

Investors Leave Returns on the Table Without Active Tax Management, According to Custom Indexing Leader OSAM

Canvas® tax management capabilities can increase after-tax return; Last year, Canvas realized losses while the market was down which equated to an average of 2.1% in additional after-tax return

STAMFORD, CT, March 31, 2021 — O'Shaughnessy Asset Management, LLC (OSAM), a quantitative asset management firm and developer of Canvas, the leading [Custom Indexing](#) platform, says financial advisors should look to customized tax management and savings as a source to maximize after-tax return. Index funds and ETFs provide certain tax advantages over traditional mutual funds but, as pooled funds, are far less efficient than separately managed accounts (SMAs). In years when markets are up, an average 31 percent of stocks deliver negative returns. Pooled funds inhibit company-level liquidation of down positions, which can be sold at a loss to create a tax benefit – also known as tax loss harvesting. With optimized tax management and harvesting, investors in SMAs on the Canvas Custom Indexing platform can reduce their tax bill and increase their after-tax return versus funds and ETFs.

“Investors are in the market to generate returns”, said CEO, Patrick O'Shaughnessy. “Of late, a diversified index portfolio has been hard to argue against. However, the vehicle you use to express the index matters. In funds, you can't sell individual companies, only the entire fund share. Nobody wants losers but they exist. When correctly leveraged, individual losers can be used to off-set capital gains, increase after-tax return, and reduce portfolio risk. Within Canvas, positions are continuously monitored and when appropriate sold at a loss to create a tax asset – making good out of bad. In essence, using Canvas you can beat an index with an index.”

OSAM's Canvas platform extends beyond the practice of Direct Indexing and tax loss harvesting. It helps advisors reduce the tax impact of portfolio turnover, customize tax parameters to manage for unique client use-cases, and efficiently transition portfolios of new clients. OSAM has built industry-leading, web-based tools for advisor analysis and tax reporting, enabling client tailored conversations and tax plans.

Canvas' four-pronged approach to tax management focuses on:

- **Portfolio Transitions** – One of the biggest challenges for advisors in bringing on new clients or changing existing client allocations is the tax consequence of embedded gains. Clients feel handcuffed to their current holdings, potentially preventing advisors from transitioning clients into more favorable allocations. The Canvas transition tool was developed to give advisors a sophisticated and tax-efficient solution to overcome this hurdle. Within Canvas advisors can upload a file of current holdings and immediately see a tax cost/benefit analysis – enabling advisors to easily explain options, adjust appropriate levers, establish a clear transition plan to the desired portfolio, and then execute it.
- **Tax Budgeting** – When opening a Canvas account, advisors can establish an annual tax budget which accounts for the client's state and federal tax rates. Each account is individually managed and rebalanced to track the client's investment objectives while seeking to generate favorable after-tax return and adhere to the tax budget threshold.
- **Ongoing Management** – Canvas continuously monitors for tax loss harvesting opportunities and rebalances the portfolio according to its investment objectives. Last year, Canvas realized

significant losses while the market was down which equated to an average of 2.1% in additional after-tax return per account.

- **Performance Reporting** – Advisors can monitor after-tax performance within the platform. The report features relevant data points such as after-tax alpha, realized and unrealized gains and losses, and expected tax cost or tax savings based on the specific tax management plan in place. These data points highlight plan execution and the value-add an advisor is delivering to their client via Canvas.

“Taking a holistic approach to tax management and empowering advisors with dynamic and intuitive functionality has helped financial advisors win new business. We have RIA partners that are strategically transitioning and managing portfolios to each client’s tax thresholds with scale. Additionally, we are building a specialty around de-risking portfolios for founders and executives sitting on wealth tied up in a single-low cost-basis position. Our concentrated stock analysis allows an advisor to highlight concentration risk and showcase various glidepaths to efficiently move towards diversification,” said O’Shaughnessy.

A client-by-client approach to tax management is complicated and time consuming. The complexity is further increased by the potential tax law changes. Canvas provides advisors with the tools, flexibility, and scale necessary to implement personalized plans across all accounts, allowing them to focus on helping their clients achieve their investment objectives.

About OSAM

O’Shaughnessy Asset Management, LLC (OSAM) is a quantitative asset management firm based in Stamford, CT. The firm delivers a broad range of equity portfolios to institutional investors, individual investors, and high-net-worth clients of financial advisors. OSAM also serves as the investment advisor for a U.S. mutual fund and as a sub advisor to a family of mutual funds in Canada. The firm’s team has managed client assets since 1996. For more information on Canvas, please go to canvas.osam.com.

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