3 Advantages of Direct Indexes Over ETFs

What's a Direct Index?

A **basket** of **stocks** that **tracks an index**, usually a representative sample set of the index

Direct stock ownership by an investor

What's an ETF?

A special purpose **fund** that **owns a basket of stocks** that **tracks an index**

No direct stock ownership by an investor

Why are Direct Indexes Better than ETFs?

Direct indexes are customizable and, if tax managed, **outperform ETFs** on an after-tax expected basis

Investors control the underlying shares down to the tax-lot level and can depart from the index, as desired, to reduce taxes or implement customization preferences

Let's dive into the 3 major advantages of direct indexes over ETFs

1 Tax Efficiency

Tax Loss Harvesting
Sell individual stocks at a loss and use net realized losses to offset gains elsewhere in the portfolio

Gains Deferral
Defer selling positions with the most gains

Transition
Incorporate existing appreciated holdings into your index-tracking basket

Transitioning from a legacy stock portfolio to a direct index is 23X more tax efficient than liquidating and buying an ETF[1]

2 Risk Customization

Counterbalance outside risk exposure by excluding specific stocks and industries

Example: Your client works in the energy sector and wants to underweight energy in her portfolio

3 ESGs

Apply Environmental Social Governance (**ESG**) screens

Example: Choose "no tobacco stocks" or "apply Catholic values screen"

More Information

If you'd like to learn more about how direct indexes are better than ETFs, please check out our **blog post** and **video** or contact us at 617.453.0078 and bizdev@smartleaf.com.

[1] Research Brief: Tax Efficient Legacy Portfolio Transition

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