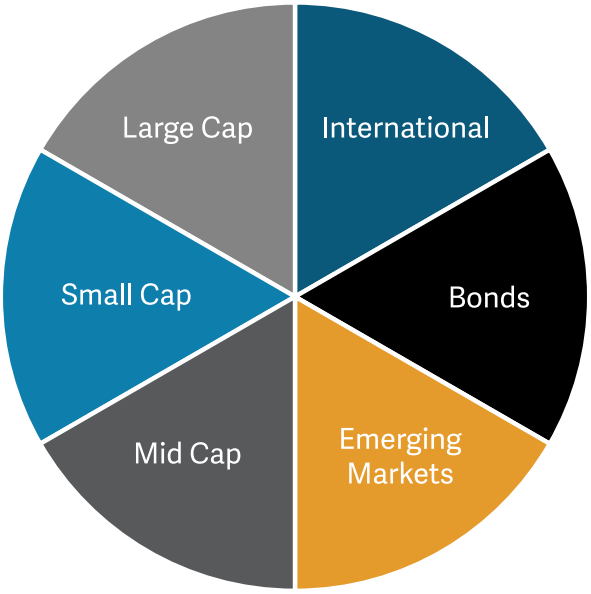
ASSET ALLOCATION & ASSET LOCATION

Here's how asset allocation and asset location can work together:

Allocation

Asset allocation is investing in different asset classes to reduce your investment risk.

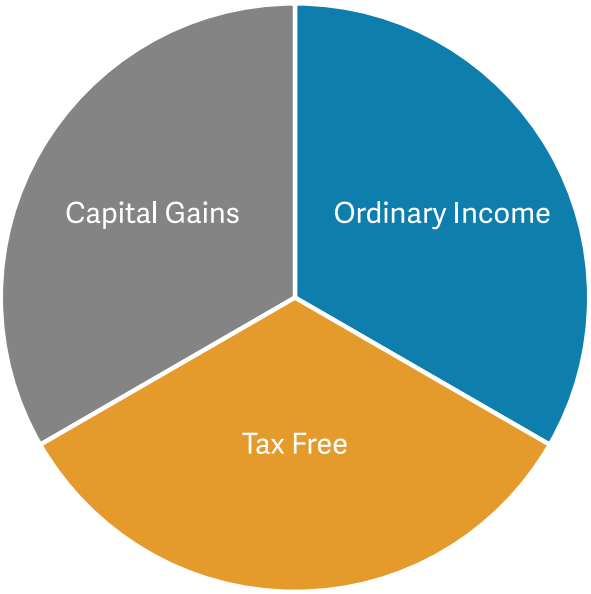


Asset ***allocation*** is the combination of asset classes in your portfolio, such as stocks, bonds, and cash.

VS.

Location

Asset location is investing in different tax locations to reduce your tax liability risk.



Asset ***location*** refers to the way your asset will be taxed upon distribution. The three locations are: capital gains, ordinary income, and tax free.

Asset location and asset allocation work hand-in-hand to ensure that you are diversifying your portfolio, managing your risks, and investing in a way that is as tax efficient as possible.

Asset allocation, diversification and re-balancing do not guarantee a profit or protection against loss.

WITHOUT ASSET LOCATION PLANNING

The Smiths recently retired and will need to withdraw $350,000 for the year from their investments in order to maintain their current lifestyle. If the Smiths had never put together an asset location plan, they may not have been investing in all three tax locations during their working years, which would mean they may only have the ability to pull their retirement income from one location: the ordinary income location. In this case, they would end up paying $72,463 in taxes, based on current tax treatment.

ORDINARY INCOME ONLY
$350,000 TOTAL

	FIRST $20,550	NEXT $63,000	NEXT $94,600	NEXT $161,950	NEXT $9,900	TOTAL
Tax Rate	10%	12%	22%	24%	32%	
Taxes Due	$2,055	$7,560	$20,812	$38,868	$3,168	**$72,463**

Effective tax rate = 20.7%

WITH ASSET LOCATION PLANNING

In example 2, the Smiths met with a financial professional and, based on their asset location plan, determined an optimal mix of investment locations. Since they had been investing in all three tax locations, they now have the option to withdraw their $350,000 from each of the three locations. In this case, they can take $150,000 from the ordinary income location, $100,000 from the capital gains location, and $100,000 from the tax-free location.

	ORDINARY INCOME $150,000 TOTAL			CAPITAL GAINS	TAX-FREE	
	FIRST $20,550	NEXT $63,000	NEXT $66,450	$100,000	$100,000	TOTAL
Tax Rate	10%	12%	22%	15%	0%	
Taxes Due	$2,055	$7,560	$14,619	$15,000	$0	**$39,234**

Effective tax rate = 11.2%
45.9% Savings

Total tax savings with asset location planning = $33,229 (45.9%)

By determining their tax benefits, finding the ideal tax locations, and tax bracket planning, Ivan and Andrea were able to reduce their effective tax rate from 20.7% to 11.2%, amounting to a savings of $33,229 (45.9%). This gives them the opportunity to spend more on what they love – their grandkids, travel and adventure, golf, and anything else!

With your personalized asset location plan, you can determine how best to reduce your taxes based on your goals and objectives.