

# Balancing Taxable and Non-Taxable Portfolios



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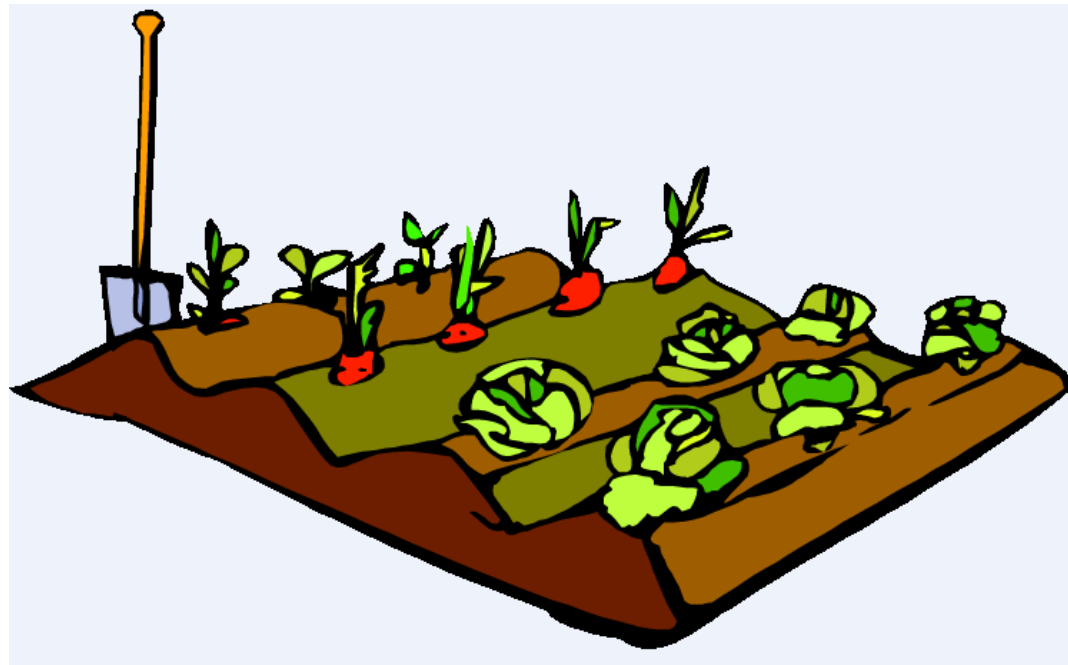
Developers of the BetterInvesting™ Portfolio Manager

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## Balancing Taxable and Non-Taxable Portfolios

- Just as a gardener equally tends to all the 'rows' in a vegetable garden, an investor must equally manage all the investment portfolios they own, including their taxable and non-taxable accounts.

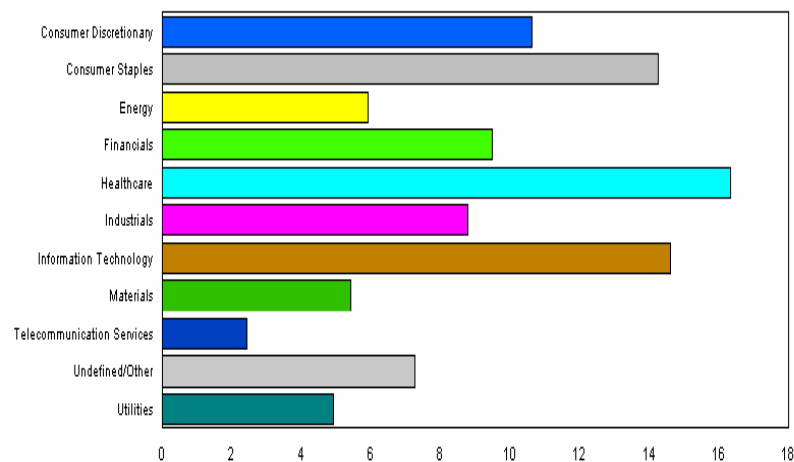
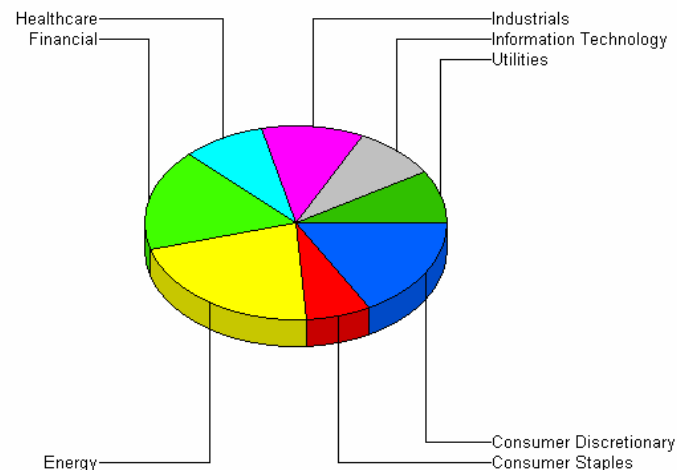


