ALPHA VEE SOLUTIONS

SYSTEMATIC. RULES-BASED. RISK-MANAGED.

DIRECT INDEXING INSIGHT SERIES | WHITE PAPER

Transitioning Client Portfolios Efficiently

A practical playbook for advisors: how to move clients from legacy stock positions and underperforming SMAs into an Alpha Vee direct index — without triggering an avoidable tax bill.

The Advisor Challenge

Every advisor inherits them: the concentrated stock position from a former employer, the DIY brokerage account the client no longer wants to manage, the legacy SMA that has lagged its benchmark for years. The client is ready for a disciplined, systematic strategy — but the account is loaded with embedded gains.

WHERE THIS APPLIES

- Clients replacing individual stock holdings or an existing SMA with a rules-based strategy.
- Prospects arriving with appreciated taxable accounts from another firm.
- Advisors consolidating households onto a single, systematic investment framework.

The obvious path — sell everything and buy an ETF or mutual fund — is often the most expensive one. Full liquidation realizes every embedded gain at once, and the resulting tax bill permanently removes capital that could have kept compounding. Worse, many of the securities being sold would reappear inside the new strategy anyway: the client pays taxes and transaction costs to sell names they effectively buy right back.

The better question: how much of the portfolio never needs to be sold at all?

THE ALPHA VEE APPROACH: IN-KIND TRANSITION INTO A DIRECT INDEX

Because an Alpha Vee direct index account holds individual securities, it can be funded **in-kind**. Existing stocks and ETFs transfer directly into the new account without being sold or converted to cash. Our systematic optimization engine then identifies which positions already fit the target strategy, which can be retained under defined risk parameters, and which should be traded — on a schedule and gain budget the advisor controls.

The result is a transition measured in **basis points of tax cost**, not a one-time capital gains event — with the portfolio tracking a disciplined, rules-based Alpha Vee strategy from day one.

The Transition Process, Step by Step

Transition analyses can be run for existing clients and for prospects — a powerful tool in a competitive proposal. Here is how the process works:

1
Capture the tax lots

Provide the account's holdings and cost basis detail. For prospects, tax lots can be taken straight from a statement — no assets need to move to run the analysis.

2
Analyze overlap and embedded gains

We map current holdings against the target Alpha Vee strategy, separating positions into three buckets: securities that transfer directly into the new portfolio, securities retained temporarily under risk constraints, and positions to be sold — prioritizing high-basis lots and any losses first.

3
Select a transition path

The core trade-off in any transition is **tax cost versus tracking error**. The closer the portfolio is pulled to the target strategy on day one, the more gains must be realized. Advisors choose the point on that curve that fits the client:

Tax-First

Minimize realized gains. Accept higher initial tracking error and let harvested losses and cash flows converge the portfolio over time.

Balanced

Set an annual gain budget. Realize a controlled amount of gains each year while steadily tightening alignment to the target index.

Tracking-First

Move decisively to the target strategy. Accept a higher one-time tax cost in exchange for immediate benchmark discipline.

Illustrative only. Tax cost rises as the transitioned portfolio is aligned more tightly to the target strategy; each client's curve depends on basis, concentration, and tax rates.

4
Review the analysis with the client

Advisors receive a clear side-by-side of each path: estimated tax cost at the client's rates, projected tracking error, resulting portfolio characteristics, and risk parameters. Client-specific customizations — security or sector exclusions, factor tilts, values-based screens — are incorporated before anything trades. The output doubles as a client-facing visual aid for the recommendation conversation.

5
Implement and manage on an ongoing basis

Once approved, the transition executes on the chosen schedule. From there the account is managed like any Alpha Vee direct index: systematic rebalancing to the rules-based strategy, continuous tax-loss harvesting with wash-sale awareness, and use of harvested losses to offset gains — including gains realized to unwind remaining legacy positions over time.

Why Move Clients to Direct Indexing: The Benefits

BENEFIT	WHAT IT MEANS FOR THE CLIENT — AND THE ADVISOR
Gain deferral	In-kind funding defers gains a liquidate-and-reinvest approach would realize immediately, keeping more capital compounding.
Tax alpha	The taxes avoided in the transition — plus ongoing loss harvesting at the individual-security level — add after-tax return no ETF or mutual fund structure can replicate.
Lower transition costs	Overlapping securities transfer instead of being sold and repurchased, eliminating unnecessary trading costs and spreads.
Systematic discipline	The account tracks a rules-based Alpha Vee strategy instead of an ad-hoc collection of legacy positions — a repeatable process replaces emotion and inertia.
Risk management	Retained legacy positions are held inside defined risk parameters, and concentrated positions can be worked down on a tax-aware schedule instead of all at once.
Customization	Exclusions, tilts, and values-based preferences are built into the account — personalization at the security level, not the fund level.
Practice growth	A transition analysis is a compelling, concrete proposal tool for winning appreciated outside accounts — and a retention tool for consolidating held-away assets.

GOOD TO KNOW

The tax savings generated by transitioning in-kind rather than liquidating is a form of **tax alpha** — value created purely by *how* the move is executed, independent of market returns.

Harvested losses can also offset gains elsewhere in the household, including the unwind of concentrated positions.

BALANCED CONSIDERATIONS

Accounts funded with appreciated securities typically start with less loss-harvesting capacity than cash-funded accounts, so post-transition tax alpha is generally lower.

Harvesting opportunities shrink in strongly rising markets, and benefits may be muted in flat or falling markets. Wash-sale rules constrain repurchase timing. Expect some tracking error during a staged transition.

KEY TAKEAWAYS

1. Funding a direct index in-kind lets clients change strategies while **deferring taxable gains** instead of realizing them all at once.
2. Versus full liquidation, a managed transition can **meaningfully reduce capital gains taxes and trading costs** — with the tax-versus-tracking trade-off made explicit and chosen deliberately.
3. After the transition, the client owns a **systematic, customized, continuously tax-managed** Alpha Vee portfolio — and the advisor owns a stronger, more consolidated relationship.

READY TO RUN A TRANSITION ANALYSIS?

See what an in-kind transition would look like for a specific client or prospect account — no assets need to move.

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Available on SMArtX, Smartleaf, Advyzon, AdvisorEngine, Amplify, FusionIQ, Quorus, UX Wealth Partners ... and many more.

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Any illustrations, including the tax cost versus tracking error illustration in this document, are hypothetical, are provided for conceptual purposes only, and do not represent the experience of any actual client account. Actual results will vary, and may vary materially, based on account size, holdings, cost basis, market conditions, timing of implementation, customizations, and client-specific constraints.

Tax-loss harvesting and gain deferral do not assure a profit or protect against loss. The ability to harvest losses may be limited, particularly in rising markets, and the benefit of harvested losses depends on the availability of gains to offset and on applicable tax law, including wash-sale rules, which are subject to change. Accounts funded in-kind with appreciated securities generally exhibit lower ongoing loss-harvesting capacity than accounts funded with cash. During a staged transition, an account should be expected to exhibit tracking error relative to its target strategy.

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