

# Rebalancing and Tax-Loss Harvesting: How the Algorithm Works

## Key Points

- Institutional Intelligent Portfolios® employs a sophisticated algorithm that simultaneously incorporates an automated rebalancing and tax-loss harvesting strategy as part of a single, unified process.
- Once an account is funded with at least \$5,000, the portfolio is monitored daily and rebalanced automatically when the individual asset class weight exceeds the drift tolerance level relative to the target weight for each individual asset class. By default the drift tolerance level is +/-2 percentage points for all asset classes except cash; it is +/-1 percentage point for cash. You may change this setting from within the Institutional Intelligent Portfolios Advisor Console.
- If you choose to offer tax-loss harvesting to your clients, those with account balances of at least \$50,000 may enroll in daily automated tax-loss harvesting. Tax-loss harvesting opportunities are implemented when the loss from a potential sale exceeds a threshold set at 0.5% of total portfolio value.
- Institutional Intelligent Portfolios features logic specifically designed to avoid generating a wash sale. Advisors should be aware that this logic may delay transactions, resulting in accounts' not reaching their target allocation in the anticipated time frame.

## Introduction

Institutional Intelligent Portfolios employs a sophisticated algorithm that simultaneously incorporates an automated rebalancing and tax-loss harvesting strategy as part of a single, unified process. The algorithm is designed to maintain a portfolio that closely tracks the strategic asset allocation by rebalancing as needed to maintain target asset class weights consistently over time. This disciplined process helps keep the level of portfolio risk commensurate with the goals, risk willingness, and risk capacity of the client's target asset allocation. Once a client account is funded with at least \$5,000, the portfolio is automatically rebalanced as needed.

If you choose to offer tax-loss harvesting to your clients, those with account balances of at least \$50,000 would have the option of enrolling in automated tax-loss harvesting. Over time taxes can take a significant bite out of the realized investment gains in a taxable account. Institutional Intelligent Portfolios offers automated tax-loss harvesting, with the goal of capturing tax-deductible losses and potentially improving a client's after-tax, risk-adjusted rate of return. For clients to enroll in automated tax-loss harvesting, the account must hold at least \$50,000, and this feature is implemented so long as the account balance remains at least \$40,000. If the account balance falls below that level, automated tax-loss harvesting would not occur until the balance climbed back above \$50,000.

This white paper explains rebalancing and tax-loss harvesting and how they work within Institutional Intelligent Portfolios.

## Rebalancing

**Rebalancing** is the process of buying or selling securities within an asset class to bring it back to its target weight based on a client's strategic asset allocation. A systematic process for rebalancing helps mitigate portfolio risk by not allowing the asset class to drift too far from its target weight.

## Drift tolerance levels

By default Institutional Intelligent Portfolios uses a drift tolerance level of +/-2 percentage points for all asset classes except cash; it is +/-1 percentage point for cash to keep portfolios aligned with their strategic allocation over time. You may change these settings for each asset class and portfolio within the Institutional Intelligent Portfolios Advisor Console. On a daily basis, the algorithm automatically checks to determine if asset class weights remain within the drift tolerance and implements rebalancing trades when the drift tolerance has been exceeded.

- If an asset class drifts above the target allocation level, the asset class is sold to bring it back to its target weight. The cash received from the sale is allocated iteratively to the asset classes that are the most underweight to bring them back to their targets, beginning with the most underweight asset class.
- If an asset class drifts below the target allocation level, additional shares of the asset class are bought to bring it back to its target weight. To make this purchase, the most overweight asset classes are sold iteratively down to their target allocation until there is enough cash to make the purchase.

A consistent drift tolerance of 2 percentage points across all asset classes except cash was selected for several reasons. This drift tolerance was found to keep the portfolio's strategic allocation consistent over time while not constantly trading the portfolio in response to every small deviation from target asset class weights. A lower cash allocation threshold was selected to invest cash faster for clients who are depositing funds into their account than would be the case with a 2% threshold. Additionally, although various non-cash asset classes could have different drift tolerance levels, historical simulations found little difference in the number of rebalancing trades between a fixed vs. a variable drift tolerance.

## Tax-Loss Harvesting

**Tax-loss harvesting** is the process of selling a security at a loss and using the proceeds to purchase a similar but not "substantially identical" security. The tax-loss harvesting process allows client portfolios to retain a similar market exposure while generating tax deductions for federal income tax purposes that can be used to offset realized capital gains and up to \$3,000 of ordinary income per year.

