ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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Vanguard Fires Fund Manager

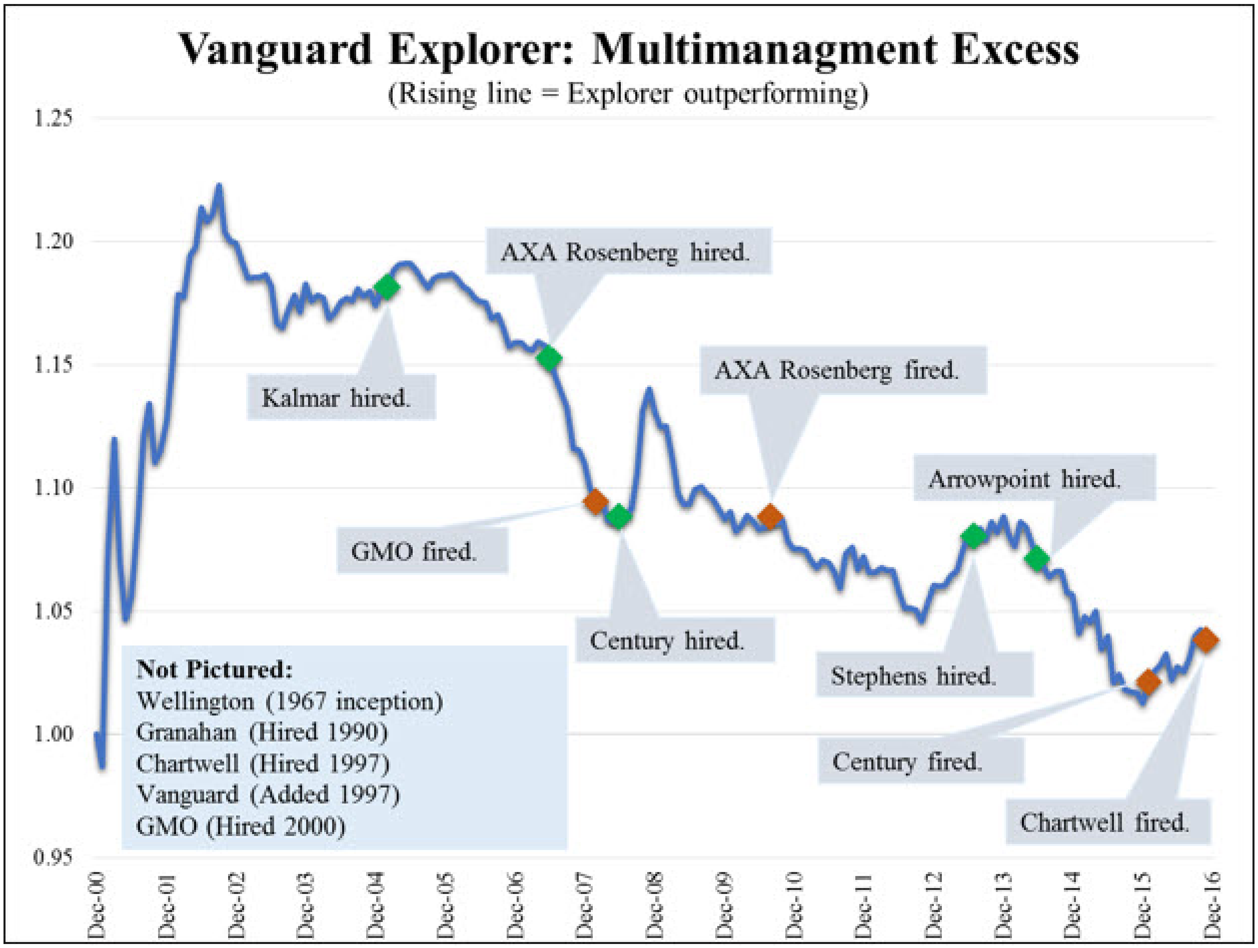
On December 5, Vanguard announced that it had removed Chartwell Investment Partners from its management role on the Explorer and MidCap Growth funds.

The firm divvied up Chartwell's Explorer assets among Arrowpoint Asset Management and Stephens Investments Management, two of the remaining six advisory firms on the fund.

On MidCap Growth, Chartwell has been replaced by a four-person team from San Francisco-based RS Investments (a franchise of Victory Capital Management), led by the firm's chief investment officer, Scott Tracy.