## Balancing Taxable and Non-Taxable Portfolios

- By managing collectively their multiple accounts, the investor is able to:
  - Understand all investments owned;
  - Identify the true aggregate portfolio allocation;
  - Enact rebalancing needs necessary to reach long-term goals;
    - ‘Weed and Feed’ actions for the rebalancing process;
  - Become more ‘self reliant’ for managing their investments.

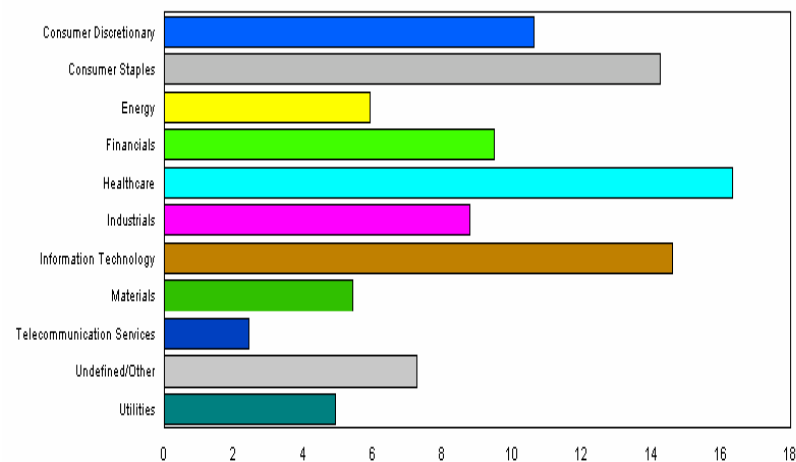
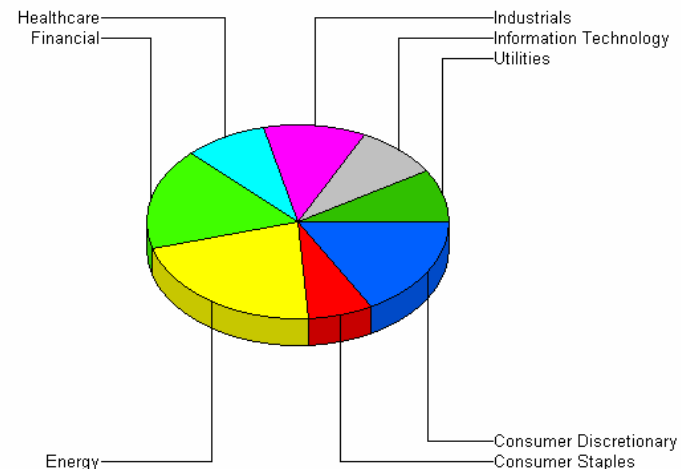
# Balancing Taxable and Non-Taxable Portfolios

- In the simplest example, an investor with two portfolios (taxable & non-taxable) may have little understanding how these two portfolios are working together, if at all....



