WHAT IS DIRECT INDEXING?

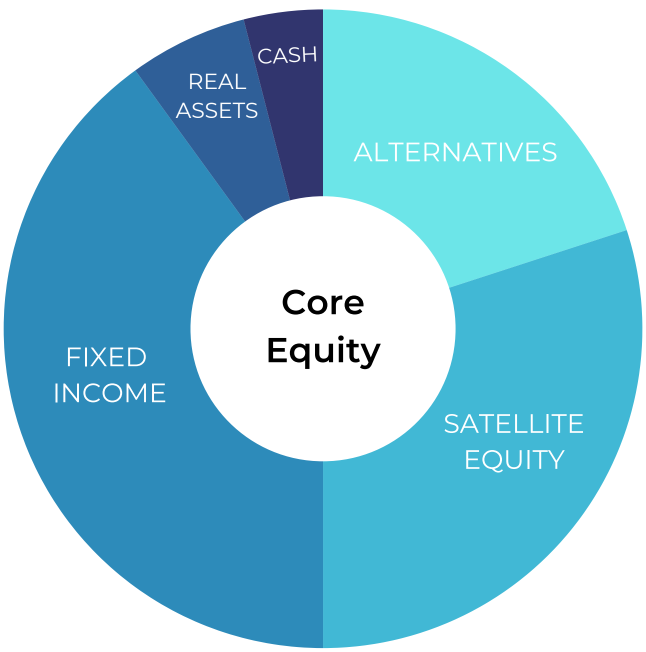
For many investors, a core equity strategy is the centerpiece of a diversified investment portfolio, and this core is often represented by exposure to US Large Cap Equities with “satellites” representing other asset classes, completing the overall asset allocation.

Direct indexing strategies, which aim to provide broad equity market exposure by directly owning individual stocks, have proliferated in recent years. Their appeal is straightforward: like index funds, these strategies may provide performance generally in line with the market, but rather than owning shares in a commingled vehicle such as an ETF or mutual fund, investors own a selection of the individual securities that make up the index in a separately managed account (SMA).

An investor who obtains their core equity exposure through a direct indexing portfolio can often achieve market-like returns with some key additional attributes:

- Directly investing in individual securities can unlock opportunities to customize portfolios and align them to individual needs and preferences, such as social, environmental, or personal values, or reducing exposure to a particular stock or sector where the investor may have concentrated risk elsewhere in their portfolio.
- Direct indexing can be a powerful tax management tool using an approach called tax-loss harvesting, which can enable an investor to potentially enhance market-like returns by strategically realizing capital losses throughout the year.

Core Satellite Approach



TAILORED TAX OPTIMIZATION

Tax-loss harvesting involves selling a stock or other assets at a loss and using that realized loss to offset realized capital gains from other investments. These could be alternative investments, such as hedge funds or private equity, a concentrated stock position, or even the sale of a home or business. Whatever the source of capital gains, tax loss harvesting may allow the investor to offset some of these gains and generate tax savings.

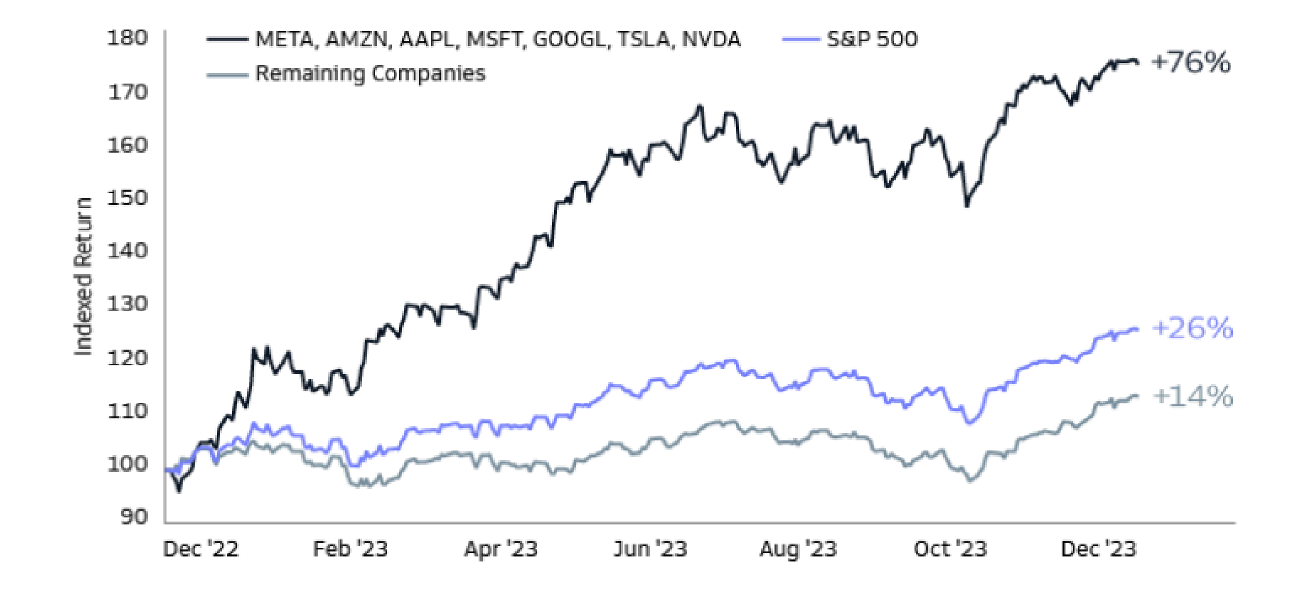
Direct indexing portfolios may have greater opportunities to harvest capital losses versus portfolios of ETFs or mutual funds because each of the individual names and tax lots held in the direct indexing portfolio may represent a loss harvesting opportunity for the investor.

