ALTAMONT CAPITAL MANAGEMENT, L.L.C.
REGISTERED INVESTMENT ADVISOR

GOULD KILLIAN CPA GROUP, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

Tax Sensitive Investing
Keeping More of Your Return

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ALTAMONT CAPITAL MANAGEMENT, L.L.C.
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30
CAPITAL DIRECTIONS
CELEBRATING 30 YEARS
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Tax and Investment Interactions

Basic Issues

There is a significant effect on the tax liability and related net investment returns of investors from the timing of income recognition and the character of the income.

Long-term capital gains:

- Holding period – the holding period for the characterization of capital gains as long-term is more than one year.

- Character of qualified dividends as long-term capital gains – qualified dividends are treated for tax computation purposes as long-term capital gains. However, they cannot be offset by capital losses or capital loss carryovers in computing adjusted gross income, except to the extent of the annual $3,000 net capital loss allowance.

Preferential Federal Tax Rates On Long-Term Capital Gains

- 0% rate to the extent that taxpayer's total taxable income would otherwise be no higher than the top of the 15% bracket. For jointly filing taxpayers, the 15% bracket extends to $74,900 of taxable income in 2015, and for single filers it extends to $37,450 of taxable income.

- 15% rate on joint returns up to $464,850 of taxable income in 2015 and $413,200 for single filers – compared to rates on ordinary income of 25% to 35%, depending on the level of taxable income.

- 20% rate on joint returns over $464,850 of taxable income and single filers over $413,200 of taxable income. The incremental ordinary income tax rate at this level of taxable income is at least 39.6%

Short-term capital gains are taxed as ordinary income, and the spread between ordinary income rates and capital gains rates can be as high as 20%, making the distinction of long-term capital gains financially significant. From an income tax perspective, it is very desirable to achieve long-term capital gains status.

Net Investment Income Tax

The Net Investment Income Tax, known as the Unearned Income Medicare Contribution Tax, is an add-on tax created by the Affordable Care Act, also known colloquially as Obamacare. It applies to investment income from interest, dividends, capital gains, and annuities, rents, royalties and other items of income not derived from a trade or business. This add-on tax is 3.8%, and applies to the lesser of (A) net investment income or (B) the excess of modified adjusted gross income (MAGI) over $200,000 for single filers and $250,000 for joint filers. The rate is derived from the 2.9% combined employer/employee rates for Medicare tax on wages, plus the .9% Medicare surtax on wages over $200,000 for single filers and $250,000 for joint filers.

Effects of Investment Income on Other Income and Deductions

Investment income affects the inclusion in income of certain items, and also affects deductions, exemptions, and credits.

- Inclusion of Social Security in income – if one-half of gross Social Security benefits, plus all other income (including tax exempt income) exceeds $25,000 for single filers, and $32,000 for joint filers, a portion of Social Security benefits will be included in gross income on a computation that initially includes 50% of the benefits in income and quickly rises to an 85% inclusion rate. Note: taxability of Social Security benefits differs from the reduction in benefits by $1 for every $2 of earned income from work in excess of $15,720 in 2015 for individual who have not attained full retirement age of 66.

- Investment income also affects the computation of Medicare premiums for those who are enrolled in Medicare. See the table on the next page for the monthly premiums by income level.

- Investment income as part of total income can also affect the allowable IRA contribution deduction, and can affect the amount of allowed Roth IRA contributions.

Medicare Premiums

Part B premiums by income

If your yearly income in 2013 (for what you pay in 2015) was			You pay (in 2015)
File individual tax return	**File joint tax return**	**File married & separate tax return**	
$85,000 or less	$170,000 or less	$85,000 or less	$104.90
above $85,000 up to $107,000	above $170,000 up to $214,000	Not applicable	$146.90
above $107,000 up to $160,000	above $214,000 up to $320,000	Not applicable	$209.80
above $160,000 up to $214,000	above $320,000 up to $428,000	above $85,000 and up to $129,000	$272.70
above $214,000	above $428,000	above $129,000	$335.70

Get more information about your Part B premium from Social Security.

Higher Income Affects Additional Deductions

- Allowed medical deduction – only the excess over 10% of adjusted gross income, or the excess over 7.5% for taxpayers over age 65. The temporary exception for those over age 65 expires on December 31, 2016.
- Miscellaneous itemized deductions, including those for investment fees, tax preparation, and other items, are only allowed to the extent they exceed 2% of adjusted gross income.
- The 2015 personal exemption amount of $4,000 per dependent is phased out at a rate of 2% for each $2,500 in income above the threshold level.
- The overall itemized deduction level is reduced by 3% of adjusted gross income (AGI) over the threshold amounts.

