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AS BOND MARKET VOLATILITY RISES, TLH & TLC CAN SUPPORT INVESTMENT OBJECTIVES



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Key Takeaways

- We believe increasing bond market volatility highlights the need for proactive tax loss harvesting (TLH) and tax-loss crossing (TLC) in bond portfolios throughout the year, rather than waiting until tax-season or year-end.
- Presidential elections have historically coincided with higher levels of bond market volatility.
- Breckinridge portfolio managers, supported by tools integrated in our portfolio management and trading platform, identify and execute TLH and TLC trades throughout the year and across market cycles, which helps eliminate a need to convert investments to cash while waiting for opportunities.
- The result can be added opportunities to capture tax alpha—additional income through tax savings—in addition to market-value changes.



Based on its analysis, *FactSet*¹ reported in June 2024 that last five Presidential election years in the U.S. revealed periods of higher market volatility before and following the elections. Along with that, we're approaching a turning point in the current Fed cycle, which can result in volatility as well.

For investors, volatility can mean changes in the prices of the securities held in their bond portfolios. The changes can present opportunities to capture value through TLC and TLH throughout the year, rather than waiting until tax-season or year-end.

For more specifics on tax-loss trading, consider reading the article on our website, [*Tax-Loss Harvesting in Fixed Income Portfolios*](#). The goal of tax-advantaged trades is to capture additional income through tax savings for client portfolios.

In addition to responding to client requests to execute TLH, including TLC trades, Breckinridge portfolio managers monitor portfolios for tax-loss trading opportunities. Ongoing portfolio monitoring for tax-loss trading opportunities aims to ensure that losses during rate peaks, when bond price declines are typically greatest, are leveraged as they occur. Attention to TLC and TLH opportunities throughout the year can potentially help avoid a need to move investment to cash while waiting for opportunities.

Client attention to tax-loss trading also tends to increase as the year-end approaches, and investors grow more mindful of the approaching tax season. Spreading the trades throughout the year mitigates changing market conditions that might occur during the year.

Breckinridge's bias to high quality, investment grade bonds also can help if market liquidity is strained for any period of time, because investors may tend to avoid lower-quality bonds in volatile markets because they may prove harder to trade under such circumstances.

We believe technology is essential to effective searches for tax-loss opportunities. Breckinridge portfolio management and information technology teams develop tools that support identification and execution of tax-loss trades.

We can scan individual positions across the portfolios based on a range of parameters such as targeted loss levels. Our technology also offers a view of managed portfolios, which can help our portfolio managers to identify favorable TLC trades across portfolios. Potential benefits of cross trades include lower transaction costs than open-market trades and keeping assets invested, while preserving overall portfolio structure and strategy.

In order to take advantage of market and economic events that create volatility, tax-aware investors need to monitor portfolios and be ready to act when opportunities arise. We feel an attentive tax-loss trading approach supported by integrated technology tools is essential to systematically harvesting losses when appropriate. Breckinridge's full-year, all-market approach is intended to support clients' efforts to achieve tax savings in the near term and greater after-tax wealth over the long term.



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FOOTNOTES:

1. *FactSet Research Systems Inc.* is an American financial data and software company.

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All investments involve risk, including loss of principal. Diversification cannot assure a profit or protect against loss. Fixed income investments have varying degrees of credit risk, interest rate risk, default risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer-term securities. Income from municipal bonds can be declared taxable because of unfavorable changes in tax laws, adverse interpretations by the IRS or state tax authorities, or noncompliant conduct of a bond issuer.

The effectiveness of any tax management strategy is largely dependent on each investor's entire tax and investment profile, including investments made outside of Breckinridge's advisory services. As such, there is a risk that the strategy used to reduce the tax liability of the investor is not the most effective for that investor. Breckinridge is not a tax advisor and does not provide personal tax advice. The tax consequences of Breckinridge's tax loss strategies may be challenged by the IRS. Investors should consult with their tax professionals regarding tax strategies and associated consequences.

Tax laws and regulations are complex and subject to change at any time. These changes can impact tax consequences and investment results for investors, who should consult with a tax professional before making any decisions.

Tax loss harvesting may generate a higher number of trades in an account due to our attempt to capture losses. This can mean higher overall transaction costs to clients. To the extent that a client's custodian uses a different pricing source, cost basis or tax lot accounting, actual tax efficiencies could be greater or lower than what has been shown. Also, a client may repurchase a bond at a higher or lower price than the price at which the original bond was sold. The replacement bond is subject to price fluctuations.

Federal and local tax laws and rates can change at any time; changes to tax laws and rates can impact tax consequences for investors. Further, the Internal Revenue Service (IRS) and other taxing authorities have set certain limitations and restrictions on tax loss harvesting. The tax consequences of Breckinridge's tax loss strategy may be challenged by the IRS. Investors should consult with their tax professionals regarding tax loss harvesting strategies and associated consequences.

Cross transactions will be used to facilitate tax loss harvesting in most cases. When using cross transactions for tax loss harvesting, participating client accounts gain exposure to the tax-loss harvested bonds received from other accounts. While Breckinridge generally selects bonds that, in its best judgment, will not change significantly in price, bonds nevertheless are subject to fluctuations in price, and the bonds received may go up or down in value.

Cross trades create a conflict as the adviser is advising clients on both sides of the transaction. Also, cross trades can result in more favorable treatment to one client over the other. There is no guarantee that the buying or selling client will receive the best prices available for the day. Breckinridge investors can opt out of tax loss harvesting and/or cross trading. In cases where an investor opts out of or is prohibited from cross trading, they may not receive the benefit of lower transaction costs versus trading in the open market and the same price as those investors participating in cross trades.

Separate accounts may not be suitable for all investors.

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