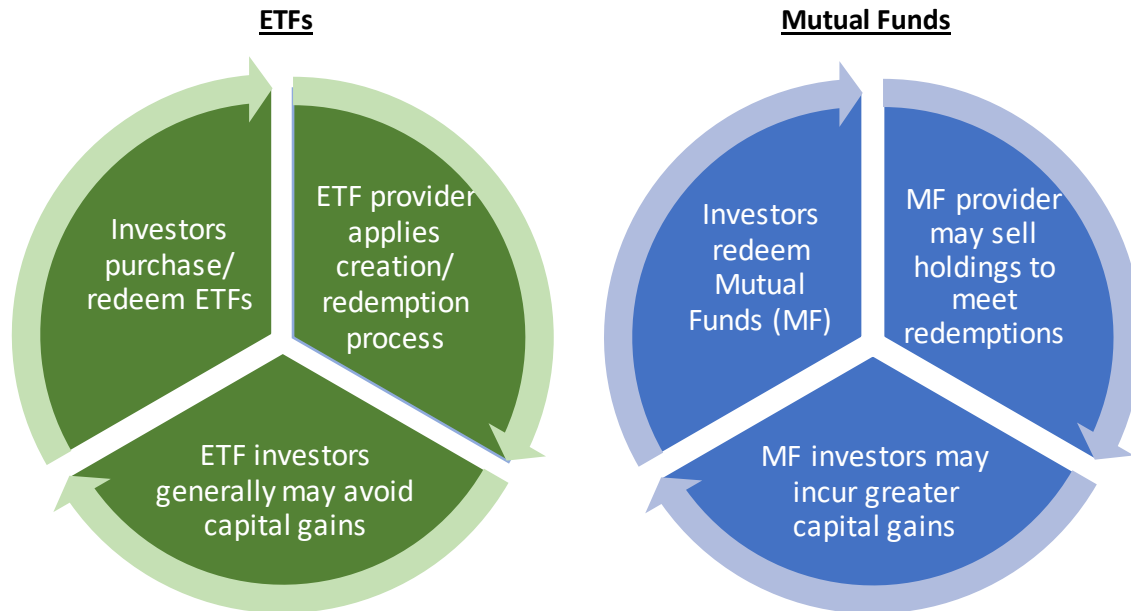


## Harvesting Strategy

Expect Higher Taxes to Hasten the Move from Mutual Funds to ETFs

[Higher tax rates](#) may accelerate the current transition of hundreds of billions of dollars migrating from mutual funds to ETFs. For high income investors in particular, [recent research](#) indicates that taxes may have even been the primary driver of this switch.<sup>1</sup>

As the [Financial Times just highlighted](#), tax exposure is a growing risk for mutual fund investors, especially with the prospect of higher tax rates. Both mutual funds and ETFs must distribute gains when they sell a stock that has appreciated. However, unlike mutual funds, ETFs have a [mechanism](#) for reducing that gain to shareholders, as [thought to have happened last week](#) - see below left chart. Moreover, given their structure, mutual funds face the risk of having to realize gains simply to raise cash in the event other investors choose to redeem their money. This dynamic may create the potential for a negative feedback loop - see below right chart.



Increasingly, higher income investors have been adopting ETFs as their tool of choice for portfolio construction and [tax beneficial](#) investing. It will be interesting to see if that trend now accelerates. Visit our [website](#) or talk to your financial advisor to find out more.

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Chief Investment Strategist  
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<sup>1</sup> Other potential advantages include lower transaction costs, less cash drag, transparency, intraday liquidity and lower expense ratios.



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Performance quoted represents past performance, which is no guarantee of future results. Investment return and principal value will fluctuate, so you may have a gain or loss when the portfolio is liquidated. Current performance may be higher or lower than that quoted. Performance of an index is not illustrative of any particular investment. It is not possible to invest directly in an index.

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The availability of tax alpha is highly dependent upon the initial date and time of investment as well as market direction and security volatility during the investment period. Tax loss harvesting outcomes may vary greatly for clients who invest on different days, weeks, months and all other time periods.

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