

# Hot takes! All the ways you're doing portfolio management wrong

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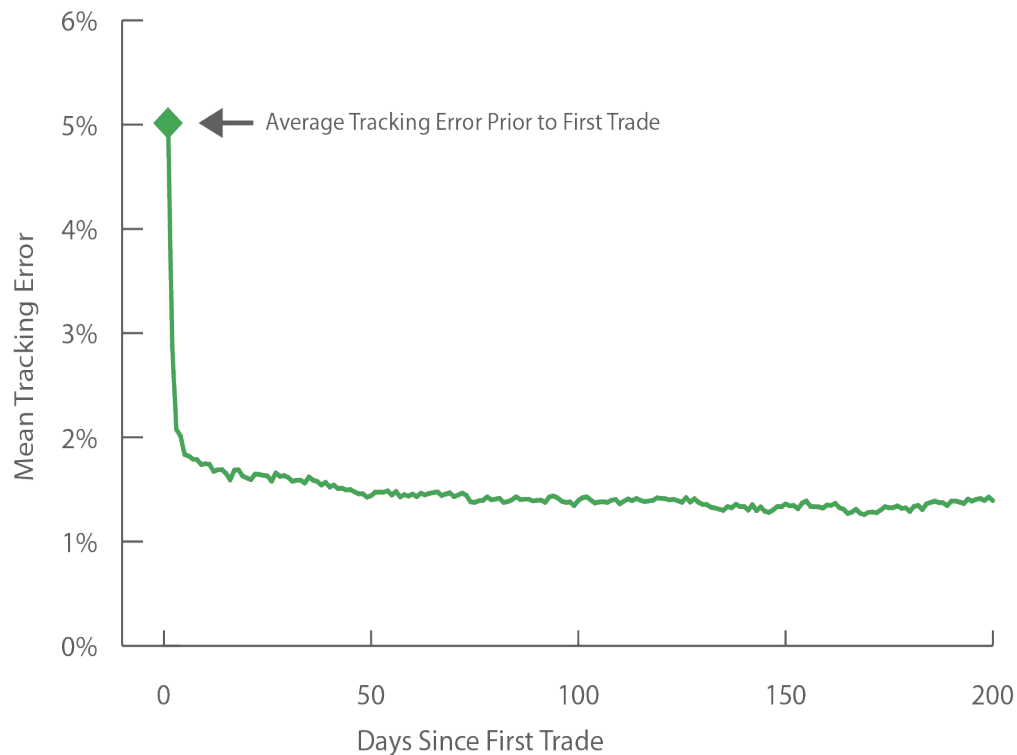
 mild

 medium

 hot

Advisory firms are bad at  
rebalancing (at scale) 🌶️

# Really bad 🌶️ 🌶️



# 60%

Reduction in return dispersion  
of similar accounts

# 64%

Average reduction in client tax  
burden

Roughly 60% of return dispersion  
is just noise 🌶️🌶️🌶️

What's going on?

# Tax management

Year-end-only tax loss  
harvesting is not good  
enough 🌶️

Year-round loss harvesting is 75%  
more effective than year-end-only  
loss harvesting



Tax loss harvesting isn't  
the most important  
component of tax  
management 🌶️ 🌶️

That honor belongs to  
risk-sensitive gains deferral

The reason  
risk-sensitive gains  
referral not more  
emphasized is that few  
firms do it well 🌶️ 🌶️

Not a one-time operation. It  
requires, ongoing, perpetual  
balancing of low taxes and low  
drift (tracking error)

Simple “put the bonds  
in the IRA” household  
asset location is not  
good enough 🌶️ 🌶️

Two types of asset location:

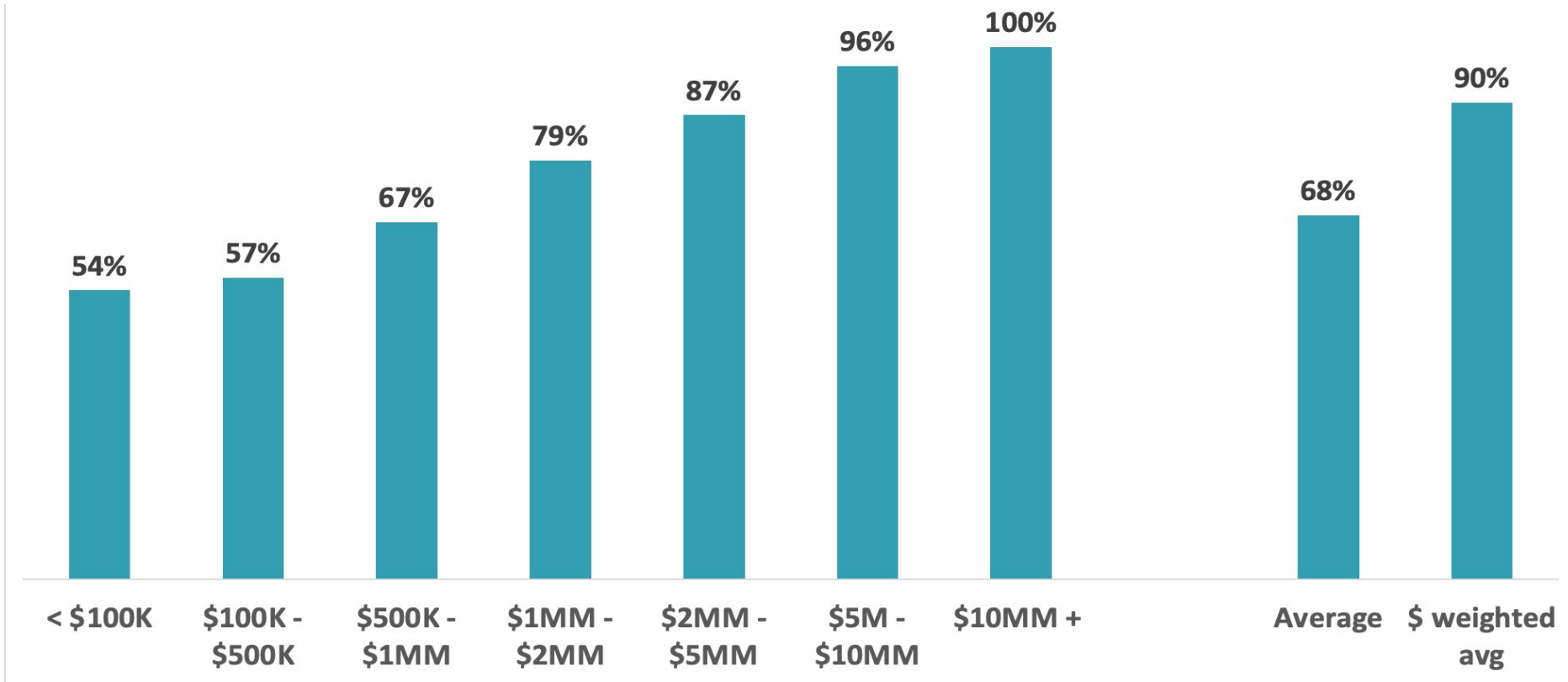
1. Minimize tax on income, e.g. “put the bonds in the IRA”
2. Minimize tax on realized gains, e.g. “use the IRA to implement household-level rebalancing”

The reason using qualified accounts to implement tax-free asset-class rebalancing is not more emphasized is that few firms do it well 🌶️ 🌶️

Not a one-time operation.  
Requires ongoing, perpetual attention

For most clients, you should be able to document that you save or defer more in taxes than you charge in fees 🌶️🌶️🌶️

# % accounts with taxes saved or deferred > advisory fees



The main benefit of documenting that taxes saved or deferred exceed your advisory fees is not proof of value – it's proof of competence