Exemption Phaseouts

SELECTED PHASE-INS AND PHASEOUTS IN THE 2015 INDIVIDUAL INCOME TAX CODE

Provision	Description	Effect on marginal tax rate	Filing status	Phaseout begins/ends	
EXEMPTIONS AND DEDUCTIONS					
Personal Exemption	Exemption of $4,000 per taxpayer or dependent is reduced 2% for each $2,500 (or part thereof) of AGI above threshold.	Effect depends on total exemptions and taxpayers statutory tax rate.	Single	$258,250*	$380,750*
			HoH	$284,050*	$406,550*
			MFJ	$309,900*	$432,400*
			MFS	$154,950*	$216,200*
Itemized Deduction	Itemized deductions reduced 3% of AGI above threshold, up to 80% of deductions.	Increases by 3% of statutory tax rate.	Single	$258,250*	N/A
			HoH	$284,050*	N/A
			MFJ	$309,900*	N/A
			MFS	$154,950*	N/A

Alternative Minimum Tax

Higher investment income does not cause Alternative Minimum Tax (AMT). However, higher income can reduce the AMT exemption, resulting in higher AMT taxable income.

ALTERNATIVE MINIMUM TAX					
AMT Exemption	Exemption reduced by 25 percent of income above phase-out threshold.	Increases by 25% of AMT tax rate if liable for AMT	Single/HoH	$119,200	N/A
			MFJ	$158,900	N/A
			MFS	$79,450	N/A

Abbreviations: AGI - Adjusted Gross Income, HoH - Head of Household, MFJ - Married Filing Jointly, MFS - Married Filing Separately, N/A - Not Applicable.

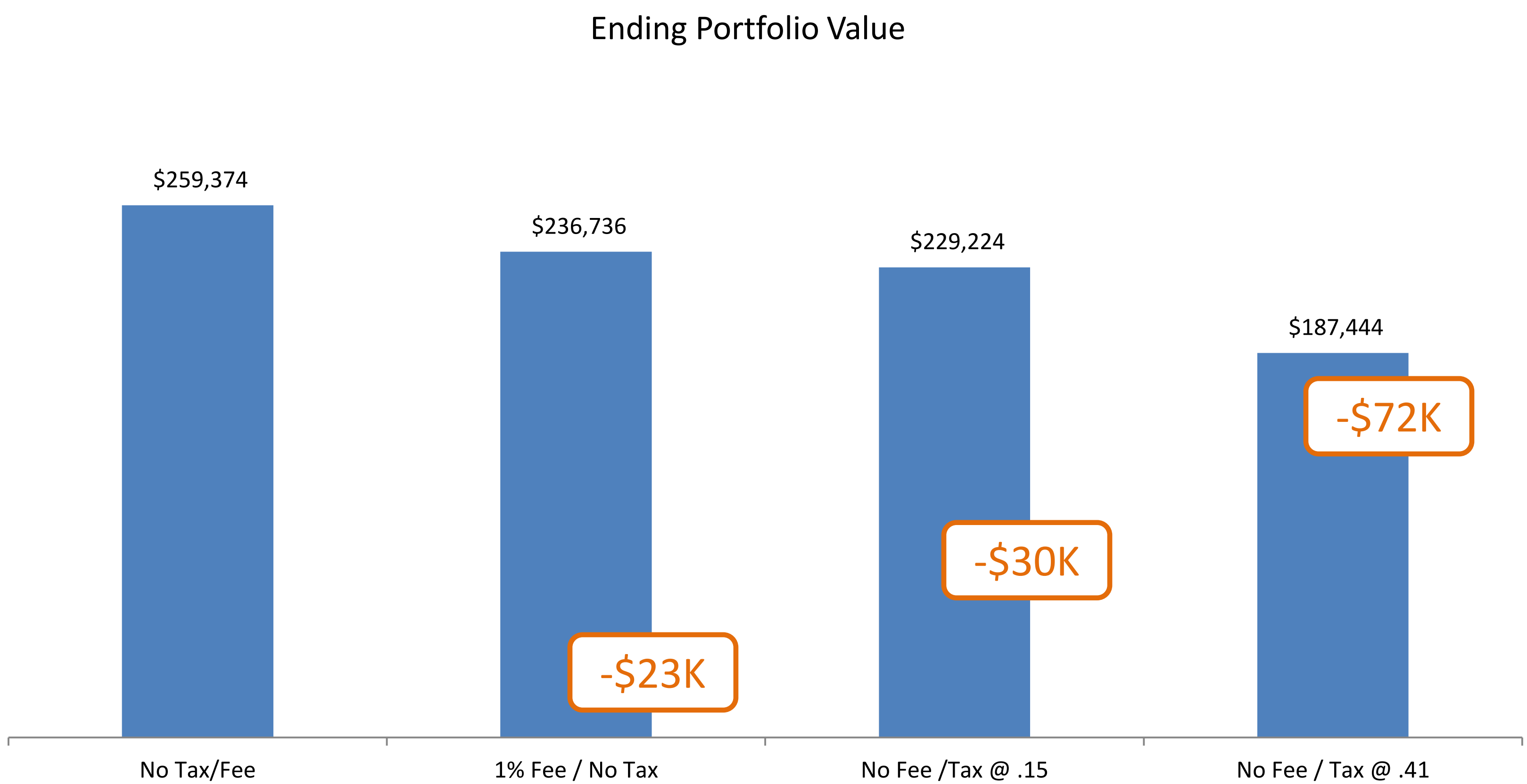
* Indexed for inflation.

