



Efficient Tax™
PORTFOLIO OPTIMIZER

*An **Efficient Tax Portfolio Optimizer Analysis** delivers an optimized ranking of which individual tax-lots should be sold in a sequence that, based upon stock price forecasts an investors believes are reasonable, maximizes future after-tax wealth accumulation. In the end, portfolio optimization's goal should be to guide investors when capital should be re-deployed when higher after-tax returns are likely available through alternative investments. And the best investments with the highest after-tax return potential, are retained.*

*In a highly calculation intensive and rigorous portfolio data analysis mining optimization process, an **Efficient Tax Portfolio Optimizer Analysis** first identifies which tax-lot, among all of those within a portfolio, if sold, given inputs like cost basis, market price, up-to-date realized gain and loss values and tax rates, would generate the greatest excess after-tax return or Alpha through a sale and reinvestment versus holding onto an existing investment.*

Then by updating the Realized Gain and Loss values with the forecasted gain/loss realization impacts from that sale candidate, identifies, from the remaining tax-lots, which tax-lot sale candidate would generate the greatest Alpha or excess, risk adjusted, return, if desired. Thereby becoming the second tax-lot in sequence to sell in an optimization process. Repeating that reiterative process until all tax-lots are ranked in descending order of potential Alpha forecasted, if any.

*And then after all tax-lot candidates that would generate an extra return if sold are identified and ranked, an **Efficient Tax Portfolio Optimizer Analysis** converts the ranking sequence such that tax-lots with the least **Existing Tax-Lot After-Tax IRR** are suggested to be sold first. In the end, resulting in a ranking that recommends the selling of tax-lots that are likely to generate the greatest excess return first, and ultimately keeping those tax-lots with the greatest after-tax return potential remaining. That is how **ETPO** minimizes taxes, but doesn't sacrifice future after-tax wealth accumulation by doing so.*

*An **Efficient Tax Portfolio Optimizer Analysis** has five steps to its Optimization process. As one can understand, inputting up-to-date realized gain and loss values is critically important in the portfolio optimization process. Keeping in mind that there are many reasons to sell other than*

valuation, such as having too much of any one stock, **Efficient Tax Portfolio Optimizer** provides the user, at three different points of time, with the flexibility of **Designating** any number of shares to sell from any specific existing tax-lot, as an independent decision. Therefore all such Designations are accounted for prior to any optimization process. Accruing and displaying gross and after-tax proceeds, in addition to updating the realized gain and loss values in a reiterative fashion, as a precursor to the full optimization process. So that an accurate accounting of any resulting impacts on realized gain and loss values will be calculated for any such Tax-Lot Sale Designations. An **Efficient Tax Portfolio Optimizer Analysis** ranks all Tax-Lot Sale Designations alphabetically by ticker, for consistency, recognizing that regardless of which sequence Designated shares are sold, the end-resulting Realized Gain and Loss values will be the same. Along with the other accumulating Results values.

In Step 2 of the **Efficient Tax Portfolio Optimizer** optimization process, we recognize that an investor may want to sell or designate for sale, a specified number of shares from a position, but in many cases, a position will be made up of more than one tax-lot. For example, 500 shares of IBM may be owned across four different tax-lots purchased on different days. And because of the position's increased portion of a portfolio due to its rise in price, an owner may want to sell 175 shares, but doesn't know which shares should be sold from the possible four tax-lots in the 500 share position.

An **Efficient Tax Portfolio Optimizer Analysis** will determine which shares from which tax-lot, if sold, is forecasted to generate the highest after-tax extra return by doing so. And then, if more shares are Designated to be sold, than would generate a forecasted Alpha if sold, additional share sales would come first from any residual tax-lot, that if shares were sold from, contain the least after-tax return potential remaining. Therefore keeping tax-lots with the greatest after-tax return potential.

All else being equal, short-term losses would be sold first, then long-term losses, then long-term gains, and then finally short-term gains. Any Residual Shares not sold via a designation, are then included in the main optimization process, whereby again, tax-lots in the 4th Step of the optimization process, are ranked to be sold in a sequence such that those that would generate the greatest After-Tax Alpha are sold first. And in the 5th Step, any remaining tax-lots still suitable for ownership, are ranked as a sale candidate from the least after-tax return potential remaining to the highest. Future after-tax returns are forecasted to come from existing tax-lots with greater after-tax return potential remaining.