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Got Losses? Use Them or Lose Them

As 2011 draws to a close, time is running out to make any tax-saving moves in your portfolio. While we caution against letting the "tax tail wag the portfolio dog," you may want to consider taking advantage of the opportunity to trim your taxes by "harvesting" tax losses on mutual funds you own in taxable accounts. Of course, if you own your funds in tax-advantaged accounts, such as IRAs, there is no need to worry about tax-loss harvesting.

- Year-End Tax-Planning Tips

By harvesting, we're referring to offsetting any capital gains you incurred in 2011 by selling funds (or particular share lots) that have lost value since your original purchase. Short-term gains are subject to ordinary income tax rates, which can be as high as 35%. Losses can also be used to offset ordinary income, but only up to \$3,000 per year. Any losses not used this year can be carried forward to future years.

As you consider your tax-planning options, however, be aware of the wash-sale rule. This rule is designed to prevent investors from temporarily selling shares to gain a tax advantage and then repurchasing them a short time later.

Under the wash-sale rule, you lose the ability to claim a tax loss if you make a purchase of the same fund (or a substantially similar fund) 30 days prior to or 30 days after a sale. Therefore, if you sold 100 shares of XYZ fund on December 15 at a loss and bought the shares back on January 3, 2012, you could not claim a capital loss. The same rule would apply if you bought shares on November 15 and sold them on December 12. These rules apply whether you made a direct purchase or reinvested a fund distribution.

Assuming you abide by the wash-sale rule, harvesting tax losses can be a cost-saving aspect of your investment strategy. That said, you should also be careful not to sell shares of a fund you won't be able to replace. For example, if a fund is closed to new investors and you sell all of your shares, you won't be able to buy back in. Before you make any moves, we recommend speaking with a trusted professional tax advisor.

What Do the New Cost-Basis Reporting Rules Mean for You?

Starting in 2012, your brokerage firm will have a little something extra for you come tax time. Thanks to the 2008 Emergency Economic Stabilization Act, which also brought us the Troubled Asset Relief Program (TARP), brokerage firms will be required to report the adjusted cost basis and gross proceeds for any individual stocks acquired after January 1, 2011 on IRS Form 1099-B. These changes are designed to ensure investors accurately report gains and losses on the sale of securities.

If you invest exclusively in mutual funds, you won't see this new information on your 1099-B this time around. However, also starting in 2012, the IRS will require brokerage firms to start tracking cost basis on mutual funds and certain ETFs acquired on or after January 1, 2012. This information will be reported on form 1099-B in 2013, and it will include details on cost basis, holding period, acquisition date and disallowed losses from a wash sale.

Under the new rules, the default method for brokerage firms to calculate cost basis on mutual funds is first-in, first-out. However, investors can designate an alternate disposal method, such as last-in, first-out, highest cost, or lowest cost. You can set up a default method or choose specific methods for specific tax lots. However, once a trade settles, the method cannot be changed.

For existing positions tracked by your brokerage firm using average cost, purchases of new shares after January 1, 2012 will be recorded separately from shares purchased previously. Brokerage firms will be required to track and report covered and non-covered average cost shares as two separate positions, each with its own average cost. This "bifurcated" average cost will be used to calculate the gain/loss amount on Schedule D and will be reflected on your 1099-B for the sale of covered shares.

So what does this all mean for you? To start, you'll have more information at your disposal come tax time to help you accurately report investment gains and losses on your return, which will save you the effort of tracking it down yourself, and brings the potential for increased savings. Of course, the catch is that your brokerage firm will be reporting this same information to the IRS, so you'll need to make sure that what you submit on your return matches what is sent to the tax man on your 1099-B--if it doesn't, you may be getting some unwanted attention and even paying some penalties down the line. As with tax-loss harvesting, if you have any questions about the new 1099-B and how to use the data provided when filling out your return, it behooves you to talk to a tax professional.

Vanguard Distribution Calendar

As we reported two weeks ago, many mutual funds pay out accumulated income and/or capital gains each year in December. This income is taxable in the year it is received, as are any capital gains distributions you receive from funds held outside of a tax-advantaged retirement account.

Any shares you own on the fund's "record date" will be eligible for

distributions. To avoid taxable distributions just before the end of the tax-year, avoid buying a new fund, as well as additional shares in an existing fund, until after the record date.

To help you avoid this mistake, we provided an alphabetical list of Fidelity funds scheduled to pay out income and/or capital gains in December, which you can see by clicking [here](#). We also promised to provide complete information on Vanguard funds and ETFs when it became available, which you can see below:

Fund	Record Date	Ex-Dividend Date
500 Index	December 21	December 22
Asset Allocation	December 15	December 16
Balanced Index	December 23	December 27
Capital Opportunity	December 15	December 16
Capital Value	December 15	December 16
Consumer Discretionary	December 19	December 20
Consumer Staples	December 19	December 20
Convertible Securities	December 28	December 29
Developed Markets Index	December 28	December 29
Diversified Equity	December 28	December 29
Dividend Appreciation	December 19	December 20
Dividend Growth	December 23	December 27
Emerging Markets Index	December 19	December 20
Energy	December 15	December 16
Energy Index	December 19	December 20
Equity Income	December 15	December 16
European Index	December 19	December 20
Explorer	December 23	December 27
Explorer Value	December 15	December 16
Extended Market	December 21	December 22
Financials	December 21	December 22
Global Equity	December 23	December 27
Global ex-U.S. Real Estate	December 19	December 20
GNMA	December 28	December 29
Growth & Income	December 23	December 27
Growth Equity	December 15	December 16
Growth Index	December 21	December 22
Health Care	December 15	December 16
Health Care Index	December 19	December 20
High Dividend Yield	December 19	December 20
Industrials	December 19	December 20
Inflation-Protected Securities	December 23	December 27
Information Technology	December 19	December 20
Intermediate-Term Bond Index	December 21	December 22
Intermediate-Term Investment-Grade	December 28	December 29
Intermediate-Term Treasury	December 28	December 29
International Explorer	December 23	December 27
International Growth	December 15	December 16
International Value	December 23	December 27
LargeCap Index	December 21	December 22
Long-Term Bond Index	December 21	December 22
Long-Term Investment-Grade	December 28	December 29
Long-Term Treasury	December 28	December 29
Managed Payout funds	December 28	December 29
Market Neutral	December 23	December 27
Materials	December 19	December 20
MidCap Growth	December 15	December 16
MidCap Growth Index	December 21	December 22
MidCap Index	December 21	December 22
MidCap Value Index	December 21	December 22

