justifiable price (HJP) for defaults to 1.25 \* current price.  
Defaulted HJPs are highlighted in orange.

Ticker	Company	Price	Price Date	Number of Shares In Position	Price Target	Highest Justifiable Price	Dividend Amount	Dividend Growth Rate	Risk Premium Adjustment	Shares To Sell
AEE	Ameren Corporation	\$ 36.97	11/19/2013	595	\$ 32.50	\$ 46.21	\$ 0.00	0.00 %	0.00 %	0.00
GOOG	Google Inc.	\$ 1,025.20	11/19/2013	10.5	\$ 1,305.00	\$ 1,284.31	\$ 0.00	0.00 %	0.00 %	0.00
IBM	International Bus	\$ 185.25	11/19/2013	150	\$ 260.00	\$ 231.36	\$ 0.00	0.00 %	0.00 %	0.00
KO	Coca-Cola Company	\$ 40.14	11/19/2013	100	\$ 55.00	\$ 50.18	\$ 0.00	0.00 %	0.00 %	0.00
LLY	Eli Lilly and Com	\$ 50.94	11/19/2013	725	\$ 40.00	\$ 65.68	\$ 0.00	0.00 %	0.00 %	0.00
MSFT	MICROSOFT CORP	\$ 36.74	11/19/2013	280	\$ 45.00	\$ 45.93	\$ 0.00	0.00 %	0.00 %	0.00
MYL	Mylan Inc.	\$ 41.90	11/19/2013	100	\$ 42.50	\$ 52.38	\$ 0.00	0.00 %	0.00 %	0.00
NCR	NCR Corporation C	\$ 34.63	11/19/2013	150	\$ 60.00	\$ 43.29	\$ 0.00	0.00 %	0.00 %	0.00
PEP	Pepsico, Inc. Com	\$ 85.29	11/19/2013	1,000	\$ 130.00	\$ 106.61	\$ 0.00	0.00 %	0.00 %	0.00

**Save As User Expectations**

While the following picture describes the Earnings Based Position Inputs;

**Process Job** Expectation Sources: [User](#), [DCM](#), [Value Line](#)

**Selected Positions in Job**

Ticker	Company	Price	Price Date	Number of Shares In Position	Earnings Base	Earnings Growth Rate	PE Target	Highest Justifiable Price	Dividend Amount	Dividend Growth Rate	Risk Premium Adjustment	Shares To Sell
AEE	Ameren Corporation	\$ 36.97	11/19/2013	595	\$ 2.10	4.00 %	14.50	\$ 36.17	\$ 1.60	1.50 %	0.00 %	0.00
GOOG	Google Inc.	\$ 1,025.20	11/19/2013	10.5	\$ 44.50	12.50 %	17.50	\$ 1,025.80	\$ 0.00	0.00 %	0.00 %	0.00
IBM	International Bus	\$ 185.25	11/19/2013	150	\$ 16.40	7.50 %	12.50	\$ 242.46	\$ 3.80	5.00 %	0.00 %	0.00
KO	Coca-Cola Company	\$ 40.14	11/19/2013	100	\$ 2.10	8.50 %	18.50	\$ 49.52	\$ 1.12	6.00 %	0.00 %	0.00
LLY	Eli Lilly and Com	\$ 50.94	11/19/2013	725	\$ 3.85	2.00 %	12.50	\$ 50.18	\$ 1.96	1.00 %	0.00 %	0.00
MSFT	MICROSOFT CORP	\$ 36.74	11/19/2013	280	\$ 2.75	7.00 %	11.00	\$ 36.46	\$ 0.92	5.00 %	0.00 %	0.00
MYL	Mylan Inc.	\$ 41.90	11/19/2013	100	\$ 2.80	7.50 %	12.00	\$ 36.93	\$ 0.00	0.00 %	0.00 %	0.00
NCR	NCR Corporation C	\$ 34.63	11/19/2013	150	\$ 2.65	9.00 %	12.50	\$ 37.80	\$ 0.00	0.00 %	0.00 %	0.00
PEP	Pepsico, Inc. Com	\$ 85.29	11/19/2013	1,000	\$ 4.40	8.50 %	18.00	\$ 103.13	\$ 2.21	5.50 %	0.00 %	0.00

**Save As User Expectations**

In order to make it easier to view and understand, we break that picture down into three pieces for you. The first is the left portion of the Price Based input option input set, pictured below;

## Selected Positions in Job

Highest justifiable price (HJP) for defaults to 1.25 \* current price.  
Defaulted HJPs are highlighted in orange.