Source: Tax Policy Center, 2015. Based on various Internal Revenue Service publications and individual income tax forms.

Investment Management Considerations

Efficient Tax Management (ETM)

Tax Impact



*$100k initial investment, 10% annual growth for 10 years, gains taxed annually.

Fees hurt, but taxes kill. We recognized significant value could be added to our clients by incorporating sophisticated tax management strategies.

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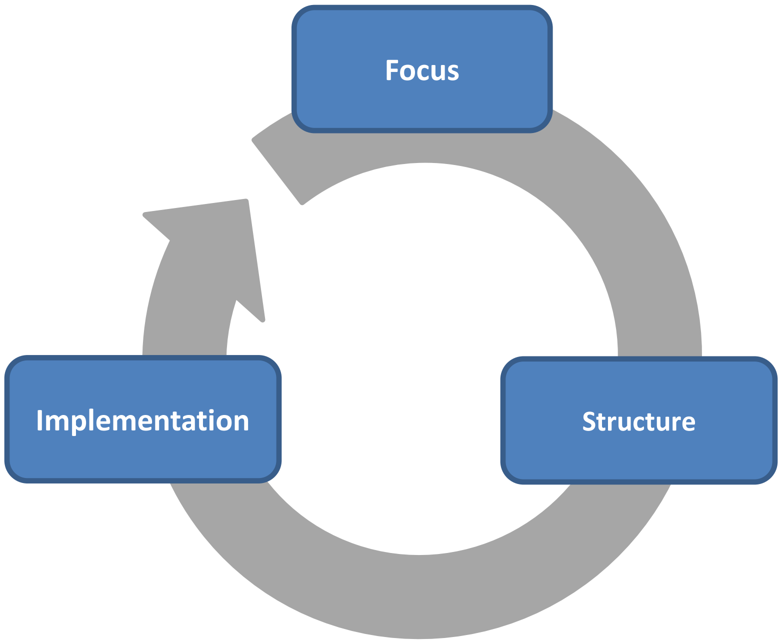
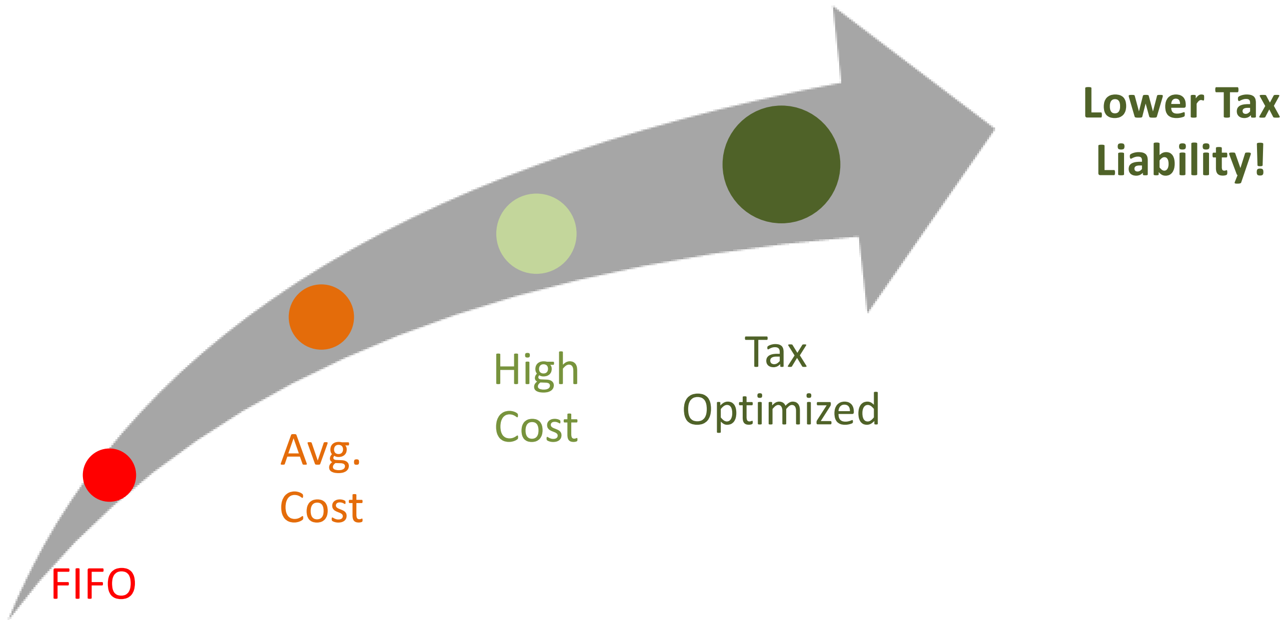
What is Tax Management?

