

## Bringing Order to Your Investment Universe

### Part 2: Transitions and Taxes



**W**hen you sell an investment for more than you paid for it, there can be burdensome capital gain taxes realized in the year of the sale. How do you manage this challenge? It helps to identify which trades can be placed promptly and which may be better managed over time.

Here are two conditions under which you should be able to fast-track your transitional trades:

**In Tax-Sheltered Accounts:** Depending on the account type, you may pay ordinary income taxes when you eventually take money back out of a tax-sheltered account. But there are no tax consequences to the trades you make within these accounts along the way. Because realized gains are not taxed in your tax-sheltered accounts, we can usually place trades promptly within any of them. Tax-sheltered accounts include traditional, Roth, SEP, and other types of IRAs; 401(k) and 403(b) employer plans and similar accounts.

**In Taxable Accounts:** In taxable accounts, we can sell targeted positions that have not grown much in value over time, since these trades will incur few, if any taxable gains. If a holding has declined in value, you may be able to incur a capital loss on it, which can be used to offset gains incurred elsewhere.

#### Deliberate Decisions

What if your plan calls for selling taxable positions that have substantially appreciated—gone up in value? It's not as easy to decide whether and when to trigger these taxable gains. Should you sell sooner rather than later? Bide your time? Skip it entirely?

#### Tax Costs Are Relative

Moving toward a low-cost, tax-efficient, well-structured portfolio should leave you better positioned to earn the expected returns for the costs and other risks involved. If a careful analysis suggests the expected rewards should readily outweigh the upfront costs, it may make sense to go ahead and pay those taxes anyway.

#### Your Mindset Matters

The sooner you're able to sell positions that are no longer serving your needs, the sooner you can establish a better sense of control over your money. With the improved clarity, you're less likely to make costly, "buy high, sell low" investment mistakes in ever-moving markets. Failing to invest consistently can cost far more than the tax hit you may need to take to acquire greater investment resolve.

#### You're Buying Low and Selling High

If you sell a position for a taxable gain, you're also locking in a profit. Since that's exactly what an investor ultimately wants to do, it may be worth paying reasonable taxes to periodically take some of your overweighted "winnings" off the table.

#### Biding Your Time

So, yes, there are times it may make sense to pay some upfront taxes to speed your plan along. Other times, it may make more sense to take a multiyear course toward your ideal transition.

#### "Pretty Nice" May Need To Suffice

Your plan also may include keeping some of your less-ideal investments indefinitely. Even if a holding isn't the perfect position for the job, close enough may be good enough if the tax and/or trading hurdles are high enough. Also, some of your net worth may be tied up in an employer's retirement plan, equity incentive program, or similar account where your choices are limited. These assets still need to be considered within your overall portfolio, but may call for a different level of planning.

Bottom line, don't be blindsided by taxes. But neither should an aversion to taxes blind you to the practical and emotional costs of clinging to a position longer than warranted.

Fortunately, there are many ways to manage a smoother transition. We'll cover some of them in the next installment.

Until next time, no regrets!

**Eric Hutchens**  
President & Chief Investment Officer

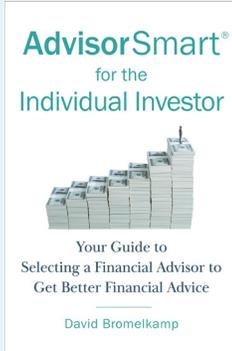
Do not save what is left after spending; instead spend what is left after saving.

—Warren Buffett

## Upcoming Event

We are excited to announce that our founder, David Bromelkamp, has written a new book, due to be released in early 2025! *Join us for a book launching event to be announced soon!*

Dave's book is called *AdvisorSmart for the Individual Investor: Your Guide to Selecting a Financial Advisor to Get Better Financial Advice*. Dave wrote this book as a guide designed to empower you in one of the most important decisions of your financial journey: selecting a fiduciary financial advisor who always puts your best interests first.



Learn more about his new book and how to order it at [www. AdvisorSmartBook.com](http://www.AdvisorSmartBook.com).

## FINANCIAL PLANNING TIP

### How Much Cash Should You Have on Hand?

Cash needs will vary with stage of life, income stability, future uses for the cash, and how cash fits into your overall portfolio allocation. If you are holding onto a lot of cash, or are retiring soon, you should develop a strategy for how much cash you should have on an ongoing basis. Without a strategy, you could be costing yourself a lot in the long run.

#### Cash for Working Years – Emergency Fund

The minimum amount of cash to have on hand during one's working years is listed below. It generally represents the amount of money you would need to pay the bills if you lost your job, at least until you could reasonably expect to find a new one. The "standard rules" for how much to have in cash:

- Three months of expenses for a younger single person (renting, living at home)
- Six months of expenses for an established single person (mortgage, car payment)
- Three months of expenses for a two-earner family
- Six months of expenses for a single-earner family

#### Cash for Retirement

Cash in retirement is not for emergencies. It should be for ongoing living expenses and near-term planned larger expenses such as a new car, a trip, or a home remodel. If you have too much cash sitting around, you are risking the loss of purchasing power through inflation and the loss of normal portfolio growth, which you may need to live on in the future. Your investment portfolio, on the other hand, is for all your needs, including unexpected expenses such as health care. Your investment portfolio should consist of diversified asset classes and taxable and qualified retirement accounts so that your wealth advisor can determine the best way to raise additional cash for you when needed.

It often makes sense to have sufficient cash on hand to cover all planned expenses for the first year of retirement and then refill the cash periodically. New retirees must adjust to life without their jobs and often spend more money to find interests and pastimes that appeal to them. Another even more critical reason to hold cash is to avoid depleting your portfolio in the event of a market correction. Taking cash out of a depleted portfolio makes recovery very difficult and, in some cases, impossible.

#### What is Meant by "Cash"?

As we all know, cash can lose its purchasing power over time because of inflation. In higher inflation periods, it is often advantageous to not hold large amounts of cash. Your wealth advisor can help you consider alternatives to cash such as money market funds. By considering alternatives to cash, you have a better chance at maintaining a reserve of needed funds that can keep pace with inflation.

## Headlines

- Allodium was thrilled to host documentary filmmaker, travel author, and speaker, Mike Day. Mike shared stories about the remarkable places he visited with excerpts from his book.
- Allodium welcomed seven new clients in the third quarter of 2024.
- Our office will be closed December 25, 2024 and January 1, 2025 for company holidays.

To find out more about Allodium's breaking news, please visit our website: [www.allodium.com](http://www.allodium.com).

## Allodium Team Highlights

Our new feature about what's happening with our team!

- Derek and Kelly Van Calligan will welcome their first child in January of 2025!
- Renae Mottaz welcomed her first grandchild on November 22, 2024!

Congratulations to both families!

## WE APPRECIATE YOUR INTRODUCTIONS

To optimize our objectivity and avoid conflicts of interest, we are a fee-only registered investment advisor that is completely independent from banks, brokerage firms and other financial product providers. If you know someone who may be looking for this type of objective investment advice, please contact Dave Bromelkamp at 612-230-3700 or [dbromelkamp@allodium.com](mailto:dbromelkamp@allodium.com) to arrange a friendly, no-obligation introduction.

Steward is published quarterly by Allodium Investment Consultants. Please contact [iavraamides@allodium.com](mailto:iavraamides@allodium.com) if you have any comments about this publication or wish to be added to or removed from our mailing list.



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