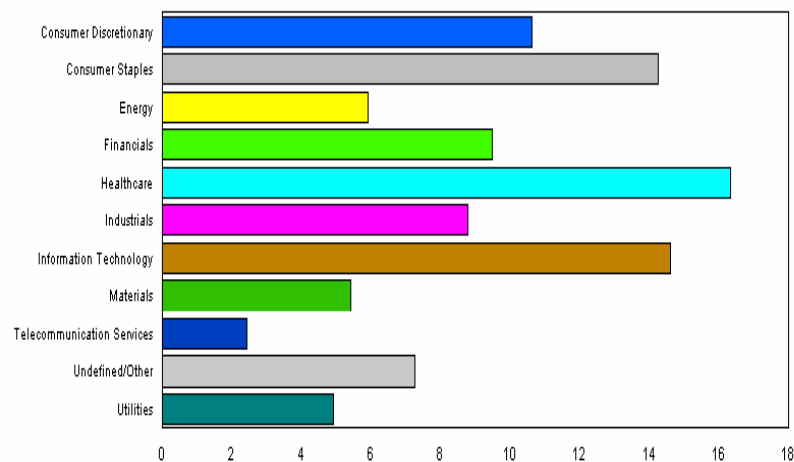
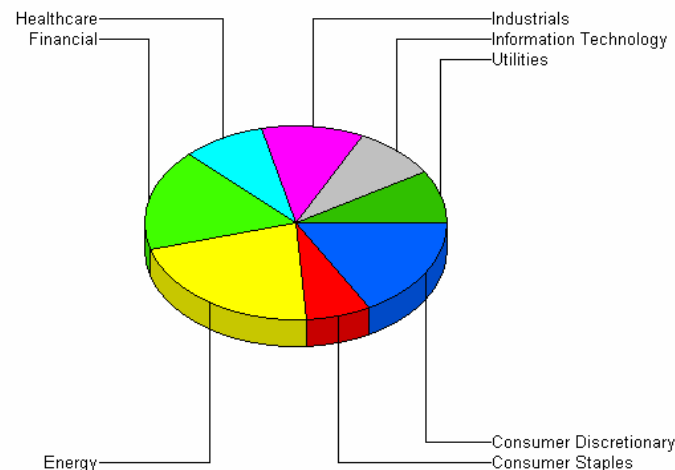
# Balancing Taxable and Non-Taxable Portfolios

- Without paying attention to how these portfolios should be working together, it will be nearly impossible to measure how well diversified in aggregate these portfolios are in relation to asset class, sector, and size - all important investing considerations.



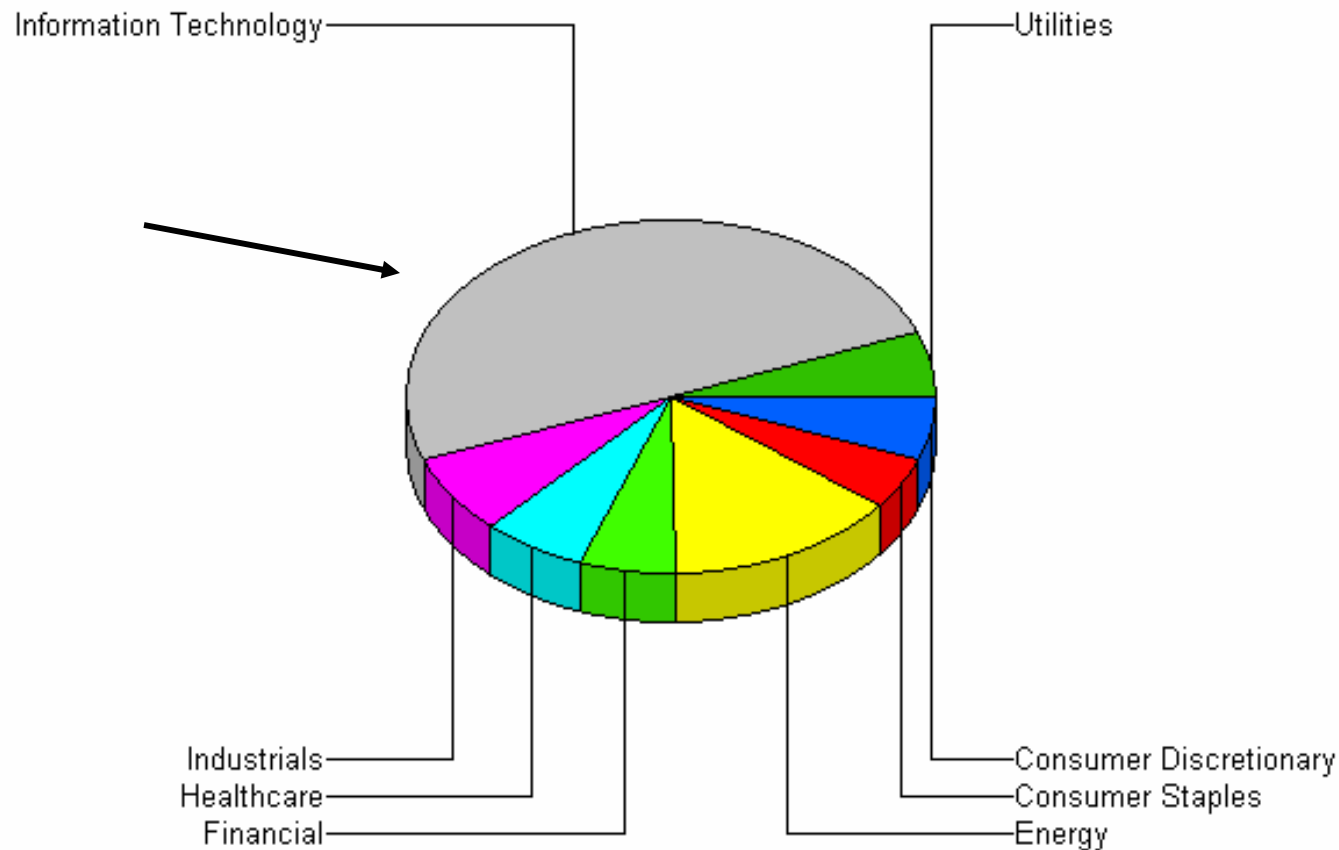
# Balancing Taxable and Non-Taxable Portfolios

