



THE TAX BENEFITS OF EXCHANGE FUNDS

Exchange Funds can offer tax advantages to investors! In this report, we will cover their benefits, eligibility criteria, and potential risks.

Overview of Exchange Funds

Exchange Funds, also known as swap funds, are a type of investment vehicle that allows investors to exchange their appreciated securities for shares in a diversified portfolio without triggering taxable capital gains. By doing so, they can defer taxes and maintain their investment in a diversified fund. Exchange Funds can also help shareholders avoid concentration in individual stocks.

TAX ADVANTAGES OF EXCHANGE FUNDS

Deferral of Capital Gains Taxes	Avoidance of Double Taxation	Avoidance of Wash Sales
Shareholders in Exchange Funds can defer tax on capital gains by swapping their appreciated securities with the fund's diversified portfolio. They can avoid incurring any tax until the shares of the fund are sold.	Exchange Funds provide a method for investors to gain exposure to multiple securities. This could reduce the likelihood of double taxation, which can occur when receiving dividend income from multiple publicly traded firms.	Exchange Funds can be used as a tax-efficient method to avoid wash sales. With wash sales, an investor sells a security at a loss but purchases a nearly identical securities shortly before or after, which is disallowed for tax purposes.

ELIGIBILITY CRITERIA FOR EXCHANGE FUNDS

Requirement	Description
Minimum Investment	Exchange Funds typically require a minimum investment from their shareholders. This can vary between different funds, but usually ranges between \$100,000 to \$500,000.
Eligible Securities	Exchange Funds typically accept securities that have appreciated significantly in value. They may require restrictions on sales or require a security to be held for a specified period, which can range from six to twelve months.
Certified Investor Criteria	To be eligible to invest in Exchange Funds, investors must meet certain financial criteria. In most cases, they must be classified as accredited investors, meaning they have a net worth of at least \$1 million.

OTHER INVESTMENT OPTIONS SUBJECT TO TAXES

Exchange Traded Funds (ETFs)	Mutual Funds	Direct Stock Purchase Plans (DSPPs)
Just as with individual securities, when you sell shares of an ETF (exchange-traded fund) for a profit, you'll owe taxes on that "realized gain." But you may also owe taxes if the fund realizes a gain by selling a security for more than the original purchase price—even if you haven't sold any shares.	If you hold shares in a taxable account, you are required to pay taxes on mutual fund distributions, whether the distributions are paid out in cash or reinvested in additional shares. Speak with an Advisor to understand the additional pros and cons.	DSPPs may be subject to taxes on capital gains, dividend income, and more.

The Benefits

- Deferral of Capital Gains Taxes
- Portfolio Diversification Without Immediate Tax Impact
- Step-Up in Basis at Death
- Tax Efficiency Compared to Selling
- Access to Illiquid Alternatives Without Tax Drag
- No Annual Tax Reporting Like Mutual Funds

Additional Considerations

While Exchange Funds offer appealing tax advantages, they also involve important considerations. Investors should consult a financial advisor and tax professional to determine suitability and ensure compliance with tax laws.

Any Downsides?

- High minimum investment amounts
- Stringent eligibility criteria
- Risks associated with concentrated holdings in one fund
- Reduced liquidity
- Fund expenses can be higher than other investment options
- No guarantee of returns



Because investor situations and objectives vary this information is not intended to indicate that an investment is appropriate for or is being recommended to any individual investor.

This is for informational purposes only, does not constitute individual investment advice, and should not be relied upon as tax or legal advice. Please consult the appropriate professional regarding your individual circumstance.

Exchange Funds are a long-term, complex strategy that carry risks such as liquidity restrictions, potential opportunity cost, high fees and expenses, as well as equity market, real estate investment, and tax risks.

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If you have any questions on the Exchange Funds, schedule a 15-Minute Discovery Call today!



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