

[<Back](#)

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Seasonal Musings

April 2008

Musings In This Issue

[Avoiding Mutual Fund Tax Drag](#)

[The Benefits of Rebalancing](#)

[A Client Sighting](#)

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Hi Paul,

Welcome to another issue of "Seasonal Musings", the online newsletter from Five Seasons Financial Planning LLC (FSFP). Humble apologies for the late delivery of this issue. I finally succumbed to family requests for a trip to the beach.

In this issue, we'll be discussing how to avoid the tax bite of actively managed mutual funds, the benefits of portfolio rebalancing, and a client's 15 minutes of fame. As usual, if there are financial planning or investment topics you'd like us to cover in future issues, please drop us a line.

[Avoiding Mutual Fund Tax Drag](#)

Early last month, I got a frantic call from an elderly neighbor desperate to understand why her tax bill was so high. It didn't take long to find the culprit: capital gains distributions from her equity mutual funds. As it turned out, many investors in actively managed funds found themselves in the same boat this year.

The combination of a 5-year bull market in stocks and investor redemptions late in the year resulted in record mutual fund distributions in 2007. It is estimated that buy-and-hold fund investors paid \$33.8 billion in taxes solely as a result of these distributions, an increase of 46% from the year before.

So what can you do to avoid lightning striking twice? You

could take the advice we offered in the [November issue](#), and consider selling those funds with large expected distributions before the ex-dividend date. Of course, that means keeping an eye out for those fund company announcements in the fourth quarter, and deciding whether to replace those holdings and with what.

Other solutions to the tax drag of actively managed mutual funds are to:

1. Swap into much more tax-efficient passively managed funds, i.e. index funds or ETFs. As an example, only 6 of 149 iShare ETFs distributed any capital gains last year.
2. Have your investment account(s) managed as a separately managed account (SMA), customized to your tax bases, holding periods, and tax bracket.

Tax-efficient investing is one of our specialties. If you'd like to discuss the benefits of a custom- designed portfolio, please feel free to drop us a line.

The Benefits of Rebalancing

Academic studies conclude that rebalancing your investment portfolio periodically results in better performance, especially in range-bound markets. Here are the top reasons to have your portfolio rebalanced:

1. Rebalancing lends discipline to the investment process.
2. Rebalancing reduces overall portfolio volatility.
3. Rebalancing in effect forces you to buy low and sell high.
4. Rebalancing counters much of the self-destructive behavior that many investors exhibit, i.e. overconfidence, availability bias, and belief perseverance.

How often should you rebalance? Research varies, and it depends on your circumstances, but most rebalancing frequencies outperform not rebalancing. Bottom line? Just do it.

A Client Sighting

As many of you know, members of the press frequently reach out to NAPFA members for help with their stories. Reporters are aware that they will receive the same unbiased, professional advice and input as our Fee-Only clients do. Happily, sometimes even clients are featured in these stories.

And so it happened that one of our clients was featured in

a story in the February issue of Entrepreneur magazine. Hopefully, it will result in increased exposure for his business, but at the very least his family gets to see a picture of Dad in a magazine. [Click here](#) to access the article.

Five Seasons Financial Planning LLC is a Fee-Only financial planning and investment advisory firm registered with the state of Utah. Five Seasons offers financial planning services on an hourly basis, as well as discretionary investment management. To view past issues of "Seasonal Musings", click [here](#).

One of the benefits of working with a Fee-Only investment advisory firm is full disclosure. To receive a copy of our Form ADV, which details a variety of information about Five Seasons, or our Privacy Policy, please use the contact information below.

Best wishes,

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