Ticker	Company	Price	Price Date	Number of Shares In Position	Price Target
AEE	Ameren Corporation	\$ 36.97	11/19/2013	595	\$ 32.50
GOOG	Google Inc.	\$ 1,025.20	11/19/2013	10.5	\$ 1,305.00
IBM	International Bus	\$ 185.25	11/19/2013	150	\$ 260.00
KO	Coca-Cola Company	\$ 40.14	11/19/2013	100	\$ 55.00
LLY	Eli Lilly and Com	\$ 50.94	11/19/2013	725	\$ 40.00
MSFT	MICROSOFT CORP	\$ 36.74	11/19/2013	260	\$ 45.00
MYL	Mylan Inc.	\$ 41.90	11/19/2013	100	\$ 42.50
NCR	NCR Corporation C	\$ 34.63	11/19/2013	150	\$ 60.00
PEP	Pepsico, Inc. Com	\$ 85.29	11/19/2013	1,000	\$ 130.00

Save As User Expectations

In the above picture, each ticker and company is identified. The color code of the ticker, being pink, indicates that each of the company's price targeting was supplied by Value Line. Blue would denote a User Expectation, while green identifies a Dynamic Capital Management supplied price target set, only available if Earnings Based price targeting is chosen.

Next is the price. We automatically retrieve Delayed Market Pricing from BarCharts, during the Job Creation process. If either prices are not available for a particular company, the User wishes to supply more real-time pricing information, or they wish to simulate a price, they may over-write the value in the Price field.

Next we identify the Price Date, and then the total number of shares in a position in a company, that may include more than one tax-lot. And then the Price based Price Target to the right. Both price and price targets remain the same across all tax-lots within a Position. Current price or a price target is not affected by a date of purchase or the cost of a tax-lot. In addition, a User may "Save As User Expectations" via that related button, whatever values are resident in any of the Expectation Set input fields. For example Value Line price targets may be saved as User Price based targets, and DCM Expectations Sets may be saved as User Earnings based Expectations. Or any other value may be inputted and saved as a User Expectation.

The companion picture of the picture above is presented below;



Highest Justifiable Price	Dividend Amount	Dividend Growth Rate	Risk Premium Adjustment	Shares To Sell
\$ 46.21	\$ 0.00	0.00 %	0.00 %	0.00
\$ 1,281.51	\$ 0.00	0.00 %	0.00 %	0.00
\$ 231.56	\$ 0.00	0.00 %	0.00 %	0.00
\$ 50.18	\$ 0.00	0.00 %	0.00 %	0.00
\$ 63.68	\$ 0.00	0.00 %	0.00 %	0.00
\$ 45.93	\$ 0.00	0.00 %	0.00 %	0.00
\$ 52.38	\$ 0.00	0.00 %	0.00 %	0.00
\$ 43.29	\$ 0.00	0.00 %	0.00 %	0.00
\$ 106.61	\$ 0.00	0.00 %	0.00 %	0.00

The next value in a company’s input set row is for what we refer to as the “Highest Justifiable Price”(HJP). That value comes into play when a company may be over-valued in the short-term window. If a company is viewed to be so materially over-valued that the future performance of the investment on an after-tax value is threatened as a result of the potential of a stock price dropping to its highest reasonable, or justifiable price at any time, and more value is likely to be lost on an after-tax basis due to the price dropping, than would be saved by waiting to the long-term window for a lower tax rate, compounding impacts out to the end of an investment horizon included, then a stock can justifiably be sold in the short-term window. Please refer to the document “Efficient Tax-Detailed Briefing” accessible in our Education Library, and read the section on Highest Justifiable Price for a complete explanation, and or view the related video.