Applying knowledge about the tax code in a comprehensive and disciplined manner in order to minimize the effect of taxes on returns.



- Tax-minimization would be a major focus, not an afterthought.
- We would only invest in tax-efficient investments for taxable clients.
- The tax-impact of every decision would be considered.

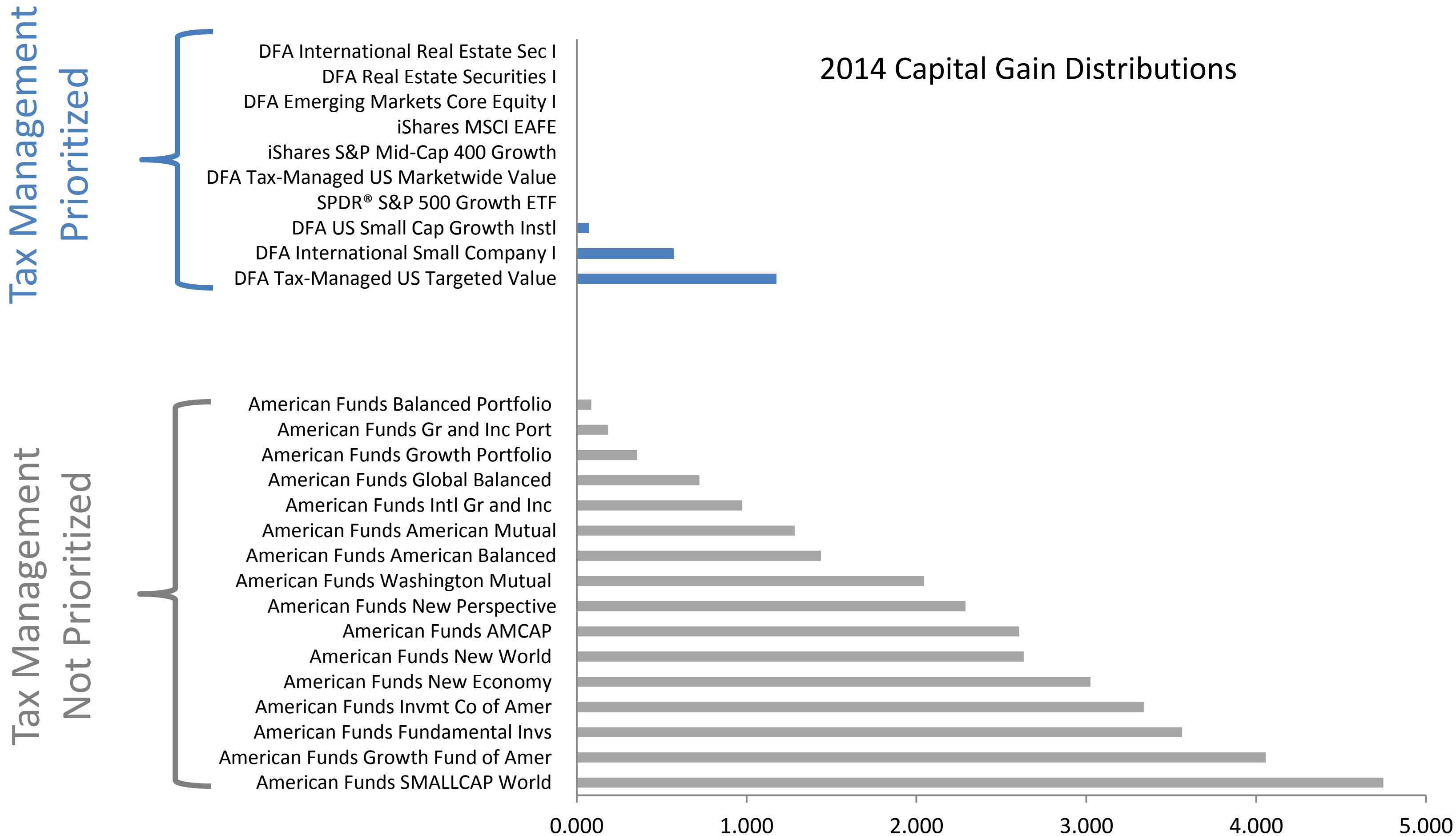
Closing Methodology



Many investors default to First In First Out (FIFO) or Average Cost closing methodologies. An effective tax-management strategy calls for a process that sells the high cost basis lots first while taking into consideration the holding period.

