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Mitigate Your Tax Bill With This Muni ETF.

While the key benefits of exchange traded funds such as lower costs, trading flexibility, transparency, and tax efficiency are known to many investors, not everyone is aware that ETFs also may help reduce tax bills through a strategy called tax-loss harvesting. Tax-loss harvesting is a strategy that can be employed with taxable accounts to sell losing positions to offset capital gains.

This can come in handy during volatile markets. Market turbulence can be a perfect time to reassess a portfolio. Capitalizing on losses can help offset future gains while also offering the chance for rebalancing.

“Investment losses can be hard to swallow, but tax-loss harvesting lets you take the losses of one investment to offset the gains of another,” according to American Century Investments. “Of course, taxes alone shouldn’t drive investment decisions. But harvesting losses in concert with your overall investment plan could help with tax planning when you are rebalancing your portfolio.”

In addition to adopting this strategy, investors worried about paying higher taxes may also want to consider the American Century Diversified Municipal Bond ETF (NYSEArca: TAXF), which seeks to provide consistent tax-free income by employing an active, research-driven process that draws from across the municipal bond universe and adjusts exposure depending on prevailing market conditions. As with local government bonds in the U.S., credit risk is minimized with close to 80% of the fund ranging in debt rated at AAA to A (as of May 31).

The fund attempts to top the S&P National AMT-Free Municipal Bond Index, and by way of being actively managed, it can capitalize on credit opportunities by allocating up to 35% of its lineup to high-yield munis. While junk-rated municipal bonds reward investors with higher yields due to elevated credit risk, these bonds are usually less volatile than high-yield corporates.

TAXF also features a low expense ratio of 29 basis points.

ETF TRENDS

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