Investors in a broad market ETF or mutual fund, by contrast, can only realize capital losses by selling their position when the entire position is down.

A prime example of this occurred last year. The S&P 500 finished the year up by 26.3%, but that increase was mostly driven by just seven stocks that gained 76% for the year. The remaining companies collectively were up 14%, and 170 of those ended the year with a negative return.* For a tax-loss harvesting strategy, owning individual securities may offer the investor opportunities to potentially take advantage of stock dispersion as shown in Exhibit A.

*Source: Goldman Sachs Asset Management. As of December 31, 2023.

Exhibit A: Performance of Magnificent 7 vs. Rest of the Market
Source: Global Investment Research. As of January 8, 2024.



PURE fi WEALTH

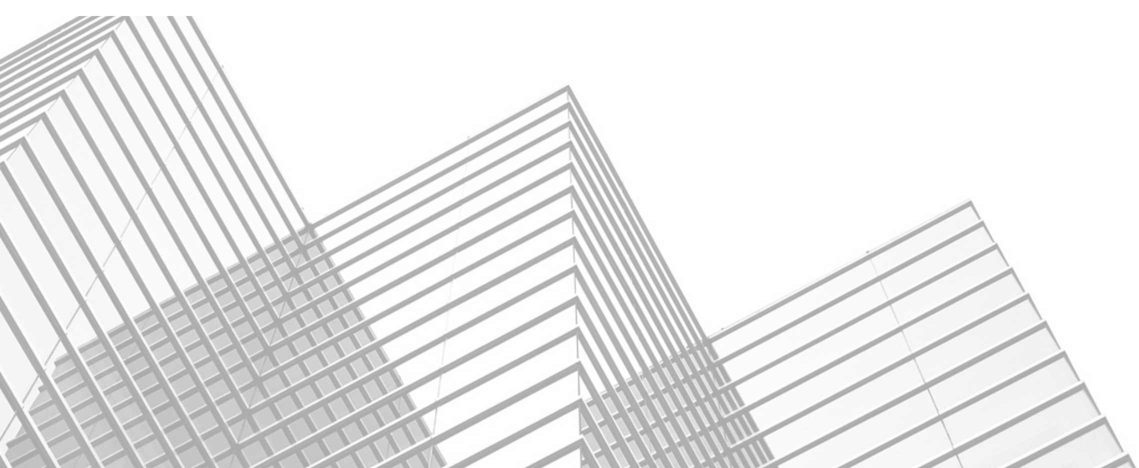
A Year-Round Strategy, Not a Year-End Trade

Many investors wait until the end of the calendar year to consider loss harvesting. But if investors wait until the end of each year, they may find no losses to harvest.

Tax loss harvesting with individual securities, on the other hand, may provide more opportunities to take advantage of stock moves at different points throughout the year.

In other words, direct indexing may allow investors to take advantage of individual stock level volatility at points in time to potentially achieve greater loss harvesting while still delivering a portfolio return in line with the broad market.

> *“Investors can often participate in equity market returns with performance that closely matches their benchmark while potentially saving money and maximizing overall portfolio return potential by reducing their overall tax bill.”*



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About PUREfi

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