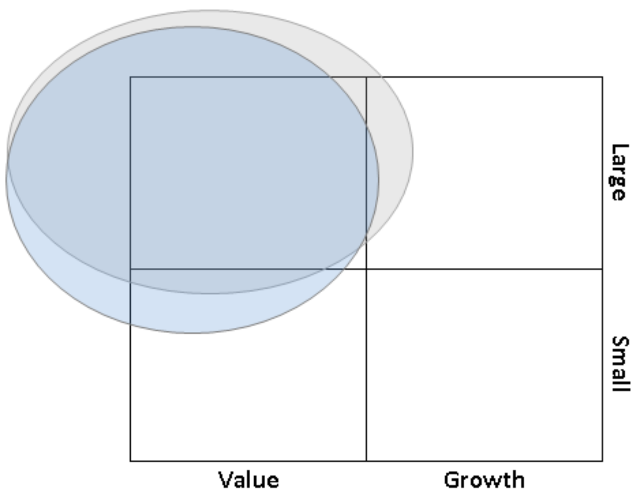
Fund Selection

Start with investments that are inherently tax efficient



Source: Morningstar Direct

Value Over Time

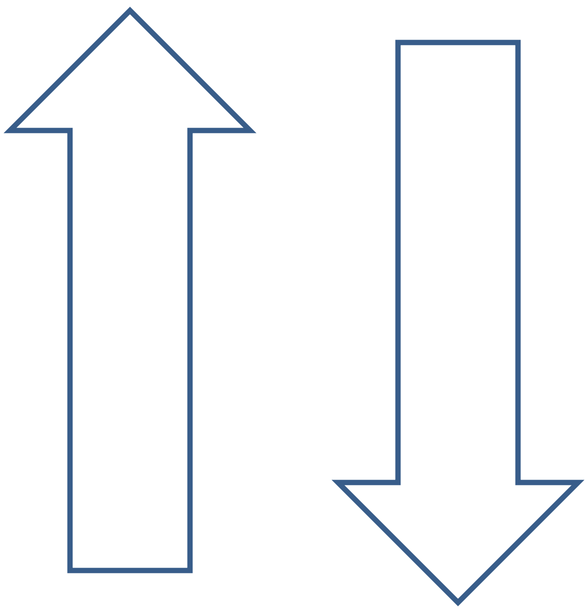


Investment Name	Annualized Return	Post Tax Return	Lost Return Due to Taxes	% Investor Kept
DFA Tax-Managed US Marketwide Value	7.22%	6.65	.57	.92
American Funds Washington Mutual A	6.37%	4.72	1.65	.74

The American Funds Washington Mutual captured 88% of DFA's pre- tax return, but only 70% of its after-tax return!