Institutional Intelligent Portfolios seeks to reduce an end-client's net federal income tax burden by capturing tax-deductible capital losses while monitoring linked Institutional Intelligent Portfolios accounts with your firm (but not other Schwab accounts, including Schwab Intelligent Portfolios® accounts and accounts held outside Schwab) to avoid triggering the application of the wash sale rule. Capital losses may be used to offset capital gains from any source.

## Avoiding wash sales

The use of realized losses may be limited by a number of rules in the Internal Revenue Code of 1986, as amended (the "IRC"),<sup>1</sup> in particular by the wash sale rule. A **wash sale** occurs when a client sells a security at a loss and when that client, their spouse, or one of their individual retirement accounts buys the same or a "substantially identical" security within 30 calendar days before or after the sale.

When a wash sale occurs, the loss is typically disallowed or deferred for federal income tax purposes.<sup>2</sup> The wash sale rule is designed to prevent taxpayers from claiming deductible losses on securities if they acquire a "substantially identical" position in that security within 30 days before or after the sale.<sup>3</sup>

A wash sale triggers several consequences. If a taxpayer violates the wash sale rule, the loss resulting from the initial sale cannot be deducted currently (the wash sale rule applies only to losses). Instead that loss is added to the cost basis of the replacement security purchased. The holding period for the replacement security includes the holding period of the original security previously sold.

Advisors should be aware that wash sale avoidance logic may delay transactions, resulting in accounts, not reaching their target allocation in the anticipated time frame.

## Selecting Primary and Secondary Funds

Institutional Intelligent Portfolios is designed to monitor and potentially prevent wash sales through the use of two similar but not “substantially identical” funds for each asset class (a “Primary fund” and a “Secondary fund”).<sup>4</sup> When the price movement of one fund is large enough to warrant a sale to capture a loss, the other fund in the asset class is purchased to maintain the asset class market exposure.

The selection of a Primary fund is required for each asset class, whereas a Secondary fund is optional. When a Secondary fund is not selected, the asset class is not able to take advantage of tax-loss harvesting.

To avoid the application of the wash sale rule, you must select Primary and Secondary funds in each asset class that are not “substantially identical” for the portfolios that you offer clients within Institutional Intelligent Portfolios. It is also important to be aware of the share price of exchange traded funds (“ETFs”) that you select for your portfolios. If the share price of one ETF in an asset class is too high, there may be instances when smaller client accounts might not have enough funds to sell one ETF and purchase the other ETF in the asset class as part of rebalancing and/or tax-loss harvesting. In those instances, the funds would remain in the cash allocation following the sale. This share price consideration does not apply to mutual fund portfolios because mutual funds trade in fractional shares on Institutional Intelligent Portfolios.

Portfolios are initially invested in the Primary fund for each asset class. When a Primary fund is sold at a loss and the proceeds are reinvested in the Secondary fund, those proceeds are not automatically switched back to the Primary fund after the 30-day wash sale period. This helps avoid unnecessary trading and potential capital gains. As a result, client portfolios likely hold a combination of both the Primary and the Secondary funds over time.

## Tax-loss harvesting threshold

To prevent portfolios from selling every loss and constantly switching between the Primary and the Secondary funds, a potential loss must exceed a threshold of 0.5% of the total portfolio value before it is sold for tax-loss harvesting purposes. In historical simulations, a threshold of 0.5% was found to provide significant tax savings while avoiding excessive turnover.

The following conditions are checked automatically on a daily basis for each fund to determine whether a tax-loss harvesting trade is possible:

- The dollar amount of the loss being captured from selling the fund is greater than 0.5% of the total portfolio value.
- There has not been a purchase of the fund in the past 30 days where the purchase price is less than or equal to the current price. If this condition is violated, it would constitute a wash sale. Purchases in the past 30 days at a price higher than the current price are not a violation. These lots would be sold off to avoid the wash sale.
- The replacement fund that is to be bought is not in a “do not buy” phase. A fund enters a “do not buy” phase if it was sold at a loss in the past 30 days, in which case the purchase of additional shares within 30 days after the sale would result in a wash sale.

