Prepare for a changing tax environment

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Taxes will be one of the biggest issues in 2022. What we know is that tax policy is likely to get less favorable, especially for those who are high net worth, high earners.

I think advisors gain a lot by focusing on taxes because we've been in a really high return environment, and there's an expectation that that will modulate. And it'll be harder. We're apt to see perhaps more volatility, we'll have to be more selective with the investments and not just "everything kind of will go up" type environment. What that means, though, from a client standpoint, is that they're going to value other things from you. If you're not earning as much, you want to make sure you keep most of what you earn, so the focus on taxes can become more important. And it really elevates the financial advisor in the eyes of the client. This is why you get professional advice.

I think that you have to look at some of the things that you can do in advance of it that might make good sense to do right now. If I'm recommending investments to my client, what vehicles am I choosing? Some vehicles are inherently more tax efficient than others.

Separately managed accounts, or SMAs, they're individual securities but in a managed portfolio. So, you can get professional management, you can get active management, but you can also get tax control. And they're not just for the wealthy anymore. The minimums have come down.

And then there's the issue of just what investments do I look at? And for just simple example would be if you're fixed-income investor, take a harder look at munis, municipal securities, over taxable fixed income, because it's just math that if rates go up, and especially in high-tax states, and you buy municipal bonds in that state, your taxable equivalent yields could be a lot higher than they would be in a taxable fixed-income investment.