Source: Morningstar Direct, 15 Yrs as of Oct. 2015

Minimize Turnover: Fund Level



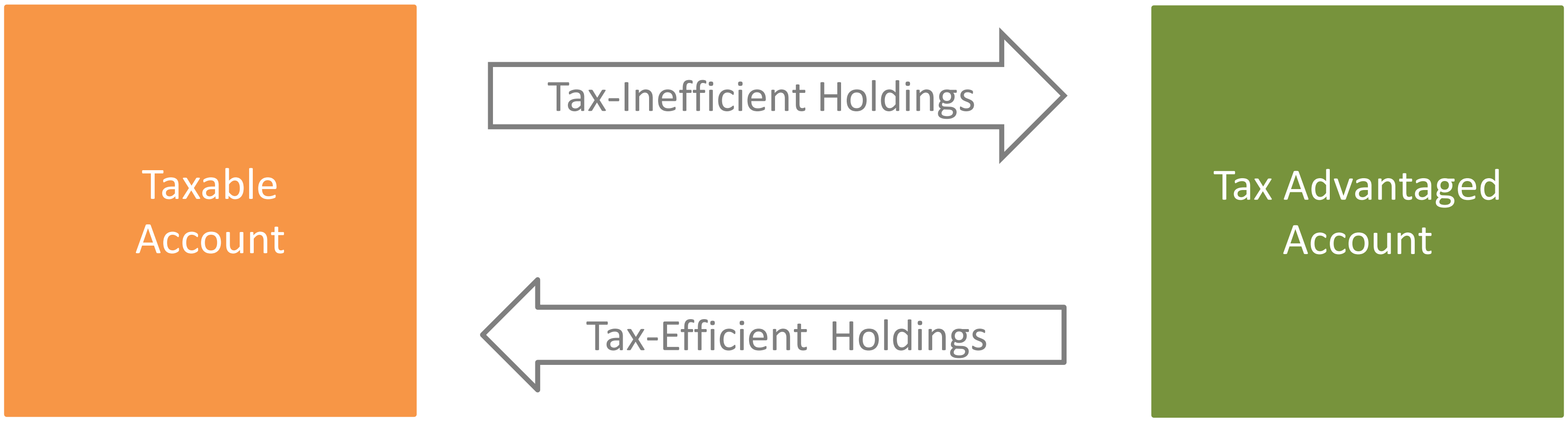
Sample of High Turnover Large Cap Value Funds

High Turnover	**Turnover Ratio %**	**Return 10 Yr**	**Post Tax Return 10 Yr**	**% Investor Kept**
Goldman Sachs Large Cp Val Insights	222.00	5.45	4.16	.76
Fidelity Advisor® Value Leaders	182.00	4.38	3.22	.73
Calamos Opportunistic Value	165.40	4.39	2.97	.67
Nuveen Large-Cap Value	158.00	6.82	4.17	.61
Neuberger Berman Large Cap Value	153.00	4.96	3.61	.72
JPMorgan Large Cap Value	143.00	6.92	4.90	.70
Deutsche Large Cap Value	129.00	5.90	3.23	.54
Northern Trust Large Cap	125.47	5.37	4.07	.75
Average	159.73	5.52	3.79	.68
Low Turnover				
DFA US Large Cap Value	15.00	7.40	6.54	.88

In this comparison, the DFA US Large Value Fund retained 20% more of its gross return relative to several large well known funds.

