
Ian A. Post, CFA

Larchmont resident Ian A. Post, CFA is the Principal of Fifth Set Investment Advisors LLC. Fifth Set is the result of his evolution of thought in regard to conventional investment management. His experience and education led to research for a smarter approach to portfolio management and financial planning. Prior to Fifth Set, Ian conducted fundamental equity research at Citigroup, Credit Lyonnais and CIBC Oppenheimer. Ian earned a BS in Engineering and Public Policy from Washington University and an MBA with concentrations in Finance and Statistics from NYU and is a holder of the Charted Financial Analyst designation and a member of CFA Institute.

A Five-Point Pre-Election Day Portfolio Checklist

By Ian A. Post, CFA

With Election Day around the corner, this is a good time to go through a pre-election day portfolio checklist. The checklist can help ensure that your portfolio is prepared to face the uncertainty around the selection of our next president and the impact the election may have on markets. The following five concepts can help prepare your portfolio by mitigating portfolio risk and improving after-tax returns.

1. Appropriate Equity Exposure

The most critical element of an investment plan is the amount of equity exposure in the portfolio. This is the primary driver of portfolio volatility and long-term expected returns. If you are concerned about the impact of the election on your portfolio, you might have too much equity exposure. Consider how you would handle a 50%[1] reduction in value of the equity portion of your portfolio. If that is a greater loss than you could tolerate, consider establishing a more conservative long-term equity portfolio allocation.

2. Global Asset Class Construction

Taking investment risk through a global asset class approach reduces the impact of a bad outcome in any one market. Consider that the U.S. stock market accounts for only 53%[2] of the global marketplace. Investing in risky assets outside the U.S. in other developed and developing countries can mitigate the risk of any one market melting down.

3. Diversification Within Asset Classes

Owning hundreds of securities within portfolio asset classes can reduce the idiosyncratic risk of individual companies in the same way global asset allocation mitigates idiosyncratic country risk. By spreading exposure across hundreds of companies, the risk of any one company having a detrimental impact on your portfolio can be minimized.

4. Tax-Aware Investment Strategies

A number of tax-aware strategies can help improve after-tax returns regardless of who wins the White House:

- Asset Location is the process of placing tax-inefficient asset classes in tax deferred accounts and vice versa. Examples of tax inefficient asset classes include corporate and high-yield bonds and REITS. Index equity and diversified low-cost municipal bonds funds are examples of tax efficient options that do well in taxable accounts.
- Tax Loss Harvesting is the process of realizing capital losses on investment positions and replacing them with similar (not identical) positions. The realized loss can be used to offset realized capital gains with any excess losses used to offset up to $3,000 of ordinary income. Unused losses can be carried over to future tax years.
- Tax-Aware Mutual Funds are funds that utilize tax aware strategies within the fund by actively working to offset capital gains with losses and to reduce other taxable distributions.

5. Utilize Low Expense Ratio/Low Turnover Portfolio Building Blocks

High expense/high turnover funds and strategies create a frictional drag on performance by draining the portfolio through high fees and taxable distributions. By building your portfolio with low expense/low turnover vehicles such as index funds and ETFs, you gain the advantage by reducing frictional costs and realizing a higher percentage of market returns.

Use the upcoming election as an opportunity to review your investment portfolio with this checklist. The best way to deal with uncertainty is to focus on what you can control and not worry about what is outside of your control. For investment portfolios, focus on matching equity exposure with your tolerance for downside losses, diversifying risks, lowering expenses and maintaining tax efficiency. That will get your portfolio ready for election night.

Fifth Set Investment Advisors LLC is a registered investment adviser. Information presented is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities product, service, or investment strategy. Investments involve risk and unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial adviser, tax professional, or attorney before implementing any strategy or recommendation discussed herein.

[1] The approximate top to bottom loss of equities during the 2008 financial crisis. [2] Dimensional Fund Advisors – Global Market Breakdown – August 2016.

Helping Larchmont Families Plan for the Future

- Portfolio Management
- Financial Planning
- Investment Insights

Fifthset INVESTMENT ADVISORS

Ian A. Post, CFA

Fifth Set Investment Advisors LLC • 2065 Boston Post Road • Suite 200 • Larchmont, NY 10538
Email: **ipost@fifthsetinvestment.com** • Web: **www.fifthsetinvestment.com** • Phone: **646-783-9717**