



**SELECT PORTFOLIO
MANAGEMENT, INC.**
Integrated Wealth Management
A Registered Investment Advisor

Select Portfolio Management, Inc.
www.selectportfolio.com
Toll Free: 800.445.9822
Telephone: 949.975.7900
Fax: 949.900.8181

Securities offered through Securities Equity Group Member FINRA, SIPC, MSRB

Tax-Efficient Mutual Funds

What is it?

Taxes are one of the most significant costs of investing in mutual funds and tax planning can be a great concern for those investors in mid to high tax brackets. A tax-efficient mutual fund (also known as a tax-managed fund) is a category of mutual funds specifically designed and managed to minimize its shareholders' income tax liability and maximize after-tax returns. Regardless of what specific investments a fund holds, its manager can employ a variety of strategies to avoid taxable distributions.

How taxes take a bite out of returns

When a fund sells securities in its portfolio, any net capital gains realized from sales are distributed to the fund's investors. As a shareholder, you generally must pay capital gains tax each year on your portion of the total capital gain distributions paid out by the fund (unless the fund is in a tax-advantaged account). In addition, you may have current income from fund dividends, which result from dividends and/or interest payments paid by the fund's individual securities. Some types of dividends and all interest payments are taxable at your ordinary income tax rate, whether received in cash or reinvested (again, except in the case of tax-sheltered retirement accounts). Dividends paid on stock mutual funds may be taxed at the lower long-term capital gains tax rates (for tax years 2003 through 2010).

What are some common tax-efficient strategies employed by these funds?

Selling winners and losers together to offset capital gains

A tax-efficient fund may postpone selling appreciated securities until the sale of other securities in the portfolio produces capital losses that can be used to offset the gains.

Selling securities that have the highest cost basis

By taking cost basis into account when deciding which securities to sell, a manager may reduce the capital gain generated by the sale.

Buying and holding

A portfolio manager who holds stocks for a long time rather than trading frequently avoids realizing capital gains that must be distributed annually to the fund's shareholders.

How can I determine a fund's tax efficiency?

A fund's turnover ratio--the frequency with which the manager sells stocks in the portfolio during a calendar year--can indicate how tax efficient a fund might be. A turnover ratio of

See disclosures on final page.

100 percent means that the fund manager has sold the equivalent of the portfolio's total net asset value in the course of a year. Generally, a fund that has a low turnover ratio has lower realized gains.

A mutual fund must disclose its turnover ratio in its prospectus, which also must include its after-tax returns for 1, 5, and 10-year periods. Before investing in a mutual fund, carefully consider its investment objectives, risks, fees, and expenses, which also can be found in the prospectus available from the fund. Read it carefully before investing.

When should it be used?

Tax-efficient funds may be especially valuable for investors who are in a mid (25 percent) to high tax bracket, have reasonably large capital gains derived from mutual funds each year, or who have other tax concerns. They are generally less helpful for short-term investments, or investors whose money is in 401(k) plans or other tax-deferred vehicles.

Disclosures – Important – Please Review

This material does not constitute the rendering of investment, legal, tax or insurance advice or services. It is intended for informational use only and is not a substitute for investment, legal, tax, and insurance advice.

State, national and international laws vary, as do individual circumstances; so always consult a qualified investment advisor, attorney, CPA, or insurance agent on all investment, legal, tax, or insurance matters.

The effectiveness of any of the strategies described will depend on your individual situation and on a number of other factors. After reviewing your personal situation, we may recommend that you not use any strategy in this document but instead consider various other strategies available through our practice.

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