NOTTINGHILL INVESTMENT ADVISERS, Ltd.

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Perspective

The Year-End Trading Program and That Other Certainty

December 13, 2016

"If you drive a car, I'll tax the street
If you try to sit, I'll tax your seat
If you get too cold, I'll tax the heat
If you take a walk, I'll tax your feet"

-- *"Taxman,"*
the Beatles (1966)

In 1966, the Beatles released "Revolver," one of their most acclaimed albums, and George Harrison's "Taxman" was the opening track. His angry anti-tax lyrics were genuine – U.K. tax rates at that time were beyond confiscatory, and all upper-bracket citizens who could set up shop outside of Merry Old England were thinking about it.

We in the U.S., of course, currently aren't in such dire tax straits, but taxes are an important consideration when we develop trading programs for our taxable clients. And, <u>the</u> big program, as usual, is the upcoming late-December/early-January program, so we've begun thinking about what might be leaving portfolios and what we might be buying. Regarding the former, i.e., the sales, we typically take losses for our taxable clients in December and gains in January, and that will be the case again in 2016/2017. As a result, a portion of 2016's already-taken gains can be offset, <u>and</u> we push the tax liability associated with gains-to-be taken off into the future.

Speaking of taxes, as you know, talk of significant reform is in the air. If and when this talk turns to specifics, we will report back to you, but most of the trial balloons currently being hoisted involve a reduction of the top personal rates and a reduction of corporate rates. A reduction of corporate rates is particularly important because U.S. corporations hold many, many dollars overseas, and tax relief on this front will result in a repatriation of a considerable percentage of those dollars. Would that lead to additional capital spending and job creation? We think so. We hope so. And, regarding personal rates, what we <u>believe</u> is that capital gains taken in 2017 will be taxed at an equal or lower rate than those taken this year.

So, to repeat, the late-December/early-January trading programs are our largest of the year (by far). For our taxable clients, taxes, of course, are a major consideration when we develop and implement those programs – losses typically are taken in December of the current year, and gains in January of the new year. (For tax-exempt clients, both sides of the program usually are completed in January.) The result in taxable portfolios is an additional layer of complexity, but one well worth it. George Harrison's genuinely angry lyrics keep ringing in our ears.

That's all for now. From all of us to you and your family, a Very Happy Holiday Season.

Best regards as always,

Doug, Jeff, and Lindsay