Because this feature has a material impact on the tax economics of an individual tax-lot, we require the User to be pro-active in the use of this value, in order for it to be included in an analysis where it could impact the results. One way is to use DCM expectations. DCM calculates and distributes a Highest Justifiable Price on most of the members of the S&P500 and Nasdaq100, plus some additional companies. If a User toggles the Earnings based option, and chooses the DCM Expectations set as the default one, since we know there was some fundamental rigor attached to the development of that value, those values will automatically populate the Highest Justifiable Price input field. In addition, if a User deliberately saves a value for Highest Justifiable Price either within the Input Page, or within the Expectations tab, then those values will be defaulted within the Input Page. However, if neither of those conditions apply, then the system will take the Current Delayed Market Price, and multiply it by 125% as a default. Since the HJP only impacts an analysis when the market price is above the HJP in the short-term window, defaulting the price below the HJP, takes any impact out of the equation. The HJP values that are calculated and inputted as 125% of market prices, are shown in Orange, so that the User knows they have to make a deliberate input decision if they wish to invoke the impact of any Highest Justifiable Price.

Next and further to the right is Dividend Amount. This is another input that requires a deliberate decision by the User. Dividend amounts, and their related Dividend Growth Rates, are only defaulted as either a Saved User Expectation, or as a result of selecting DCM as an

Earnings based Expectation Set source. This is because dividend amounts are often not stable, and are often reduced dramatically. As DCM reviews, for the stocks it follows, over ten years of dividend history, pay-out ratios and growth rates, and assesses whether a dividend might be vulnerable to a drop due to dividends being distributed in an amount that further threatens an already weak balance sheet, DCM reduces a dividend amount to a Sustainable Dividend Amount, so as not to make dividend distribution Expectations very speculative. A DCM Expectation Set selection will have its dividend and dividend growth rate values defaulted as Position Defaults, as will saved User Dividend Amount and Dividend Growth rates. However, again, if neither of those conditions are present, those values are defaulted to be zero.

Again to the right is the “Risk Premium Adjustment” input field. Another Position related input. If a held position is more or less risky than an alternative investment, than that of a reinvestment option, it can be value added to take that into consideration. If an investor’s choice is whether to hold onto U.S. Steel with a high Beta of almost 2, versus a reinvestment alternative with the risk profile of the market at large with a Beta of 1, we can fundamentally account and adjust for that rationally as well. If an investor were to conclude that in order to accept the risk of owning a steel company, and U.S. Steel in particular, could only be justified with an extra 3% per year in return, then they should put a plus 3.0 value in the Risk Premium Adjustment field. (Which may be saved as a User Expectation, as mentioned before). The impact that value has on an **Efficient Tax Portfolio Optimizer** is that the Hold End-of-Horizon After-tax value would be reduced by 3% per year of an investment horizon. Making it easier and more justified to replace a riskier stock with a tax liability with a less risky alternative, than one with less risk. And otherwise, when a stock is less risky than the market as a whole, such as with a Johnson & Johnson with a Beta of .5, a lower return requirement by let’s say 2%, than would be needed to be rewarded for full market risk, might be inputted. This would increase the Hold After-Tax End-of Horizon value by 2% per year. Making an alternative investment, all else being equal, less justified, unless it could more than outperform by the value of the Risk Premium Adjustment. Augmenting the value of a normal **Efficient Tax Portfolio Optimizer Analysis** with this important and very value added input option.

The final Position Input is “Shares To Sell”. Shares To Sell can have three different meanings. Please see the Glossary definition by clicking the Shares To Sell label where it appears in the website, including the Input Page, for complete details. In the case of Shares To Sell on the Input Page, it represents the minimum number of shares an Investor or User wishes to sell out of an entire position of a particular stock. We will further describe Shares To Sell Designations below, in the Fifth category of Job Inputs. This is the place where a Position Shares To Sell Designation is to be inputted. For example, if an investor wishes to reduce the number of shares they may own across a Position with multiple tax-lots, because they wish to reduce their exposure or take some profits, an **Efficient Tax Portfolio Optimizer Analysis** will recommend selling owned tax-lots in a sequence that identifies tax-lots to be sold first that would generate the greatest excess return, or Alpha, through a sale and reinvestment. And then, if not all the number of shares that are wished to be sold generate an Alpha, an **Efficient Tax Portfolio Optimizer Analysis** will recommend that the investor sell those tax-lots first that have the least

after-tax return potential remaining. Please review **Efficient Tax-Detailed Briefing** within our Education Library, for a more complete description of Shares To Sell Designations.

