

What Tax Season Reveals About Portfolio Implementation

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Key Takeaways

- SMA tax alpha can improve after-tax outcomes for taxable investors when portfolios are implemented with systematic tax management.
- The ability to act quickly during periods of market volatility can determine whether tax-loss harvesting opportunities are captured.
- SMAs are especially valuable for high-net-worth clients, portfolios with concentrated positions and accounts transitioning toward a firm's house model.

For many advisors we speak with across the country, tax season sparks a familiar conversation with clients.

After reviewing realized gains and tax liabilities, investors often ask some version of the same question: "Is there anything we can do to be more tax-efficient going forward?"

It's a fair question. For taxable investors, taxes can be one of the largest drags on long-term wealth creation.

Research from firms specializing in tax-managed strategies has shown that systematic tax-loss harvesting may add 1–2% in annual 'tax alpha' in certain market environments.¹ While results vary, the broader takeaway is simple: how a portfolio is implemented can matter as much as what's inside it.

That's where [separately managed accounts \(SMAs\)](#) are increasingly entering the conversation. Over the past year, we've noticed more advisors bringing up SMAs specifically during tax season discussions with clients.

Unlike ETFs or mutual funds, SMAs provide direct ownership of individual securities, allowing portfolios to be managed at the client level. Advisors can harvest losses at the tax-lot level, manage gains more precisely and customize portfolios around each client's tax situation. [Platforms such as Quorus enable this process](#) by monitoring portfolios daily and executing tax-aware trades at the lot level across client accounts.

In practice, many advisors use SMAs alongside ETFs, not instead of them—combining the scalability of ETFs with the customization and tax management SMAs can provide.

Three Conversations We Keep Hearing from Advisors

During a recent Office Hours session, we highlighted three common situations where advisors are increasingly turning to SMAs to better manage taxes and portfolio transitions.

High-Net-Worth Clients with Large Taxable Portfolios

An advisor we spoke with recently manages several clients with eight-figure taxable portfolios. For them, taxes are often the single largest friction point in the investment process.

Using an SMA structure allows the advisor to systematically harvest losses throughout the year while managing gains more deliberately. Technology platforms such as Quorus can automate much of this process by identifying and executing tax-loss harvesting opportunities at the lot level, helping advisors capture opportunities more consistently.

Over time, those incremental tax savings can compound and help improve after-tax outcomes.

Transitioning New Clients into a House Model

Another advisor described the challenge of onboarding new clients whose portfolios were built over decades, filled with legacy holdings and embedded gains.

Selling everything immediately to move into the firm's model portfolio can trigger a significant tax bill.

Instead, the advisor uses SMAs to **gradually transition portfolios** toward the firm's preferred allocation, allowing losses and rebalancing opportunities to help offset gains along the way.

Clients with Concentrated Stock Positions

Concentrated positions arise frequently as well.

An advisor we work with has several clients with large employer stock positions accumulated through equity compensation. Liquidating those holdings all at once could create a substantial tax event.

By implementing an SMA around the concentrated position, the advisor can **build diversification around the position** while gradually reducing exposure over time.

This helps manage portfolio risk without forcing an immediate realization of gains.

Turning Tax Management into a Strategic Advantage

SMAs are not designed to replace ETFs or other investment vehicles. Instead, they provide advisors with another tool to align portfolio implementation with each client's unique tax circumstances.

During tax season especially, when investors are focused on the impact taxes have on their portfolios, these conversations often become easier to have.

In many cases, the difference between a tax-efficient portfolio and a tax-inefficient one isn't the investment strategy—it's the implementation.

For advisors working with taxable investors—particularly those with large portfolios, embedded gains or concentrated positions—tax-aware SMAs can help turn what is often viewed as an unavoidable cost into a **strategic advantage**.

Explore SMA Strategies in Practice

Interested in delivering personalized, tax-aware equity strategies at scale? Join our Portfolio Solutions Information Session—*SMAs with WisdomTree: Personalized, Tax-Aware Equity Strategies*—held Tuesdays at 11:30 AM ET.

In this concise 15-minute session, WisdomTree experts explore how advisors can use SMAs and Quorus technology to deliver actively managed, tax-aware equity strategies with scalable customization.

Register [here](#).

1 Khang, K., Paradise, T., & Dickson, J. (2021). Tax-Loss Harvesting: An Individual Investor's Perspective. *Financial Analysts Journal*, 77(4), 128–150. <https://doi.org/10.1080/0015198X.2021.1963187>, Khang, K., Cummings, A., Paradise, T., & O'Connor, B. (2022). Personalized Indexing: A Portfolio Construction Plan. Vanguard.

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