## How the Algorithm Buys and Sells ETFs

A new deposit enters the account as a cash allocation, which is then invested according to the strategic allocation of the client’s portfolio. For position transfers, all eligible positions are liquidated and the initial investment proceeds after the liquidated funds have been sold. For initial investments and future rebalancing trades, the algorithm determines how many shares to buy by dividing the dollar amount based on the strategic asset allocation by the fund’s current share price, then rounding down. ETFs must be bought in whole shares, so leftover cash after buying as many shares as possible in each asset class remains in the cash allocation, which must be a minimum of 4%. During the initial investment of a new account in an ETF portfolio, to invest as much cash as possible using whole shares, a 0.5% buffer above the target weight of the asset class is allowed.

Likewise for ETF portfolios, the number of shares to sell is determined by dividing the dollar amount to sell by the ETF's current price, then rounding down. When fund shares are sold, the proceeds first are moved into the cash allocation and then are used to meet any withdrawal requests or make any necessary rebalancing purchases.

If a client owns only one fund in the asset class, the algorithm would sell the appropriate amount of that fund to meet the rebalancing requirements. If the client owns both the Primary and the Secondary funds in the asset class, the algorithm would sell the Secondary fund first unless the sale would violate the wash sale rule.

### **Tax-efficient sell order**

When selling ETFs, it is important to follow a tax-efficient sell order to take advantage of potential losses and minimize potential capital gains. After the number of shares to be sold has been determined, the algorithm uses the following tax-efficient sell order:

1. Short-term losses
2. Long-term losses
3. Short-term no gains or losses
4. Long-term no gains or losses
5. Long-term gains
6. Short-term gains

Within each bucket, the algorithm follows a highest in, first out ("HIFO") sell order. This means that the lots with the highest cost basis are sold first. If two lots have the same share price, the most recent lot is sold first. This methodology ensures that the lots that will generate the most losses are sold first. Within the short-term categories above, if two or more lots have different original purchase dates but the same cost basis, the last in, first out ("LIFO") sell order should be used. The rationale behind this rule is that, all else being equal, the algorithm will seek to preserve the holding period under the assumption that the ultimate goal is to achieve long-term gain status. With respect to the long-term category, the LIFO tiebreaker is irrelevant once long-term status is achieved.

## **Rebalancing and Tax-Loss Harvesting Scenarios**

Rebalancing and tax-loss harvesting thresholds are checked on a daily basis and implemented as needed. When trades occur, the algorithm follows a set of rules to net out both types of trades. When evaluating each situation, the algorithm looks at the shares held in both the Primary and the Secondary funds. This section provides several examples of rebalancing and tax-loss harvesting trades to illustrate how the algorithm works in practice.

### **Initial portfolio buys**

When a client opens a new account, the algorithm uses the following methodology to make the initial share purchases. ETFs must be bought in whole shares.

- For ETF portfolios:
  - Using the cash deposited into the new account, as many whole shares as possible are bought in each asset class based on the strategic allocation.
  - The remaining cash is used to iteratively buy one more share of the most underweight asset class until the next share would result in the asset class's reaching a weight of at most 0.5% above its target allocation. Asset class weights are allowed to exceed their target weight by this limit during the initial investment of a new account to invest as much cash as possible using whole shares.
  - Repeat this process until the cash allocation comes as close as possible to its target weight.

- For mutual fund portfolios:
  - Using the cash deposited into the new account, as many shares as possible are bought in each asset class based on the strategic allocation.

## Deposits/withdrawals

Additional deposits enter the account as part of the cash allocation. When the cash allocation exceeds its target weight based on the client’s strategic allocation, it triggers a rebalancing as described in the next section.

A client withdrawal request pulls first from the portfolio’s cash allocation. If the cash needed to meet the withdrawal request causes the cash allocation to fall below the drift tolerance level, a rebalancing sell is triggered. Beginning with the most overweight asset class, funds are sold until there is enough cash to meet the withdrawal request and also keep the cash allocation within the drift tolerance level. In making these sales, the algorithm tries to avoid wash sales. A wash sale would, however, be allowed if necessary to produce enough cash to meet the withdrawal amount.

## Rebalancing buys/sells

Rebalancing is triggered when the daily automated check finds that any asset class has exceeded the applicable drift tolerance level above or below its target weight. Rebalancing often involves both selling shares in overweight asset classes and buying shares in underweight asset classes as part of a single, unified process. For the purposes of illustration, the following examples describe each part of that process separately.