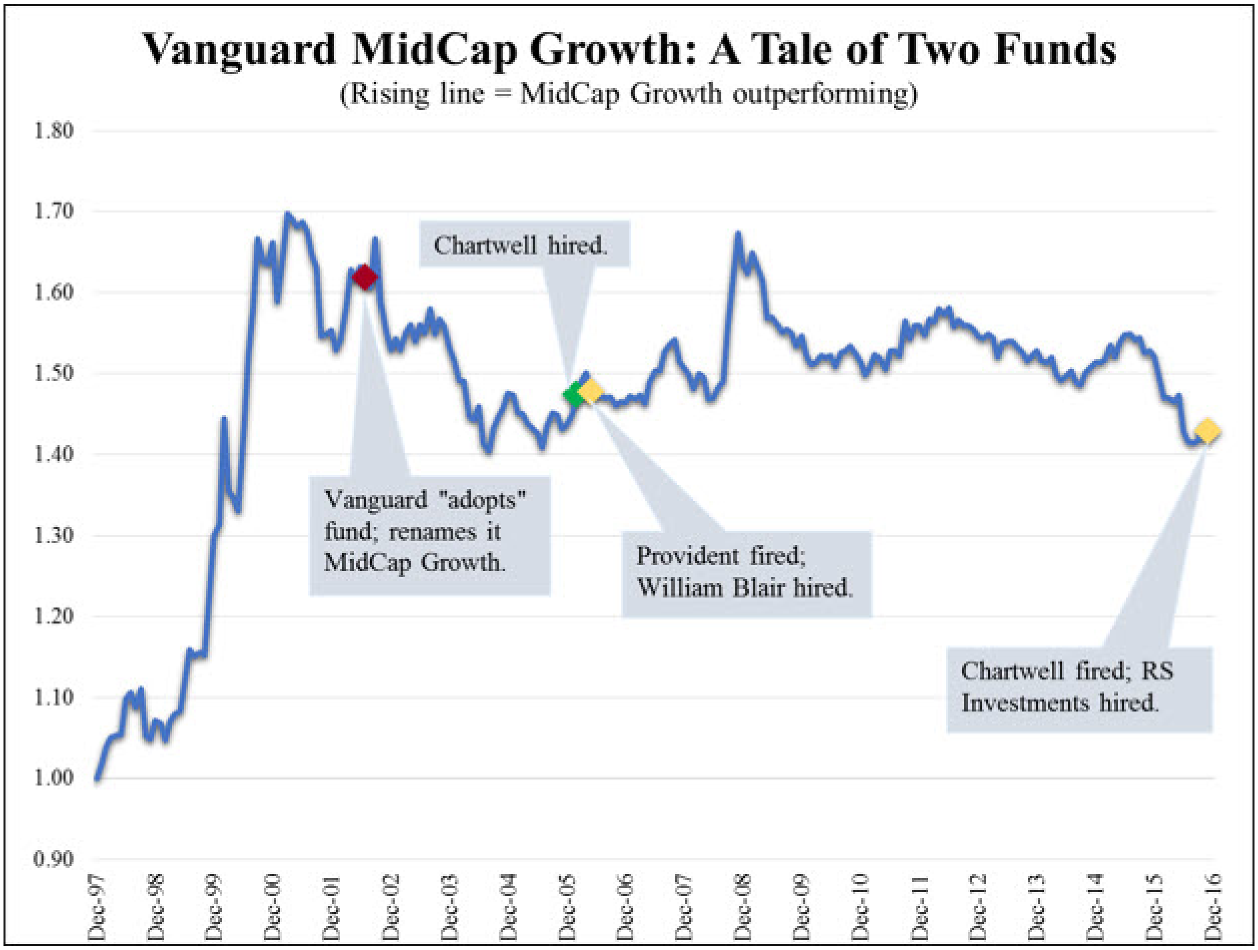
Regarding Explorer, the firing seems like another step in the right direction. The fund has been bogged down in a morass of multimanagement for years now, and now features six management teams, down from eight at the start of 2016. We see any reduction in managers as a good move, but still believe Explorer is over-burdened.

As we discussed in January when Vanguard cut Century Capital Management out of the mix at Explorer, the fund has been one of the poster children for its embrace of a "more managers is better" philosophy for its actively managed offerings. That's an attitude Adviser Investments does not share, and it's tough to argue that the approach is working given the weak relative performance against its benchmark under its multimanager mandate.



Note: Chart shows Vanguard Explorer's relative performance to the fund's Russell 2500 Growth index benchmark. Sources: Adviser Investments, Morningstar.

Turning to MidCap Growth, the jury is still out, and the firing of Chartwell appears less of a repudiation of multimanagement than the desire for a fresh perspective. A little backstory: Vanguard regularly crows that MidCap Growth has outperformed its benchmark since its inception, most recently in a post on its website in July. We'd counter by saying that the fund has underperformed its benchmark in the 10 years since Chartwell and William Blair Investment Partners began running it together.



