SPEAKING OUT ON: THE ROLE OF DIRECT INDEXING

Jack Otter: Bob, why don't you explain the role of direct indexing and tax-loss harvesting.

Bob Holderith: Our job is to provide about the return of an index or a strategy and to capture losses at the same time. So, if over seven or eight years, a client portfolio and the index is up 55%, hopefully somewhere around there is what the goal should be for a direct indexer to provide. Along the way, since a portfolio in an S&P 500 is broken down, in our case into sectors but in some cases into individual equities, when there are opportunities to capture losses, those opportunities are picked up along the way as well. So, it's kind of a dual mandate, which is interesting. A lot of clients think that you need to lose money, or a portfolio needs to go down to capture losses. It's not necessarily true. Clearly, this year it has been but last year when the market was up over 27%, there are opportunities to capture losses as well. I think what you see if you go back and look, certainly over the last six years, is that one of the mandates provides some significant benefit. In other years, the other mandate perhaps does. Clearly, last year was a good year for appreciation, and this year a better year for loss harvesting.

Jack Otter: It's so nice to have both of them at the same time. Curt, can you talk a little bit how you might be putting direct indexing into practice with your clients?

Curt Rubinas: Right now, when we look at specific large cap, whether it's in the U.S. or internationally, that's where we focused on direct indexing. We just found that there's a lot of opportunity there. We don't particularly think there's a ton of alpha to be had in those markets most of the time. And so, we're carving out a piece of our core beta and put in direct indexing in developed non-U.S. and U.S. So it's not going to be our entire allocation, but it is going to be a big chunk of it because we're always looking at it and saying, "Alright, there's going to be some part of our portfolio and some part of our equity exposure that's going to be focused on beta in U.S. large cap and international developed," because we'd love to be able to harvest losses from there to do the things that we want to do on the fringe to maybe overweight a sector or change from a sector that we've loved for five years into something else that we want to move into so that the harvest losses from the core of the portfolio really help us to shape and adjust some of our more thematic views in the portfolio.