

# THE MONEY MANAGEMENT INSTITUTE

FOR IMMEDIATE RELEASE

For: The Money Management Institute

**Contact: Chris Cosentino**  
Communications Director  
(212) 309-6489

## **More Than 70 Percent of Investment Management Firms Report Rise in Tax-Loss Harvesting over Past Three Years —MMI Survey Illustrates Importance of Practice to the Industry—**

**Washington, D.C., July 5, 2005**--The Money Management Institute (MMI), the national organization for the separately managed account and wealth-management industries, announced today that 73 percent of investment managers have seen tax loss harvesting activity increase in the past three years, according to a recent survey conducted by the MMI of its Investment Manager members.

The survey addressed the practice of Tax-Loss Harvesting among investment managers in the separately managed account industry. Tax-loss harvesting is the practice of selling holdings at a loss to offset gains elsewhere in a portfolio. Harvesting is often done while reinvesting in a security with characteristics similar to the investment that has lost value and is being sold. This practice lowers an investor's tax liability without changing the risk profile, sector or strategy of the managed account.

The survey also found that among accounts using tax-loss harvesting trades, clients request the strategy 77 percent of the time.

“This is a direct result of the consulting process,” explained Julie Holland, Managing Director of New York Life Investment Management’s MainStay Investments Wealth Strategies group. “Advisors educate investors on all the benefits of the managed account including the ability to execute tax-loss trades. As an account grows there are always tax liabilities and once introduced to the process, investors are keen to limit the impact of taxes.”

### **Market Effects**

The MMI survey also found that tax-loss trades were prevalent in both bear and bull markets. Some 43 percent investment managers said there was no significant difference in their tax-loss harvesting in positive markets compared with negative markets.

However, many are still reaping benefits from tax-loss trades from the last bear market. According to the survey, 57 percent of investment managers reported that there are still embedded losses in portfolios from the last bear market.

Investors can carry realized losses forward for three years and embedded losses can be carried indefinitely. This gives managers flexibility when managing tax consequences within a portfolio.

### **Sample Trade**

A simple example of a tax-loss trade would be as follows: An investment manager has \$10,000 of realized long-term capital gains in a portfolio. Within that portfolio, the manager has a position in a large cap pharmaceutical company that has lost \$3,000. The manager can sell the pharmaceutical stock and invest in another similar large cap pharmaceutical company, without significantly affecting the risk profile of the portfolio.

This trade lowers the long-term capital gains liability to the investor from \$10,000 to \$7,000. At a tax rate of 20% for long-term capital gains, this saves the investor \$600 in capital gains taxes. On a portfolio-wide basis, over time, this strategy can have a noticeable impact on after-tax investment performance.

### **Tracking Tax Trading**

More than 70 percent of investment managers who use tax-harvest strategies utilize outside solutions to track and execute their strategies. Some 20 percent of the investment managers developed proprietary systems for their tax-loss harvesting programs. Other managers use a combination of both internal and external solutions, or manage the process manually.

### **The Survey**

MMI's survey of tax-loss harvesting activities is based on a survey of MMI members who are investment managers. MMI members represent more than 92 percent of total assets (currently estimated to be \$590 billion) under management in the industry. MMI conducted the survey and its analysis with Financial Research Corporation.

**Note to Editors: Data should be sourced to MMI and the Financial Research Institute**

###

**Notes:** The Money Management Institute (MMI) is the national organization for the separately managed account and wealth management industries, representing portfolio manager firms and sponsors of investment consulting programs. MMI was organized in 1997 to serve as a forum for the separately managed account industry's leaders to address common concerns, discuss industry issues and work together to better serve investors. The Institute is the leading advocate for the industry on regulatory and legislative issues. MMI's membership comprises firms that offer comprehensive financial consulting services to individual investors, foundations, retirement plans and trusts; related professional portfolio management firms, and firms that provide long-term services to both sponsor and manager firms such as computer/technology firms.  
[www.moneyinstitute.com](http://www.moneyinstitute.com)