### Rebalancing buys

An asset class whose weight has fallen more than the applicable drift tolerance level below its target would trigger a trade to purchase shares to raise the weight back to the target.

**Example:** On February 1, buy \$550 of the asset class to raise the weight back to the target.

In this scenario, there has been enough movement in the portfolio to cause an asset class to be too far underweight, requiring that it be bought to raise it back to its target allocation.

- On February 1, the algorithm’s daily drift monitoring determined that a rebalancing trade was needed to bring the asset class back to its target weight. In this case, a purchase of \$550 of the asset class was needed.
- To accomplish this rebalancing buy, the algorithm would trigger a \$550 purchase of the Primary ETF to meet the rebalancing requirements. The funds to make the purchase would come from iteratively selling shares of the most overweight asset classes as described in the next scenario.

		Primary			Alternate			
Date	Action	Shares	Price	\$ Amount	Action	Shares	Price	\$ Amount
January 1	Buy	100	\$100	\$10,000				
February 1	Buy	5	\$110	\$550				

### Rebalancing sells

An asset class whose weight has risen above the applicable drift tolerance level would trigger a trade to sell shares to reduce the weight back to the target. Shares are sold using the tax-efficient sell order described earlier.

**Example:** On March 1, sell \$525 of the asset class due to rebalancing.

In this scenario, there has been enough movement in the portfolio to cause an asset class to be too far overweight, requiring that it be sold down to its target allocation. In this example, only the Primary ETF is owned.

- In this example, 100 shares of the Primary ETF were purchased in the asset class at \$101/share on January 1, Year 1, as part of the initial portfolio buy. Additional shares of the Primary ETF were purchased on January 1, Year 2 (100 shares at \$103/share).
- On March 1, Year 2, the algorithm determined that \$525 in the asset class should be sold to meet rebalancing requirements. The current price of the Primary ETF is \$105, and the portfolio does not hold the Secondary ETF.
- To accomplish this rebalancing sell, the algorithm would trigger a sale of 5 shares of the Primary ETF from the January 1, Year 1, lot because it would produce a long-term gain (rather than a short-term gain if the January 1, Year 2, lot were sold).

Primary					Alternate			
Date	Action	Shares	Price	\$ Amount	Action	Shares	Price	\$ Amount
January 1, Year 1	Buy	100	\$101	\$10,100				
January 1, Year 2	Buy	100	\$103	\$10,300				
March 1, Year 2	Sell	5	\$105	\$525				

### Tax-loss harvesting trades

If you offer tax-loss harvesting, any of your clients with account balances of at least \$50,000 would have the option of enrolling in automated tax-loss harvesting. Tax-loss harvesting trades are implemented when the daily automated check determines that the loss generated from selling a fund would exceed 0.5% of the total portfolio value.

**Example:** On April 1, sell the Primary ETF for tax-loss harvesting.

In this scenario, the algorithm would trigger a sale of the amount of the Primary ETF specified by the tax-loss harvesting function and trigger a buy of an equal amount of the Secondary ETF in the asset class. The price movement of the Primary ETF was not large enough to trigger a rebalancing trade.

- On April 1, the algorithm determined that a sale of the Primary ETF lots purchased on February 1 (100 shares at \$111/share) and March 1 (50 shares at \$120/share) would meet the tax-loss harvesting threshold.
- The current price of the Primary ETF is \$110, so the lot purchased on January 1 (100 shares at \$100/share) is not eligible for tax-loss harvesting.
- On April 1, the algorithm would trigger the sale of the February 1 and March 1 lots of the Primary ETF at the current price of \$110/share, generating proceeds of \$16,500 and a loss of \$600. It would then use the proceeds to trigger a purchase \$16,500 of the Secondary ETF in the asset class (330 shares at \$50/share).

Primary					Alternate			
Date	Action	Shares	Price	\$ Amount	Action	Shares	Price	\$ Amount
January 1	Buy	100	\$100	\$10,000				
February 1	Buy	100	\$111	\$11,100				
March 1	Buy	50	\$120	\$6,000				
April 1 (tax-loss harvesting)	Sell	150	\$110	\$16,500	Buy	330	\$50	\$16,500

### Rebalancing buys and tax-loss harvesting trades

The algorithm incorporates rebalancing and tax-loss harvesting trades as part of a single, unified process. If the daily automated check determines that rebalancing is necessary and that a tax-loss harvesting opportunity is available, those trades would be coordinated.