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MidCap Value Index	December 21	December 22
Morgan Growth	December 23	December 27
Pacific Index	December 19	December 20
Precious Metals & Mining	December 15	December 16
PRIMECAP	December 15	December 16
PRIMECAP Core	December 23	December 27
REIT Index	December 21	December 22
Selected Value	December 23	December 27
Short-Term Bond Index	December 21	December 22
Short-Term Federal	December 28	December 29
Short-Term Treasury	December 28	December 29
SmallCap Growth	December 21	December 22
SmallCap Index	December 21	December 22
SmallCap Value	December 21	December 22
Social Index	December 15	December 16
STAR	December 28	December 29
STAR <i>LifeStrategy</i> funds	December 28	December 29
Strategic Equity	December 23	December 27
Strategic SmallCap Equity	December 15	December 16
Target Retirement funds	December 28	December 29
Tax-Managed Balanced	December 23	December 27
Tax-Managed Capital Appreciation	December 23	December 27
Tax-Managed Growth & Income	December 23	December 27
Tax-Managed International	December 19	December 20
Tax-Managed SmallCap	December 28	December 29
Telecom Services	December 19	December 20
Total Bond Market Index	December 21	December 22
Total International	December 19	December 20
Total Stock Market	December 19	December 20
Total World Stock	December 19	December 20
U.S. Growth	December 23	December 27
U.S. Value	December 15	December 16
Utilities	December 19	December 20
Value Index	December 21	December 22
Wellesley Income	December 15	December 16
Wellington	December 23	December 27
Windsor	December 23	December 27
Windsor II	December 23	December 27
World ex-U.S.	December 19	December 20
World ex-U.S. SmallCap	December 19	December 20

ETF	Record Date	Ex-Dividend Date
500 Index	December 21	December 23
Consumer Discretionary	December 19	December 21
Consumer Staples	December 19	December 21
Dividend Appreciation	December 19	December 21
EAFE	December 19	December 21
Emerging Markets	December 19	December 21
Energy Index	December 19	December 21
Extended Duration Treasury	December 19	December 21
Extended Market Index	December 21	December 23
Financials	December 21	December 23
Global ex-U.S. Real Estate	December 19	December 21
Growth Index	December 21	December 23
Health Care Index	December 19	December 21
High Dividend Yield	December 19	December 21
Industrials	December 19	December 21
Information Technology	December 19	December 21
Intermediate-Term Bond	December 21	December 23
Intermediate-Term Corporate Bond	December 21	December 23
Intermediate-Term Government Bond	December 21	December 23
LargeCap Index	December 21	December 23
Long-Term Bond	December 21	December 23
Long-Term Corporate Bond	December 21	December 23
Long-Term Government Bond	December 21	December 23
Materials	December 19	December 21
MegaCap 300	December 19	December 21
MegaCap 300 Growth	December 19	December 21
MegaCap 300 Value	December 19	December 21
MidCap Growth Index	December 21	December 23
MidCap Index	December 21	December 23
MidCap Value Index	December 21	December 23
Mortgage-Backed Securities	December 21	December 23
Pacific	December 19	December 21
REIT Index	December 21	December 23
Russell 1000	December 19	December 21
Russell 1000 Growth	December 19	December 21
Russell 1000 Value	December 19	December 21
Russell 2000 Growth Index	December 21	December 23
Russell 2000 Index	December 21	December 23
Russell 2000 Value Index	December 21	December 23
Russell 3000 Index	December 21	December 23
S&P 500 Growth	December 21	December 23
S&P 500 Value	December 21	December 23
S&P MidCap 400	December 21	December 23
S&P MidCap 400 Growth	December 21	December 23
S&P MidCap 400 Value	December 21	December 23
S&P SmallCap 600	December 21	December 23
S&P SmallCap 600 Growth	December 21	December 23
S&P SmallCap 600 Value	December 21	December 23
Short-Term Bond	December 21	December 23
Short-Term Corporate Bond	December 21	December 23

Short-Term Corporate Bond	December 21	December 23
Short-Term Government Bond	December 21	December 23
SmallCap Growth Index	December 21	December 23
SmallCap Index	December 21	December 23
SmallCap Value Index	December 21	December 23
Telecommunication Services	December 19	December 21
Total Bond Market	December 21	December 23
Total International	December 19	December 21
Total Stock Market	December 19	December 21
Total World Stock	December 19	December 21
European	December 19	December 21
Utilities	December 19	December 21
Value Index	December 21	December 23
World ex-U.S.	December 19	December 21
World ex-U.S. SmallCap	December 19	December 21

About Adviser Investments

Adviser Investments and its subsidiaries operate as an independent, professional money management firm specializing in Fidelity and Vanguard mutual funds. With 2,400 clients and over \$2 billion under management, Adviser Investments is one of the nation's largest mutual fund research and money management firms. Our staff of 50 investment professionals focuses on helping individual investors, trusts, foundations, and institutions meet their investment goals. Our minimum account size is \$350,000.

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