Asset Location

A tale of two investors

REDROCK
WEALTH MANAGEMENT
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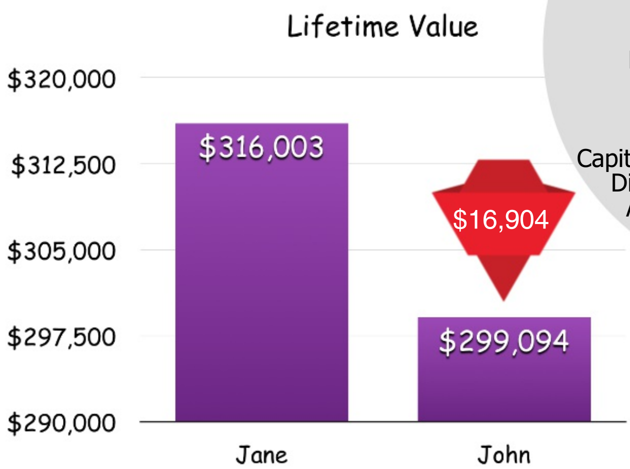
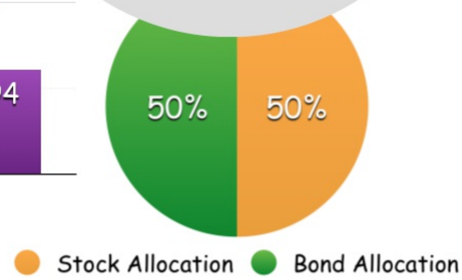
Meet Jane. She thinks it's more tax efficient to put stocks in her taxable account and bonds in her IRA.

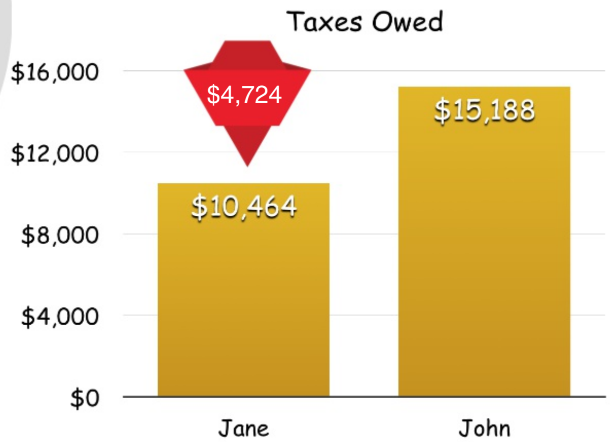
Meet John. He disagrees with Jane's philosophy and invests stocks in his IRA and bonds in his taxable account.

The Situation

Plan Length: 25 Years
Equity Return: 7%
Fixed Income Return: 3.5%
Portfolio: $100,000
Tax Bracket: 25%
LT Capital Gains Rate: 15%
Capital Gains Distribution Rate: .50%
Dividend Distribution Rate: 1%
All taxes paid from accounts







How do the strategies compare after 25 years?

MFJ Income Above...	Income Tax Bracket	Long Term Capital Gains
$0	10%	0%
$18,550	15%	
$75,300	25%	15%
$151,900	28%	
$231,450	33%	
$413,350	35%	
$466,950	39.6%	20%

JANE WINS!

Jane's $100,000 portfolio grew to $316,003 in 25 years.

She earned an annual return of 4.71%.

SORRY JOHN!

John's $100,000 portfolio grew to $299,094 in 25 years.

He earned an annual return of 4.48%.

Savings:
+.23%
Annually

Because taxable bonds pay interest which is taxed at ordinary income rates, your taxes will often be higher if they're held in a taxable account. Conversely, a "buy and hold" passive mutual fund strategy will primarily distribute long term capital gains which are taxed at a lower rate than ordinary income.

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