- So while these portfolios might look ok when considered on an individual basis, all too often investors unknowingly overlap their holdings by type, size or sector, and this leads to increased risk!
- What might that look like?



# Balancing Taxable and Non-Taxable Portfolios

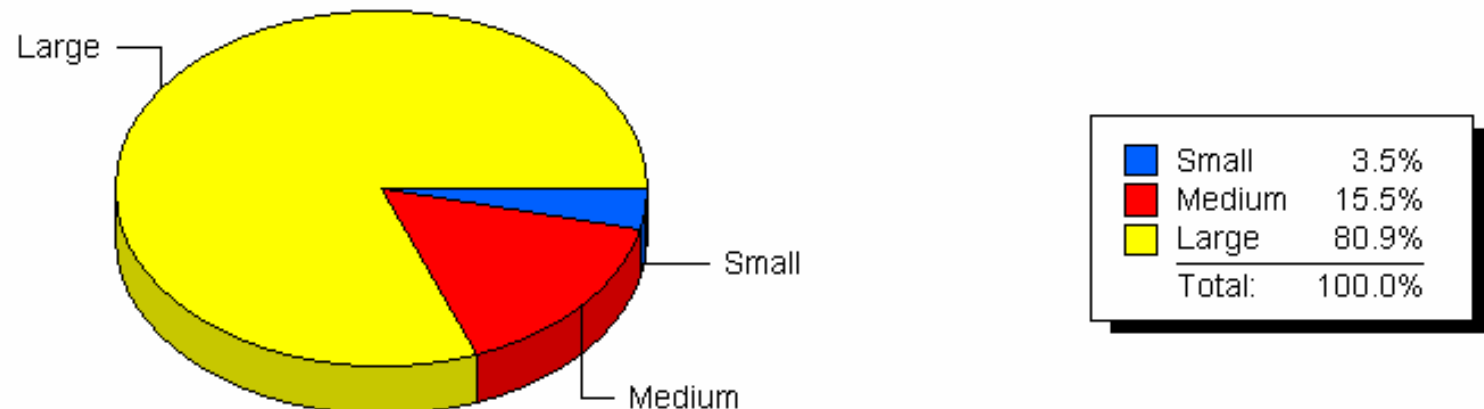
- Remember the Tech Bubble??





## Balancing Taxable and Non-Taxable Portfolios

- Not a very good balance by company size!



## Balancing Taxable and Non-Taxable Portfolios

- So what might happen to portfolio results if **NOT** paying attention to how multiple portfolios should be working together
  - What would you prefer for 2 year portfolio performance?
    - **Year 1 = +80%**
    - **Year 2 = - 50%**
  - or:
    - **Year 1 = +5%**
    - **Year 2 = +5%**
- Which leads to better results????.....

## Balancing Taxable and Non-Taxable Portfolios

### Scenario 1

- Year 1 = +80%
- Year 2 = - 50%
  - **Start with \$10,000**
  - **80% return = \$18,000**
  - **-50% return = \$9,000 balance**
  - **\$9,000 - 10,000 = \$1,000 loss.**

**Whoops!!!**

## Balancing Taxable and Non-Taxable Portfolios

### Scenario 2

- Year 1 = +5%
- Year 2 = +5%
  - **Start with \$10,000**
  - **5% return = \$10,500**
  - **5% return = \$11,025 balance**
  - **\$11,025 - 10,000 = \$1,125 gain.**
- **By using multiple portfolio management tools, able to achieve better performance.**

