Tax Transition Services | A Critical Differentiator for Wealth Managers

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SS&C BLACK DIAMOND

In today's highly competitive wealth management landscape, the ability to demonstrate value from day one has never been more important. High-net-worth (HNW) clients not only expect tailored advice and goal-based planning, but they also expect advisors to actively protect their wealth from unnecessary tax drag. With trading costs near zero, capital gains taxes have emerged as the single largest cost of investing for clients with taxable accounts. Yet despite this shift, many firms still treat tax impact as something to address after transitioning a client into their managed program.

This gap represents one of the biggest and least leveraged opportunities for wealth managers. Those who can seamlessly transition client portfolios while minimizing avoidable taxes gain an immediate competitive edge and a faster path to client trust.

The Growing Tax Challenge

Tax mitigation takes a lot of time and effort to do right, especially for new clients transitioning into a firm. Often, these clients have acquired securities and built portfolios on their own, or through inheritance, without much strategy. Many have excessive concentration in one or more stocks and want more disciplined, professional management of their assets. The advisor wants to realign, diversify, and modernize the portfolio, placing the client in a more strategic program defined by risk tolerance, goals, and targets. But the advisor cannot simply sell out of the client's legacy holdings to rebuild the portfolio without incurring a huge tax bill.

This calls for a careful balancing act: deferring taxes on existing holdings while minimizing tracking errors relative to the new portfolio strategy. The advisor must dig into tax lot files, determine the tax consequences for each lot within each security, identify tax-loss harvesting opportunities, and decide what to sell. However, doing this manually is laborious, inefficient and may produce suboptimal results for the client.

Technology-Powered Optimization

Technology-powered portfolio optimization can speed up the process, eliminate guesswork and manual labor and deliver actionable results with greater precision. The model-based, quantitative methodology enables the advisor to run a variety of buy-and-sell scenarios within specific objectives and constraints. The automation of this process minimizes

tracking error while keeping tax impacts within a budget. The advisor can arrive at a viable strategy suggestion in a fraction of the time required by "heuristic" or rules-based techniques employed by standard rebalancing software.

As more advisors turn to Turnkey Asset Management Programs (TAMPs) to manage the mechanics of portfolio management, they should consider the TAMP provider's tax transition capabilities. A platform which automates and operationalizes tax transitions, such as SS&C Black Diamond Wealth Solutions, can make the advisor's life easier and enhance client relationships.

Tax transition services sit at the intersection of client experience, portfolio management, and advanced analytics. For wealth managers who embrace a technology-driven approach, these services offer a rare combination of differentiation and operational efficiency. By reducing tax drag from day one, advisors not only protect client wealth, they build trust, loyalty, and long-term advocacy. In a market where products look similar and fees face pressure, how a firm manages tax transitions can become a defining competitive advantage. ∎

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