Source: Morningstar Direct, Month Ending 10/30/2015

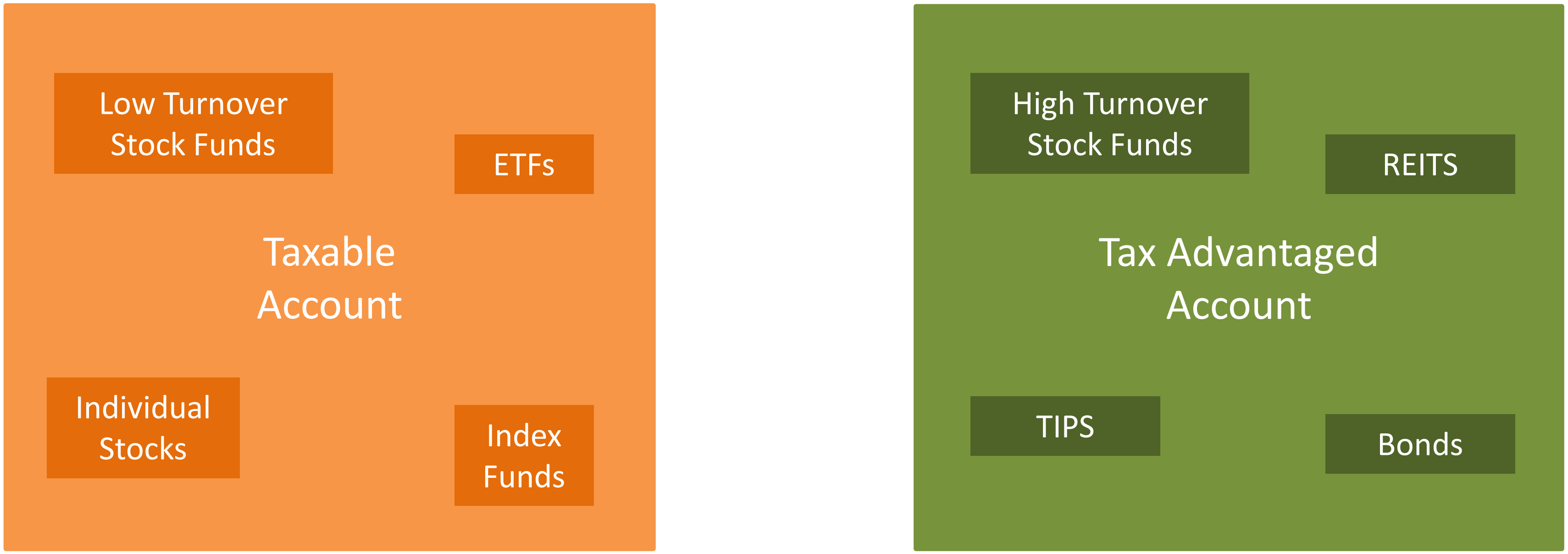
Asset *Location*



Due to differences in how returns are taxed (income vs capital gain, qualified vs. non-qualified, long-term vs short-term) it is advantageous to consider where those securities are held.

Many studies have shown this pratice can increase after tax returns by 0.2%-0.5% per year.

Asset Location



Bias For:
- Long Term Capital Gains
- Low Distributions
- Qualified Dividends
- High Volatility Holdings
- Low Embedded Capital Gains

Bias For:
- Short Term Capital Gains
- Non-Qualified Income
- Low Volatility Holdings
- High Embedded Capital Gains

Asset Location

Fund Yield and Distribution Data

Action View Save Add Edit Data

	Name	Ticker	Potential Capital Gains Exposure	NAV USD
1	SPDR® S&P 500 Growth ETF	SPYG	15.63	
2	DFA Tax-Managed US Marketwide Value	DTMMX	41.93	
3	iShares S&P Mid-Cap 400 Growth	IJK	9.52	
4	SPDR® S&P 600 Small Cap Growth ETF	SLYG	13.70	
5	DFA Tax-Managed US Targeted Value	DTMVX	41.26	
6	iShares MSCI EAFE	EFA	(8.79)	
7	DFA International Small Company I	DFISX	11.40	
8	DFA Emerging Markets Core Equity I	DFCEX	(10.39)	
9	DFA Real Estate Securities I	DFREX	32.41	
10	DFA International Real Estate Sec I	DFITX	(2.58)	
11	Vanguard Interm-Term Tx-Ex Inv	VWITX	5.38	
12	Vanguard Interm-Term Tx-Ex Adm	VWIUX	4.40	
13	DFA Short Term Municipal Bond I	DFSMX	0.79	
14	DFA One-Year Fixed-Income I	DFIHX	0.15	
15	iShares Russell 2000	IWM	(35.03)	

Favor placing in tax- deferred accounts due to high embedded gains.

Favor placing in taxable accounts due to the embedded losses and higher volatility.