# Why Diversification Matters

Periodic Table of Style Rotation: Annual Returns for Selected Asset Classes (1993 - 2007)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
Foreign Stocks 32.9	Foreign Stocks 8.1	Aggressive Growth Stocks 38.8	REITs 37.0	Large Value Stocks 35.2	Aggressive Growth Stocks 38.6	Aggressive Growth Stocks 85.6	REITs 31.8	Small Value Stocks 14.8	Bonds 10.3	Aggressive Growth Stocks 58.8	REITs 32.8	Foreign Stocks 14.0	REITs 36.8	Large Growth Stocks 11.8	BEST PERFORMANCE
Small Value Stocks 23.8	REITs 2.7	Large Value Stocks 36.4	Large Growth Stocks 23.1	Large Stocks 32.8	Large Growth Stocks 38.7	Small Growth Stocks 43.1	Small Value Stocks 22.8	REITs 12.4	REITs 3.6	Small Growth Stocks 48.5	Small Value Stocks 22.3	REITs 13.8	Foreign Stocks 26.9	Foreign Stocks 11.6	
Large Value Stocks 18.1	Large Growth Stocks 2.6	Large Stocks 37.8	Aggressive Growth Stocks 22.7	Small Value Stocks 31.8	Large Stocks 27.0	Large Growth Stocks 33.2	Bonds 11.6	Bonds 8.4	Small Value Stocks -11.4	Small Value Stocks 46.8	Foreign Stocks 20.7	Midcap Stocks 12.7	Small Value Stocks 23.5	Aggressive Growth Stocks 10.7	
REITs 15.1	Large Stocks 0.4	Large Growth Stocks 37.2	Large Stocks 22.4	Large Growth Stocks 38.5	Foreign Stocks 20.3	Foreign Stocks 27.3	Midcap Stocks 8.3	Midcap Stocks -5.6	Large Value Stocks -15.5	Midcap Stocks 40.1	Midcap Stocks 20.2	Large Value Stocks 7.1	Large Value Stocks 22.2	Small Growth Stocks 7.1	
Aggressive Growth Stocks 14.8	Small Value Stocks -1.6	Midcap Stocks 34.5	Large Value Stocks 21.6	Midcap Stocks 28.0	Large Value Stocks 15.6	Large Stocks 20.9	Large Value Stocks 7.8	Large Value Stocks -5.6	Foreign Stocks -15.7	Foreign Stocks 39.2	Large Value Stocks 16.5	Large Stocks 6.3	Large Stocks 15.5	Bonds 7.8	
Midcap Stocks 14.3	Large Value Stocks -2.8	Small Growth Stocks 31.0	Small Value Stocks 21.4	Aggressive Growth Stocks 21.6	Midcap Stocks 10.1	Midcap Stocks 18.2	Large Stocks -7.8	Small Growth Stocks -8.2	Midcap Stocks -16.2	REITs 36.2	Small Growth Stocks 14.3	Large Growth Stocks 5.3	Midcap Stocks 15.3	Large Stocks 5.8	
Small Growth Stocks 13.4	Midcap Stocks -2.1	Small Value Stocks 25.8	Midcap Stocks 18.0	REITs 10.7	Bonds 8.7	Large Value Stocks 7.3	Foreign Stocks -14.0	Large Stocks -12.4	Large Stocks -21.7	Large Value Stocks 30.8	Large Stocks 11.4	Small Value Stocks 4.7	Small Growth Stocks 13.3	Midcap Stocks 5.6	
Large Stocks 10.2	Small Growth Stocks -2.4	Bonds 18.5	Small Growth Stocks 11.3	Small Growth Stocks 13.0	Small Growth Stocks 1.2	Bonds -8.8	Large Growth Stocks -22.4	Large Growth Stocks -20.4	Large Growth Stocks -27.8	Large Stocks 28.8	Aggressive Growth Stocks 8.6	Small Growth Stocks 4.2	Aggressive Growth Stocks 10.4	Large Value Stocks -8.2	
Bonds 8.8	Bonds -2.8	REITs 12.2	Foreign Stocks 6.4	Bonds 8.7	Small Value Stocks -5.5	Small Value Stocks -1.5	Small Growth Stocks -22.4	Aggressive Growth Stocks -21.1	Small Growth Stocks -30.3	Large Growth Stocks 28.7	Large Growth Stocks 6.3	Bonds 2.5	Large Growth Stocks 8.1	Small Value Stocks -8.8	
Large Growth Stocks 2.8	Aggressive Growth Stocks -3.2	Foreign Stocks 11.6	Bonds 3.6	Foreign Stocks 2.1	REITs -17.8	REITs -2.6	Aggressive Growth Stocks -38.3	Foreign Stocks -21.2	Aggressive Growth Stocks -31.5	Bonds 4.1	Bonds 4.3	Aggressive Growth Stocks 2.1	Bonds 4.33	REITs -17.6	WORST PERFORMANCE

source: American Century Investments.