# Direct Indexing



Direct indexes are good 🌶️

# Probably better than you thought 🌶️

Liquidation:

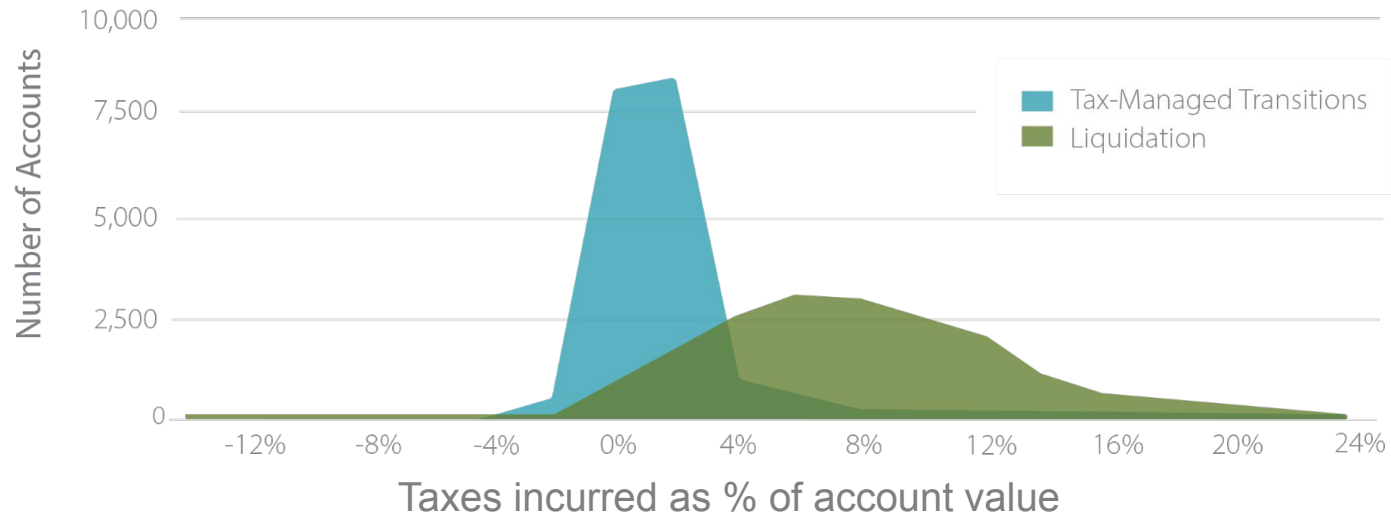
**7.21%** avg loss to taxes

Avg TE to model: 0%

Transition to direct index:

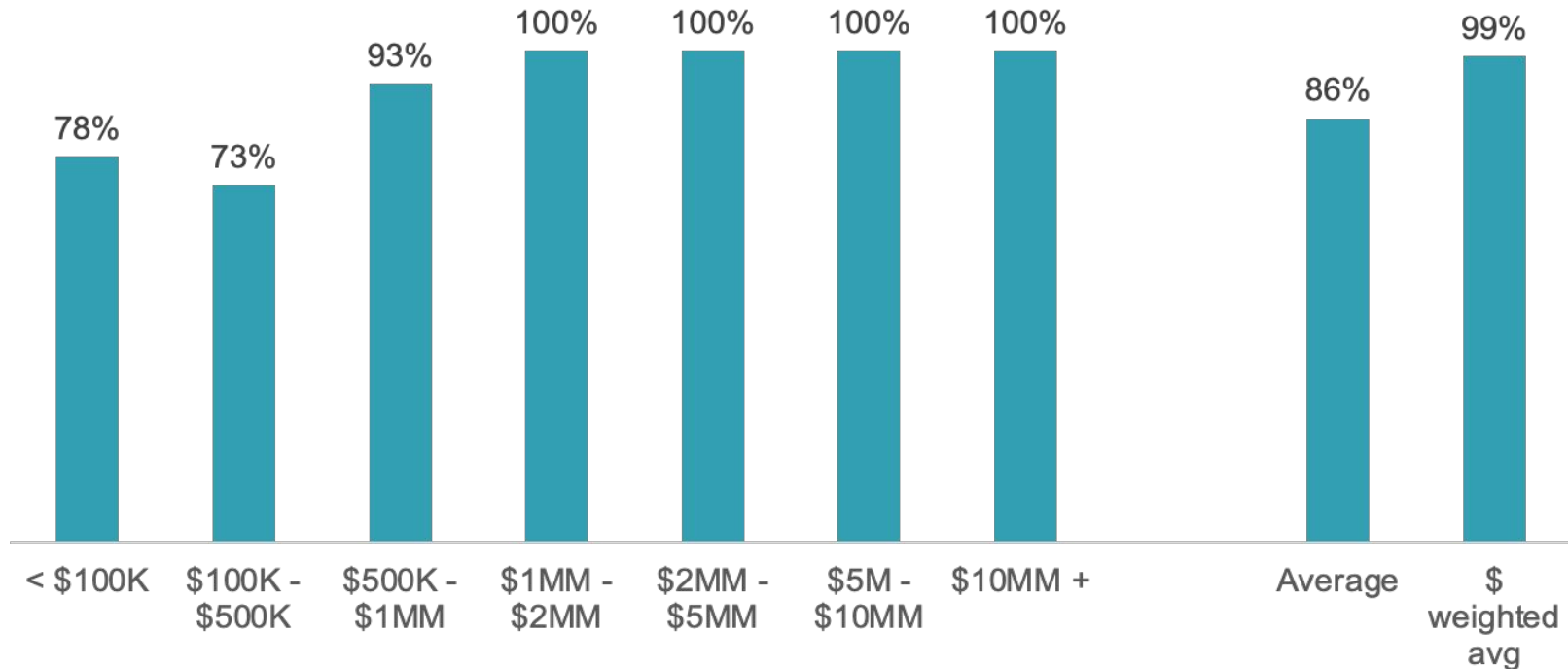
**0.29%** avg loss to taxes

Avg TE to model: 1.54%



# Possibly much better than you thought 🌶️🌶️

% direct index accounts with taxes saved or deferred > advisory fees



Source: Smartleaf & Smartleaf client study

There are two ways to  
implement direct  
indexes 🌶️

1. An SMA in a sleeve/subaccount
2. Part of a holistically managed (sleeveless) portfolio

Holistic (sleeveless) is  
much better 🌶️🌶️🌶️

Simpler

Less expensive

Higher after-tax returns

Lower portfolio-level drift

Why is this true?

Tax and risk are properties of the portfolio as a whole, not individual sleeves

Direct indexing should  
be viewed as a  
competence not a  
product



Another way of saying  
holistic/sleeveless is better than  
sleeve/subaccounts

Managing direct indexes  
can be as easy as  
managing ETFs



Literally, just two different  
choices on a pull-down  
menu



# Automation

Personalized,  
tax-optimized  
rebalancing can be  
automated 🌶️

Direct indexing  
Householding  
Tax optimization  
ESG/religious value screens

No, really 🌶️🌶️

One person:

All accounts  
Of all size

Unlimited tax management  
Unlimited personalization

# How to be good at rebalancing

Embrace automation

Only way to deliver  
personalization and tax  
optimization at scale

Embrace models 🌶️

Only way to automate

Done right, models-based means  
more, not less, personalization  
and tax management

Get client-facing  
advisors out of  
rebalancing or trading  
portfolios 🌶️

They're not good at it

And they have better things to do  
with their time

Centralize or outsource  
rebalancing 🌶️

Necessary if you're going to free  
up advisors to do more important  
things



(Probably outsource)



Rebalancing is not a core competitive differentiator

The industry *is*  
improving

Decline of product-oriented value propositions

Greater focus on financial planning, tax and personalization

Willingness to embrace automation and changed role of advisor