

## Harvesting Strategy

ETFs: The Foundation for Better After-Tax Returns

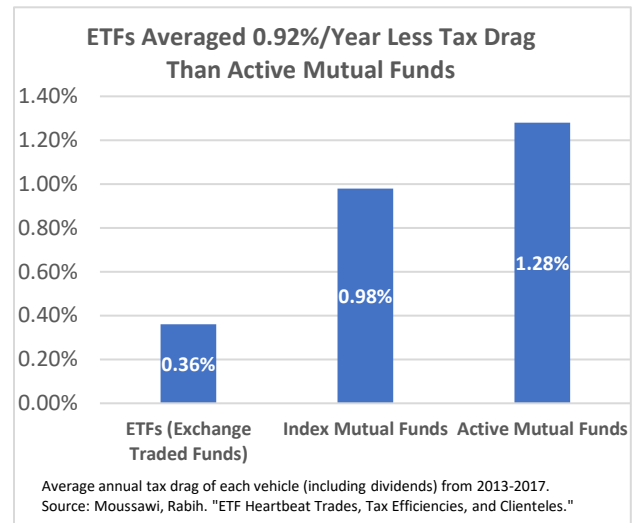
Tax beneficial investing begins with vehicle selection and Exchange Traded Funds (ETFs) have an established history of providing an after-tax edge. An important [paper released in December](#) demonstrated that among ETFs' numerous advantages, the tax edge was actually the primary driver of the \$Trillions in flows to ETFs over the last few years, particularly among high tax bracket investors.<sup>1</sup>

Some capital gains are inevitable, even for index investors (e.g., forced distributions resulting from mergers or acquisitions). ETFs' unique creation/redemption process, however, has been so successful in reducing tax cost that [the paper's authors](#) have gone so far as to say that as compared to mutual funds, "it's not fair and it's not a level playing field".

We might agree.

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<sup>1</sup> Other advantages listed in the paper include: "lower transaction costs, less cash drag, intraday liquidity [and] lower expense ratios."

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