## Balancing Taxable and Non-Taxable Portfolios

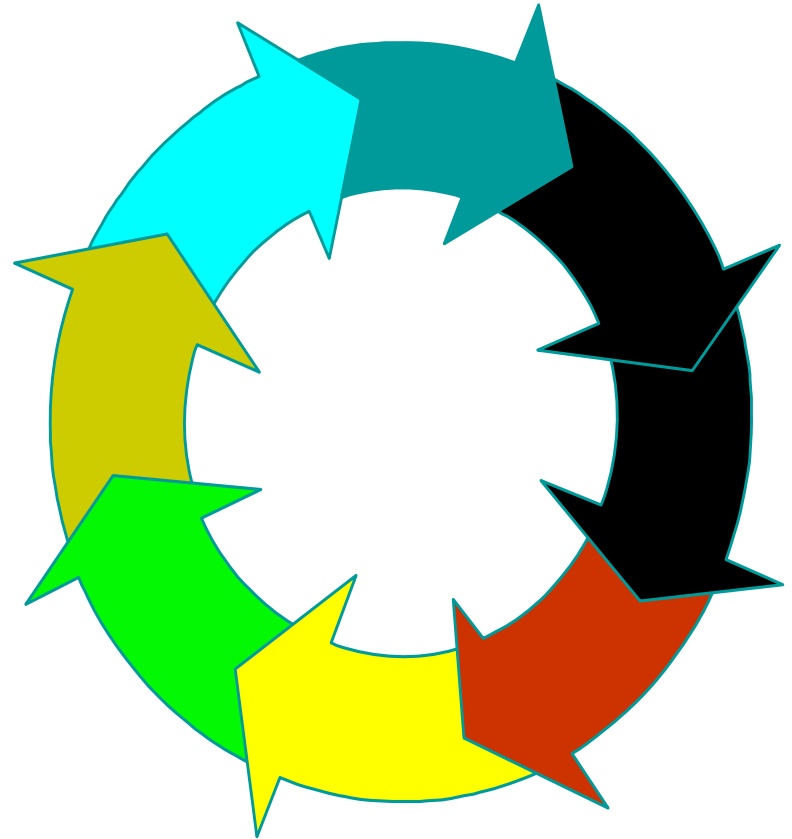
- What tools are available to help you better manage multiple portfolios you might own?
- BetterInvesting Data Services
  - S&P Stock Data
    - Provides sector and size information
  - Lipper Fund Data
    - Provides fund composition information
      - Asset types, stock sectors, stock sizes
- BetterInvesting Portfolio Manager
  - Multiple portfolio management tools

## Balancing Taxable and Non-Taxable Portfolios

- What we'll cover in this class:
  - Brief Overview of BetterInvesting Portfolio Manager
  - Downloading data from BetterInvesting Data Services
  - Taxable vs. non-taxable accounts
  - Combination of taxable with non-taxable for overall view
  - Identify rebalancing needs
    - Weed and feed for results

## Balancing Taxable and Non-Taxable Portfolios

- Understand portfolio allocation
- Maintain accurate, timely investment records
- Review current holdings
- Identify rebalancing needs
- Implement changes to weed and feed portfolio to maintain proper diversification, meet new objectives or goals
- Ongoing process for long term investing success!





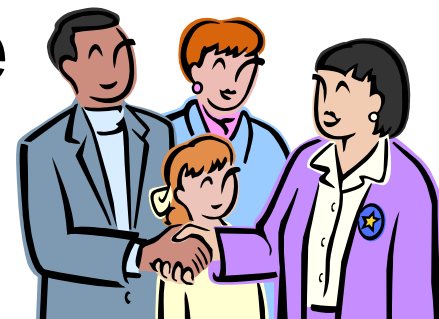
# Requirements & Purchase Information Portfolio Manager v5.

- \$129 for BetterInvesting Member
- \$169 non BetterInvesting Member
- Available here at BINC 2009
  - BetterInvesting Software Sales in Expo
  - Call BetterInvesting:
  - @ 877-275-6242, ext. 4
- Web sites:
  - [www.betterinvesting.org](http://www.betterinvesting.org)
  - [www.biportfoliomanager.com](http://www.biportfoliomanager.com)
  - Free Demo Available



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