**Example:** On April 1, sell the Primary ETF for tax-loss harvesting and buy the Secondary ETF to replace it, plus an additional \$500 due to rebalancing.

In this scenario, the assumption is that the Primary ETF is the one being harvested for tax purposes and the algorithm is triggering the sale of the appropriate amount of the Primary ETF to capture the loss. The proceeds are being used to buy the Secondary ETF. The weight of this asset class, however, has dropped enough relative to other asset classes that a rebalancing event has been triggered. Therefore, additional shares of the Secondary ETF are purchased until the rebalancing buy amount is met.

- On April 1, the algorithm determined that a rebalancing trade was necessary to purchase \$500 in additional shares of the asset class to raise it back to its target weight and that a tax-loss harvesting opportunity was available.
- The Primary ETF lot of 50 shares purchased on March 1 at a price of \$120/share is eligible for tax-loss harvesting because the current share price is \$110. The lots bought on January 1 and February 1 are not eligible for tax-loss harvesting.
- On April 1, the algorithm would trigger a sale of the 50-share March 1 lot of the Primary ETF, generating proceeds of \$5,500 and a loss of \$500.
- It would then use the proceeds plus an additional \$500 for rebalancing (for instance, derived from the sale of overweight asset classes) to trigger a \$6,000 purchase of the Secondary ETF (120 shares at \$50/share).

Primary					Alternate			
Date	Action	Shares	Price	\$ Amount	Action	Shares	Price	\$ Amount
January 1	Buy	100	\$100	\$10,000				
February 1	Buy	100	\$109	\$10,900				
March 1	Buy	50	\$120	\$6,000				
April 1 (tax-loss harvesting)	Sell	50	\$110	\$5,500	Buy	120	\$50	\$6,000

## Rebalancing sells and tax-loss harvesting trades

In this scenario, the algorithm determined that a tax-loss harvesting opportunity is available in an asset class and that rebalancing is also necessary to reduce the asset class back to its target weight.

In this example, the potential proceeds from selling the loss are assumed to exceed the amount that must be sold for rebalancing. In this case, the algorithm would first trigger a sale of the Primary ETF to capture the loss and then trigger a purchase of the same dollar amount in the Secondary ETF. It would then trigger a sale of additional shares in the Primary ETF to meet the rebalancing requirements.

**Example:** On April 1, sell the Primary ETF because it meets tax-loss harvesting requirements; sell \$500 of the asset class due to rebalancing.

In this scenario, the algorithm determined on April 1 that the 50-share lot of the Primary ETF purchased on March 1 at \$120/share is eligible for tax-loss harvesting. The algorithm also determined that a rebalancing sale of \$500 in the asset class is necessary to reduce it to its target weight.

- The current price of the Primary ETF is \$110, so the lots purchased on January 1 (100 shares at \$100/share) and February 1 (100 shares at \$109/share) are not eligible for tax-loss harvesting.
- On April 1, the algorithm would trigger a sale of the March 1 lot of the Primary ETF, generating proceeds of \$5,500 and a loss of \$500.
- The algorithm would then trigger a \$5,500 purchase of the Secondary ETF (100 shares at \$55/share).
- Finally, it would trigger a sale of an additional 4 shares from the February 1 lot of the Primary ETF to meet the rebalancing requirements because these shares would produce the smallest capital gain. While the rebalancing amount was \$500, only 4 shares can be sold because ETFs must be purchased and sold in whole shares.

Primary					Alternate			
Date	Action	Shares	Price	\$ Amount	Action	Shares	Price	\$ Amount
January 1	Buy	100	\$100	\$10,000				
February 1	Buy	100	\$109	\$10,900				
March 1	Buy	50	\$120	\$6,000				
April 1 (tax-loss harvesting)	Sell	50	\$110	\$5,500	Buy	100	\$55	\$5,500
April 1	Sell	4	\$110	\$440				

## Conclusion

The Institutional Intelligent Portfolios tax-loss harvesting and rebalancing algorithm is designed to maintain the investor's desired asset allocation within preset parameters and to generate losses that may be available to offset realized capital gains up to the maximum allowable per year of ordinary income while possibly avoiding the application of the wash sale rule.