Note: Chart shows Vanguard MidCap Growth's relative performance to the fund's Russell MidCap Growth index benchmark. Sources: Adviser Investments, Morningstar.

How's this work? MidCap Growth is a Vanguard adoptee. The fund was originally known as Provident MidCap, founded on December 31, 1997, by Provident Investment Counsel and taken over by Vanguard in July 2002. At the time, the Provident managers had buried its benchmark, the Russell MidCap Growth Index, rising 47.4% to the index's 8.9% loss. You can see the fund's stunning outperformance in the chart above in its first two years, and then how performance began to go south after Vanguard adopted it.

Vanguard can tout all the fuzzy math it wants to make it appear as though its multimanagement strategy on individual mutual funds is a winner, but a closer look reveals the fund's lackluster performance since adding a second management team in 2006.

Vanguard's Adoptee Failing to Thrive

Annualized Performance Since:	MidCap Growth	Russell MidCap Growth Index
Fund Inception (Dec. 1997)	464.4%	295.0%
Vanguard Adoption (June 2002)	268.2%	319.6%
Multimanager Approach (June 2006)	121.0%	128.5%

Note: Returns are cumulative through November 2016. Source: Morningstar.

Vanguard has successfully identified and attracted a handful of top active managers over the last 30-plus years—that fact, plus its commitment to low costs, has made us happy investors since Adviser Investments' 1994 founding—but we're less sanguine about the more recent development that groups them together three, four, five or eight at a time becoming standard practice. Explorer and MidCap Growth are two prime examples of why we disagree with the approach. While it's clear that Vanguard is making changes in the hopes of improving the shareholder experience, from a historical perspective, it's hard to say that these moves—which maintain the multimanager structure on both funds—will meaningfully move the needle for investors. We'll keep watching.

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Year-End Thoughts for Your Portfolio and Personal Life

When the days get shorter, it also means time is running out to make year-end tax-saving moves. While it can be difficult to focus on tax preparation during the hectic holiday season, it's a good time to take steps that can pay dividends next year and beyond.

1. Consider Rebalancing. At the start of each year, you'll hear a lot about rebalancing from mutual fund providers and the financial press. We have a different take.

The conventional wisdom is that investors should regularly rebalance the funds in their portfolios back to their original allocations. This involves selling shares of the top-performers and reinvesting the proceeds into positions that have lagged over the year and become underrepresented proportionally.

At Adviser Investments we take a wider view. Unless a portfolio has severely diverged from the original allocation, rebalancing is often unnecessary and of little benefit. Our research shows that there is little to no performance advantage to automatically resetting a portfolio's allocation every year. Plus, rebalancing has costs that can include higher tax bills and transaction fees. And during this end-of-year distribution season, your best-laid plans could backfire. Which leads to…

2. Know Your Distribution Calendar. If you are planning to purchase any mutual funds in the last few weeks of the year, it's important to know when your funds will be making their December distribution to avoid additional taxable income.

If you buy shares of a fund prior to or on its record date (the date on which you must own shares to be entitled to a scheduled distribution), you have to pay taxes on distributions those shares pay out, even if you didn't own them when that income was "earned."

3. Should You Take a Loss? It can be frustrating to see losses in your portfolio, but those underwater positions still have value. If you sell a position at a price below your purchase price, those losses can be used to offset other gains and income in your portfolio—lowering your tax bill.

Selling positions at a loss, waiting 30 days and then repurchasing your original position is called tax-loss harvesting. It can be a cost-saving aspect of your investment strategy, and one we employ for our clients when we think it makes sense to do so.

Why wait 30 days? The "wash-sale" rule is a tax rule that says you will forfeit the ability to claim a tax loss if you make a purchase of the same fund you sold (or a substantially similar fund) 30 days prior to or 30 days after the sale. Note that the wash-sale rule also applies to shares that you acquired through reinvesting income—another reason to be aware of your funds' distribution dates.

You also want to make sure that you're not selling shares of a fund that you cannot 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.

If you've got a loss in a fund you own in a taxable account, you may want to sell your shares to avoid a distribution rather than have it add to your tax bill. Before doing so, it's worth considering the size of the distribution, the size of your loss and any fees that may be incurred. (These discussions of taxes are irrelevant for funds owned in tax-deferred retirement accounts.)

4. Should You Opt Out of Automatic Reinvestment? One strategy that we employ for a number of our clients' taxable accounts is to have their income and capital gains distributions deposited into a money market fund rather than automatically reinvesting the proceeds into the funds that generated them. This gives us the flexibility to reinvest in the fund at a later date or, as part of a rebalancing strategy, using the cash to add to other funds that may have recently underperformed.