The third picture we display for Position Inputs are for when the Earnings based price targeting option is toggled. And then the first half of a Position input set row looks like the following;

Selected Positions in Job							
Ticker	Company	Price	Price Date	Number of Shares In Position	Earnings Base	Earnings Growth Rate	PE Target
AEE	Ameren Corporation	\$ 36.97	11/19/2013	595	\$ 2.10	4.00 %	14.50
GOOG	Google Inc.	\$ 1,025.20	11/19/2013	10.5	\$ 44.50	12.50 %	17.50
IBM	International Bus	\$ 185.25	11/19/2013	150	\$ 16.40	7.50 %	12.50
KO	Coca-Cola Company	\$ 40.14	11/19/2013	100	\$ 2.10	8.50 %	18.50
LLY	Eli Lilly and Com	\$ 50.94	11/19/2013	725	\$ 3.85	2.00 %	12.50
MSFT	MICROSOFT CORP	\$ 36.74	11/19/2013	260	\$ 2.75	7.00 %	11.00
MYL	Mylan Inc.	\$ 41.90	11/19/2013	100	\$ 2.80	7.50 %	12.00
NCR	NCR Corporation C	\$ 34.63	11/19/2013	150	\$ 2.65	9.00 %	12.50
PEP	Pepsico, Inc. Com	\$ 85.29	11/19/2013	1,000	\$ 4.40	8.50 %	18.00

Save As User Expectations

In this Input Set, instead of a single Price target, which would remain the same for the end of a three, four or five year investment horizon, a price target is calculated and derived by starting with an Earnings Base, whereby an Earnings Growth Rate is applied on a compound basis through the end of an investment horizon, and then that number is multiplied by a PE Target. A User may either save and use their own Earnings based targeting inputs, or may choose to use Dynamic Capital Management's. Within the Expectations tab, a User may Copy either Value Line's or DCM's price targeting expectations as User Expectations.

The Fifth set of **Efficient Tax Portfolio Optimizer Analysis** Inputs includes two types of Shares To Sell Designations. There are a lot of reasons to sell a stock, other than for reasons of valuation. Having too much of something for example. Since a Position may be made up of just one tax-lot, and an investor may want part if it to be sold, we provide three different opportunities for a User of **Efficient Tax Portfolio Optimizer** to Designate at the Tax-lot level, the number of Shares To Sell. First at the point in which they select the individual tax-lots to be included in a Job Creation. Secondly, within the Input Page, where they may review and change an already made individual tax-lot Sale Designation. And finally, again within the Job Results Page, whereby a User may change their mind again, after seeing the Results Set, change an individual tax-lot Shares to Sell Designation, and Re-run a Job without returning to the Job Input page. An individual tax-lot Designation does not go through an optimization process. The User is deciding to sell some or all of a tax-lot, independent of an optimization process. The reason we give the User the flexibility to Designate Shares To Sell at the Tax-lot level is that it is critical that we update the Realized Gains/Losses values with the impact of those decisions, before the optimization process begins.

The second kind of Shares To Sell Designation is at the Position level. An investor may wish to sell a number of shares among more than one tax-lot making up an entire position, but doesn't know which tax-lots to sell. Some may have been purchased at different costs, and on different dates, with some being in a profit, and some with a loss. While some are still short-term and others are long-term already. A Position Designation will cause **Efficient Tax Portfolio Optimizer** to recommend selling those tax-lots first within a position, when sold, would generate the greatest excess return through a sale and reinvestment. And if additional shares are to be sold within a position, than would generate an excess return by doing so, then **Efficient Tax Portfolio Optimizer** has investors sell those additional tax-lots first, in part or in whole, that have the least after-tax return potential remaining. Calculated by comparing their existing after-tax value with their projected end-of-horizon after-tax value. Keeping in a portfolio, those tax-lots within a Position that retain the greatest after-tax return potential.

Well there you have it. All the different inputs included in an **Efficient Tax Portfolio Optimizer Analysis**. We know there are a lot of them. That is only because there are a lot of factors that affect the break-even economics of each taxable investment. Please refer to the Tool-tips imbedded within the website for further details, or view the related instructional video found within the Video section of our Education Library. And review the Getting Started and Efficient Tax Explained documents located in our Education Library.