## Appendix

### **More information on tax-loss harvesting**

Under current U.S. federal income tax law, losses incurred on the sale of securities and other assets provide potential tax benefits for investors because such losses may generally be used to offset gains realized elsewhere in the investor's portfolio. A systematic and automatic process for tax-loss harvesting provides an investor with a convenient way to realize losses that may improve the investor's net after-tax return over time.

### **How tax-loss harvesting works**

Gains and losses from the disposition of an asset held for purposes of investment (i.e., capital assets resulting in capital gains or losses) are subject to specific tax rules under the IRC.<sup>5</sup>

The taxation of capital gains depends on whether such gains are "long-term," meaning gains or losses from investments held for more than one year (i.e., 12 months and one day, or longer), or "short-term," meaning gains and losses from investments held for one year or less.<sup>6</sup> The distinction is significant because long-term capital gains generally are taxed at a lower rate than short-term gains, which are generally taxed at the higher ordinary income tax rate.

Please note that the federal income tax discussion herein is based on currently applicable provisions of the IRC, the regulations thereunder, and judicial and administrative interpretations thereof—all of which are subject to change or modification by subsequent legislation or by regulatory, administrative, or judicial decisions, potentially with retroactive effect. Any such changes could have a material effect on the discussion herein. Also note that the discussion is limited to the potential federal income tax effect of tax-loss harvesting and rebalancing as presented herein. Other issues may exist that could have a material impact on the utility of tax-loss harvesting for any particular investor. Each investor is strongly encouraged to consult their own tax advisor to determine the utility of tax-loss harvesting in light of their particular circumstances.

## References

IRS Publication 550, Investment Income and Expenses: <http://www.irs.gov/pub/irs-pdf/p550.pdf>

IRS Topic No. 409, Capital Gains and Losses: <http://www.irs.gov/taxtopics/tc409.html>

1. Unless otherwise indicated, all section references are to the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder.
2. IRC §1091 and Treasury Regulation 1.1091-1. See also [IRS Publication 550](#), pp. 58–59.
3. Note that even though brokerage firms can report only on an account level, the wash sale rule applies at the taxpayer level. Therefore individual taxpayers must coordinate sales and purchases among their various accounts. Married taxpayers are generally considered one economic unit for purposes of the wash sale rule. Furthermore, tax-deferred retirement accounts are included for purposes of determining whether a “substantially identical” security has been purchased within 30 days. See [IRS Rev. Rul. 2008-5](#), 2008-1 C.B. 271. For purposes of tax-loss harvesting and rebalancing, unless Institutional Intelligent Portfolio accounts are linked, the process is undertaken on an account-by-account basis and no single account election is assumed to be made under the cost basis rules or otherwise with respect to multiple accounts.
4. There is very little authority governing whether a fund is “substantially identical” to another fund for purposes of the wash sale rule. As a result, no assurances can be made that a fund chosen to be similar but not substantially identical to a disposed of fund will be treated as such by the Internal Revenue Service (“IRS”) or a court. Each investor is strongly encouraged to consult their own tax advisor in preparing their own tax returns in light of their particular circumstances.
5. Unless otherwise indicated, all section references are to the IRC and the Treasury Regulations promulgated thereunder.
6. IRC §§1221-1223.

## Disclosures

The cash allocation in Institutional Intelligent Portfolios® (“IIP”) is accomplished through enrollment in the Schwab Intelligent Portfolios® Sweep Program (“Sweep Program”), sponsored by Charles Schwab & Co., Inc. (“Schwab”), Member SIPC. By enrolling in Institutional Intelligent Portfolios, clients consent to having the free credit balances in their Institutional Intelligent Portfolios brokerage accounts swept to deposit accounts at Charles Schwab Bank, SSB (“Schwab Bank”) through the Sweep Program. Schwab Bank is an FDIC-insured depository institution affiliated with Schwab. Funds deposited at Schwab Bank are insured, in aggregate, up to \$250,000 per depositor, for each account ownership category, by the Federal Deposit Insurance Corporation (FDIC).

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The tax-loss harvesting feature that is available with Institutional Intelligent Portfolios is subject to significant limitations, which are described on your independent investment advisor’s Institutional Intelligent Portfolios website and mobile application (collectively, the “Website”) and the IRS website at [www.irs.gov](http://www.irs.gov). Clients should consider whether to enroll in tax-loss harvesting based on their particular circumstances and the potential impact tax-loss harvesting may have on their ultimate federal income tax liability.

Rebalancing strategies do not ensure a profit and do not protect against losses in declining markets.

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