5. Maximize Opportunities for Tax-Deferred Growth. It's a well-known fact that 401(k)s, IRAs and other retirement accounts are a great way to keep assets growing tax-deferred. Therefore, consider contributing the maximum amounts allowable to each account every year. Depending on your employer's plan, you may be able to defer up to $18,000 in earnings by contributing to a 401(k) or 403(b) plan in 2016 (the same limit is in place for 2017).

If you will turn 50 before December 31, 2016, and your plan allows it, you can contribute an additional $6,000 (also unchanged for 2017). For IRAs, the maximum contribution in 2016 and 2017 is $5,500, plus a $1,000 "catch-up contribution" for those who turn 50 during either calendar year.

You must make 401(k) contributions by the end of the calendar year, but have until April 18, 2017, to make your 2016 IRA contributions (three extra days since the traditional Tax Day falls on a Saturday and the following Monday is a holiday in Washington D.C.). Still, if you do it now, your money can enjoy the benefits of tax-deferral and compounded gains sooner rather than later.

6. Don't Forget Your Required Minimum Distributions (RMDs). If you have tax-deferred accounts, you are required to withdraw a minimum percentage each year once you've reached the age of 70½. It's confusing, but you can wait until April 1 of the year following the calendar year in which you turn 70½ to take your first distribution (in subsequent years, December 31 is the deadline). You need to tally an RMD percentage from all accounts to which you contributed tax-deferred assets or had tax-deferred earnings every year.

For non-Roth IRAs and 403(b) accounts, you calculate the RMD separately for each account you own, but can withdraw the total amount from one or from multiple accounts. It's up to you. Unlike IRAs, withdrawals must be taken separately from each 401(k) and 457(b) plan account. Roth IRA accounts are not subject to RMDs.

If you forget to take your RMD from your retirement account, you will be assessed a penalty equal to 50% of the amount you should have withdrawn, in addition to your normal income taxes. That's a penalty that can really sting, so it's clearly in your best interest to take this money, something we help our clients with each year. After all, that's what you saved it for.

Being Charitable
For those who are interested in making charitable contributions, year-end is a busy time for both donors and recipients. A few guidelines:

- **Don't Cash Out. Give Assets Directly**. From a tax standpoint, donating cash is a bad idea. Rather than sending a check or selling assets and donating the proceeds, donating long-term appreciated assets directly to a charity can have tax advantages. You'll usually get a tax deduction at full, fair-market value, and because you avoid realizing gains (taxed at either your income-tax rate or the long-term capital gains rate), you'll be donating up to 40% more than by selling the holding yourself and then contributing the proceeds.

- **Start Spring Cleaning Early**. Donating clothing, furniture and kitchen or office supplies can do more than tidy up your home. By itemizing deductions on items given to charities, you can take a healthy bite out of your tax liabilities.

- **Make the Holidays Green for Others**. Feeling generous or want to get into a lower tax bracket? You can give up to $14,000 to as many people as you want without gift tax implications. Couples can give $28,000. You are also allowed to pay tuitions or medical costs of another person if the payment is sent directly to the billing party

- **Pay for Higher Education**. 529 college savings plans can be a great way to provide gifts to family members. You can even circumvent the annual $14,000 gift limit to fund higher learning by using a special rule called "superfunding," which allows you to contribute up to five times the annual tax-exempted gift limit (so up to $70,000) at once without triggering your lifetime gift or estate tax exclusion. (You can only "superfund" once every five years.) For a married couple, that superfunding could be as much as $140,000, which is certainly a great way to start a newborn on the road to a fully-funded private school, college or graduate school education.

While taxes are one of the last things you may want to think about during the holiday season, taking the time to fine-tune your portfolio now may help prevent bigger headaches and tax bills come April. That said, restructuring a portfolio, moving assets in an attempt to avoid distributions and determining appropriate gift or charitable donations can be tricky, which is why we recommend you consult with a professional tax or investment adviser before doing so.

About Adviser Investments
Adviser Investments and its subsidiaries operate as an independent, fee-only professional money management firm with particular expertise in Fidelity and Vanguard mutual funds. We advise more than 2,500 clients and have over $3 billion under management. Our investment professionals focus on helping individual investors, trusts, foundations and institutions meet their investment goals. Our minimum account size is $350,000. In 2016, Adviser Investments was named to *Barron's* list of the top 100 independent financial advisers nationwide and its list of the top advisory firms in Massachusetts for the fourth consecutive year. We have also been recognized on the *Financial Times* 300 Top Registered Investment Advisers list in 2014, 2015 and 2016.

For more information, please visit www.adviserinvestments.com or call 800-492-6868.