Direct Indexing

Beyond Wealth
PARTNERS

WHAT IS IT:

→ An investment strategy that **replicates a stock index using individual securities**

→ Instead of buying an ETF or mutual fund, investors **own the underlying stocks directly**

→ Allows **customization and tax management** within the portfolio

WHY INVESTORS USE IT:

→ **Tax-loss harvesting opportunities** throughout the year

→ Ability to **offset capital gains** from other investments

→ Greater **portfolio customization** (exclude industries or specific companies)

→ Maintain exposure similar to a **broad market index**

WHEN IT CAN BE USEFUL:

→ Investors with **large taxable portfolios**

→ Investors expecting **realized capital gains** (rebalancing, concentrated stock, business sale)

→ Households in **higher tax brackets** where tax savings are more valuable

HOW IT WORKS:

→ Portfolio built using **individual stocks tracking an index** (often the S&P 500)

→ When positions decline, they can be **sold to realize tax losses**

→ Replacement securities maintain **similar market exposure**

→ Losses can **offset capital gains or up to $3,000 of ordinary income annually**

EXAMPLE:

→ *Investor holds a **$1,000,000 direct indexed portfolio***

→ *Positions with losses are harvested during the year*

→ *Assume **$40,000 of tax losses generated***

RESULT:

→ *$40,000 offsets **capital gains elsewhere***

→ *At a 23.8% capital gains rate, potential tax savings **≈ $9,520***