

# NAVIGATING CAPITAL GAINS, TAX EFFICIENCY, AND ALTERNATIVE INVESTMENT STRATEGIES

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## Introduction

In the world of wealth management, the term “capital gains” often evokes mixed feelings. While it's a sign of investment success, it also heralds a tax liability. For many, the mere mention of “capital gains tax” can trigger fear or even panic. You might be recalling a time you struggled to pay taxes or perhaps you're just wondering, "How am I going to pay for it?" Rest easy, you have options. A little advance planning can go a long way. What if I told you that capital gains are actually a cause for celebration?

## The Upside of Capital Gains: A Marker of Your Investment Success

Capital gains aren't merely a tax concern; they're an indicator of a robust portfolio. A well-managed, growth oriented portfolio of stocks inevitably accrues capital gains over time. To that end, facing taxes on these gains is a favorable consequence of successful investing, signaling wealth accumulation.

As you accumulate more wealth, it's crucial to shift your perspective. Instead of fearing the tax implications, you can instead celebrate it as a sign of your investment prowess. Taxes on these gains are simply a byproduct of successful investing.



However, as your portfolio grows and your tax situation evolves, it's important to become more sophisticated in your tax planning approach as it relates to your overall portfolio, income, liquidity and giving strategies.

## Caution: Don't Sacrifice Quality Investments for Tax Benefits

Before diving deeper, let's heed a critical word of caution: Never let tax considerations dictate your investment selection - at least not in vacuum. While it's tempting to focus solely on tax efficiencies, your primary goal should always be to select sound investments that align with your long-term objectives. In a market that's constantly ebbing and flowing, it's easy to get sidetracked. However, tax benefits should be viewed as a

bonus, a tailwind that enhances an already solid investment decision. I've observed investors—often nudged by salespeople with vested interests—making the mistake of prioritizing tax benefits over fundamentals like performance outlook, liquidity, and cost. This approach is fraught with risks and can lead to poor long-term returns. Simply put, the allure of tax breaks should never overshadow the essentials of good investing. Remember, there's one tax advantage no one wants—the ability to write off an investment as a loss.



## Core & Explore: A Balanced Approach to Wealth Management

Effective wealth management transcends your portfolio and extends into your overall financial planning and lifestyle. Particularly for high-net-worth individuals, the “Core and Explore” strategy offers a sound approach keeping core income, liquidity and return objectives as a priority but allowing flexibility for other strategies that may offer unique benefits.

## CORE: The Foundation of Your Wealth

At the heart of this method is your “Core” portfolio—assets carefully curated for the pursuit of long-term accretion: a positive return net of taxes and inflation. It's important to remember that emotional resilience to short-term market fluctuations is essential for this strategy to succeed. Additionally, having a sufficient liquidity buffer is crucial, but it doesn't necessarily mean hoarding cash. More often, a well-balanced collection of equities serves this role effectively.

Equities make an excellent core component due to their historical ability to outperform other asset classes over the long term, net of taxes and inflation. A well-diversified, high-performing portfolio of equities can serve as a bulwark against market volatility, providing capital appreciation, income, stability and liquidity.

Securing your core investments for long-term viability is key to achieving lasting financial independence. Our clients who require wealth management services typically find themselves well-positioned and have little concern about depleting their resources. However, no one is immune to poor decision-making, making it all the more critical to maintain a liquidity cushion as a safeguard.

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## EXPLORE: Diversifying Your Portfolio

Once your core portfolio is robust, it's time to "Explore" other investment opportunities. This portion allows for investments in alternative assets that align with your unique financial goals, risk profile, and lifestyle needs.

Many of our clients find value in diversifying into alternative investments for three primary reasons:

1. the allure of non-correlated returns, adding an extra layer of diversification
2. higher income distributions than traditional strategies and
3. potential tax advantages.

As an accredited or qualified investor, you have access to a myriad of alternative investment options. These include:

- **Real Estate:** Investing in different types of real estate may offer certain tax advantages depending on your financial situation as there are many specialized approaches
- **Fee Simple Structures:** These real estate investments offer potential tax benefits through depreciation.
- **Oil and Gas Investments:** These often come with generous tax incentives.
- **Entertainment Industry Investments:** A niche, but potentially lucrative area, especially for those familiar with the sector.

When we evaluate alternative strategies for our clients, we always compare these investment options against the performance of your core portfolio. What are you gaining? What are the additional risks? How does this impact your overall liquidity, income and taxes? Is the sponsor credible? Are the fees reasonable? Alternatives can be strong additions to your overall portfolio strategy, but require thorough due diligence,



aligning perfectly with the adage "Trust but verify."

## Why Donating Stock Beats Cash: A Tax-Efficient Approach to Charitable Giving

Charitable contributions are not only a way to support causes you care about but also a means of optimizing your tax situation. When you donate appreciated shares instead of cash, you unlock a twofold tax advantage. First, you avoid paying capital gains tax on the appreciated value of the shares. Normally, selling these shares would trigger a tax liability on the gain, but by donating them directly, you sidestep this cost. Second, you can claim the full market value of the shares as a charitable deduction on your income taxes, potentially reducing your taxable income for the year. This strategy allows you to contribute more to your chosen charity than if you had sold the shares and donated the after-tax proceeds, all while enjoying a more favorable tax treatment for yourself. It's a win-win scenario that benefits both the donor and the recipient organization.



## Not All That Glitters Is Gold

Again, while tax-deferred or tax-managed investments may appear tempting, they aren't automatically good investments. Remember, the tax break you don't want is writing off an investment loss.

## The Importance of Professional Guidance

As your financial landscape grows more complex, so do your investment decisions. That's where expert wealth managers come in, guiding you through the maze of options available and helping you tailor a strategy that aligns with your financial goals. Avoid cookie cutter approaches to wealth management and seek out those with expertise and experience to help guide you. Find a sophisticated advisor you like, trust and who will provide you the service you need so that you can focus on living life and enjoying the wealth you have built.

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## Conclusion - Take Next Steps

There you have it—a holistic introduction to managing your wealth effectively. Capital gains and taxes are not your adversaries; they're milestones on your journey to financial freedom.

Contact a financial advisor you trust who has the competence and experience to guide you effectively in wealth management decisions and implement solutions optimized for you.



**Jonathan Miller** is the President & CEO of Parsonex Enterprises, Inc. and its affiliates and leads a team of financial professionals who manage over \$750 Million for clients across the country.