



Thoughtfully Allocating Assets Requires Carefully Considered Active Management

One of the largest traps we believe an investor can fall into is taking themselves out of the equation. For some, investing starts with making savvy portfolio picks and stops with hoping for the best outcome the market has to offer. Though this passive method may be a perfectly sufficient approach for certain investors, those with the means and resources to actively manage their portfolio may be missing out on opportunities to capitalize on their gains and maximize potential growth.

Although a great deal of investors may not realize as much, we believe they have considerably more agency than they think in fostering a healthy portfolio. They must understand their assets aren't wholly dependent on the whims of the market and can be positioned in such a way that their viability is amplified across an extended period.

Rethinking What We Know About Effective Investing

Given the market upheaval in recent years, many investors are reticent about straying from their preconceived ideas about what constitutes effective investing. However, we believe investors' financial practices should be more deliberate and seen through a lens of strategic asset location and carefully considered active management.

Strategic asset location is a tactical method that involves carefully allocating assets to different types of accounts based on their respective tax implications. This tactic also factors in the potential yields for varied holdings and the type of account most appropriate for facilitating growth. The goal is to thoughtfully position assets with the intention of minimizing **tax liabilities** and leaving investment earnings intact while maintaining overall desired portfolio allocations.

Investors looking to have a more active hand in their portfolios should be scrutinizing the kinds of accounts their assets are accumulating in.



Asset Location May Require Active Management

This paradigm requires a certain level of active management that can be either bold and ambitious, or modest and measured. Ultimately, the investor is the best gauge of the level of activity for each asset within their portfolio, which may be contingent on how the asset grows with time and how each asset is ultimately taxed.

There is a hierarchy of account types with varying levels of active management at work. Depending on the investor's circumstances, comfortability, and goals, we believe their portfolio ought to be diversified across **different types of accounts** in order to maximize growth potential and reduce tax vulnerabilities.

Roth IRAs Might Be Suitable for an Aggressive Management Strategy

For example, the mechanisms of Roth IRAs can make them a type of account that might be suitable for a more aggressive management strategy. Because of their unique tax benefits—contributions are made with after-tax dollars and qualified withdrawals are entirely tax-free—Roth IRA accounts may be the ideal home for more growth-oriented and ambitious investors. If an investor is looking to adhere to a 60% equity and 40% bond portfolio construction and has high-growth holdings to invest, they may want to situate 100% of their equities within a Roth IRA. This aggressive allocation may amplify potential returns without the weight of future taxes as earnings grow and withdrawals made in retirement are also tax-free. For those with a long-term investment horizon, strategically placing high-growth assets in a Roth IRA has the potential to create a tax-free nest egg that may enhance their retirement security.

Alternatively, more moderate approaches are available through traditional IRAs and taxable accounts. Within traditional IRAs, contributions may be tax-deductible, and in turn, potentially reduce one's current tax burden. As accountholders don't have to pay taxes on their earnings until they withdraw from the traditional IRA in retirement, these accounts effectively offer tax-deferred growth. Since retirement plays a central part in IRAs and how they function, these accounts typically have a longer timeframe and may be more suitable for moderately aggressive assets to complement the Roth IRA holdings.

The type of account that may be least suitable for a more aggressive approach, taxable accounts, are subject to taxes on any income or capital gains generated by one's investments. While this impacts the overall return for assets held in these types of accounts, the tax-efficient nature of bonds may make them a good fit to be placed here. Although bonds are typically considered conservative investments, they play a vital role in diversifying one's portfolio and provide stability. By placing bonds in a taxable account, you're positioning them in a tax-efficient manner. While taxes will still be incurred in this configuration, it will likely be at a lower rate compared to taxes on gains from stocks or other investments.



Allocating investments within this framework may also allow for maneuvers beyond simply assigning different asset classes to suitable accounts. One such tactic is the **Roth conversion strategy** wherein a piece of one's traditional IRA is apportioned to a Roth IRA. Although there will be taxes to pay on the converted amount in the year of the conversion, the long-term benefits have the potential to be substantial: once in the Roth IRA, those assets grow tax-free, and qualified withdrawals are also tax-free. Likewise, there are systematic withdrawals, which substitute lump-sum distributions from retirement accounts with a routine, scheduled withdrawal plan. By carefully controlling the timing and amount of withdrawals, investors can manage their taxable income and potentially stay in a lower tax bracket.

Enhance Your Financial Strategy with the Help of a Wealth Advisor

Partnering with a skilled wealth advisor can help enhance your financial strategy. Using their expertise, they can help guide you in discovering your personal risk tolerance and ensuring that investment decisions align with your comfort levels. Whether it's a Roth IRA, traditional IRA or taxable account, thoughtful collaboration with an advisor can help lay the groundwork for a rewarding investment journey. If you are interested in personalized guidance, please reach out to our team: **KAR Wealth Advisors**.



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