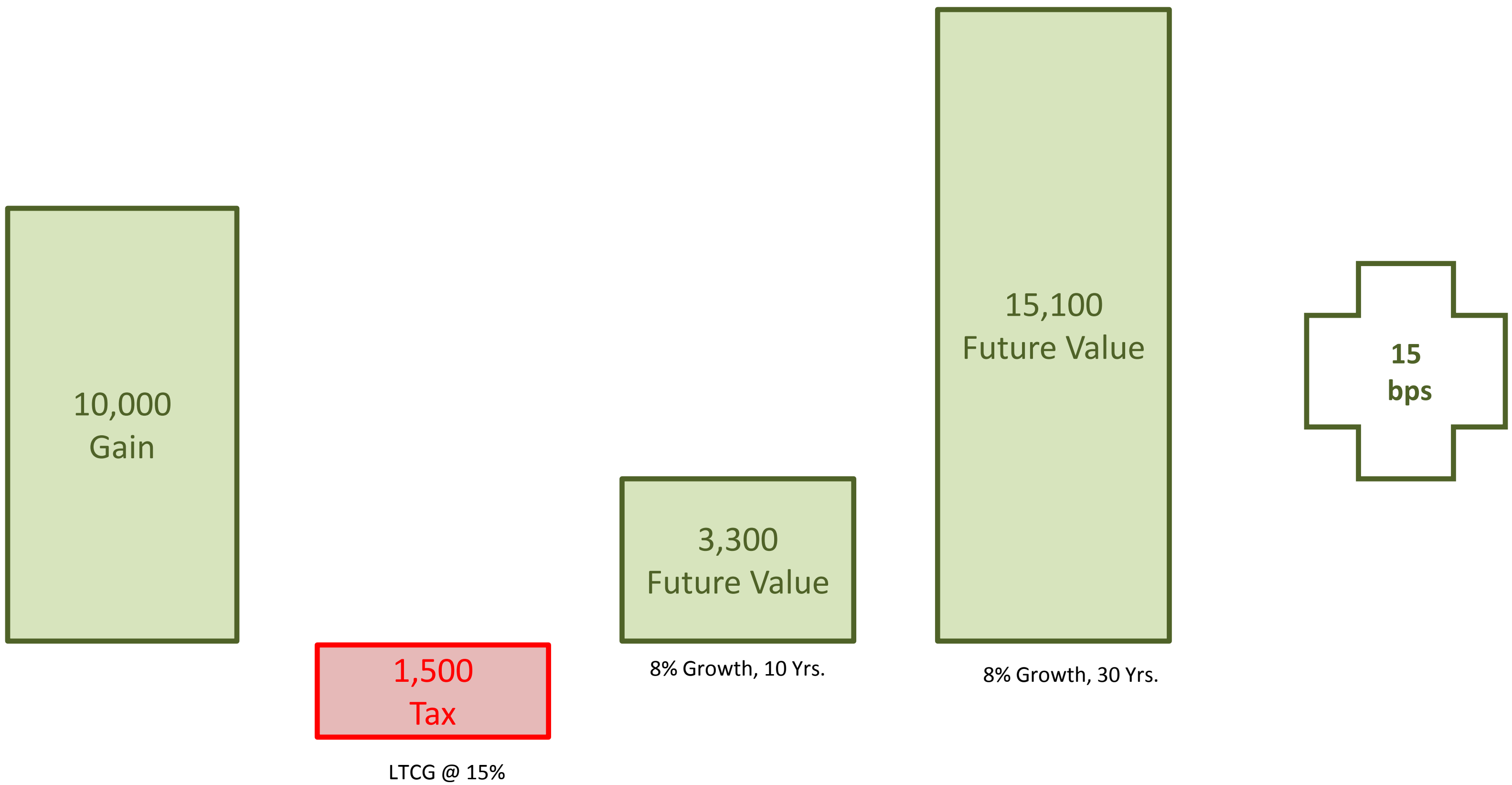
Source: Morningstar Direct

Asset Location is a dynamic process. Account priorities are changed based on embedded capital gains held in the portfolio.

Harvest Losses

Value can still be extracted from losses.

Harvest Losses



$100,000 Initial Portfolio. Value based on Median Portfolio Value Over Investment Horizon.

Though investors appreciate the immediate tax savings, the real value is derived from the compounded return from the avoided tax payment.

For Illustrative purposes only. Not representative of any specific portfolio.

Add The Numbers

1.60% + .30% + .15 % = +2.00 %

1.60%	+	.30%	+	.15 %	=	+2.00 %
Low Turnover Funds / Higher Capture Rates		Asset Location		Tax Loss Harvesting		After-Tax Benefit

*Peterson, J.D., P.A. Pietranico, M.W. Riepe and F. Xu"Explaining After-Tax Mutual Fund Performance." Financial Analysts Journal, Vol 58, No. 1 (January/February 2002)

*Longmeirer, G. and G. Wotherspoon, "The Value of Tax Efficient Investments: An analysis of After-Tax Mutual Fund and Index Returns." Journal of Wealth Management, Fall 2006

Remember:

- Taxes will have a profound affect on your ability to accumulate wealth.
- There are many levers to pull, but tax-management is a proven and repeatable process.
- Tax management has to drive the strategy, not be a afterthought.
- Tax management is like exercise, a little bit goes a long way and it’s certainly better than doing nothing.