

CLIENT- VS. ACCOUNT-LEVEL REBALANCING

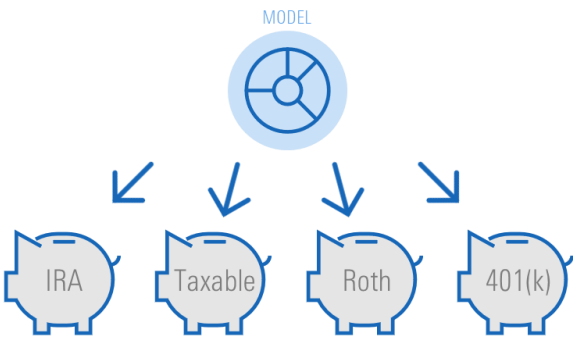
Morningstar® Total Rebalance Expert (TRX) allows advisors to rebalance at the client or account level, or a mix of both. Learn about the key differences between these approaches, so you can make the best decision when setting up TRX for your practice.

Client Level

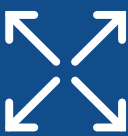
Account Level

Recommended

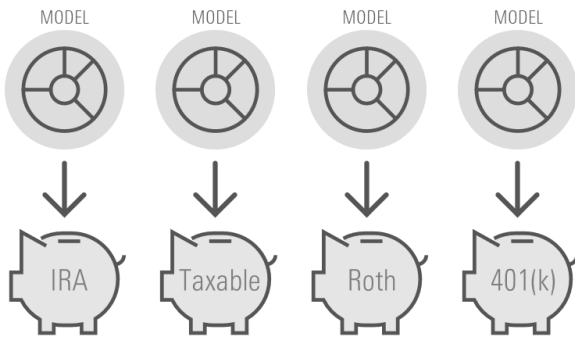
The full investment allocation is spread among the various accounts (across a client’s portfolio).



MODEL DISTRIBUTION



Each account is assigned its own model, each representing a “full pie” of asset allocation.



Client-level rebalancing enables **tax-efficient** location optimization, assuming a client has multiple accounts.

Location optimization allows you to manage taxes by carefully selecting **which investments are held in which accounts**.

- Tax-Inefficient Investments
→ **Retirement Accounts**
- Tax-Efficient Investments
→ **Taxable Accounts**
- High Return Investments
→ **Roth IRAs**

LOCATION OPTIMIZATION



Advisors can simply **manage accounts separately without any dependency** on what is being bought or sold in another account.

Tax savings from location optimization are limited with account-level management, because **investments cannot be strategically located across accounts** without creating additional models for that express purpose.

Further, the same holding may be held in multiple accounts, **resulting in a larger number of transactions**.

Due to location optimization, over time a client may end up with stock-heavy or bond-heavy accounts. As a result, the **accounts may show performance not matching the overall model**. For example, a client might ask:

- ✓ Why did my Roth IRA **underperform** relative to other accounts?
- ✓ Why doesn’t my taxable account appear to be **diversified**?
- ✓ What is the impact on my **overall balance**?

PERFORMANCE REPORTING



Accounts will each show **performance similar to their respective models**.

Clients evaluating their performance will have fewer questions.



TAX CHARACTERISTICS OF AN INVESTMENT

When determining the tax characteristics of an investment, be aware that it could produce a combination of income types subject to various types of taxes at different times.

- Possible Types of Taxes
- Federal Ordinary Tax
 - Federal Capital Gain Tax
 - Alternative Minimum Tax
 - Foreign Tax

- Possible Timing of Taxable Income
- Annually
 - Upon Sale
 - As Dividends are Declared
 - As Dividends are Withdrawn

Contact your Customer Success Onboarding Specialist for more information.