

# An Easier Way to Direct Index: What Happens When You Marry an SMA Optimizer to a Tax-Intelligent Rebalancer?



Direct indexing is trending in the investment world, and for good reason. Through direct indexing, advisors can replicate the risk and return of popular indexes, but with a few key benefits you won't find in your average mutual fund or ETF.

Through direct indexing, you own individual securities (or a mix of securities and mutual funds/ETFs), empowering you to customize strategies to match a client's unique investment needs and preferences. That means you can restrict specific securities, overlay ESG screens to restrict investment types (e.g. alcohol, tobacco), and implement sector parameters to guide allocation decisions. In addition to better resonating with clients, this dynamic also delivers unparalleled transparency.

However, arguably the greatest benefit is the ability to add tax alpha to the portfolio. Holding individual securities gives you the ability to harvest tax losses and defer capital gains with greater flexibility.

## **So what's the catch? Why hasn't direct indexing caught on like wildfire?**

The problem is, creating a direct indexing portfolio can require a lot of work, if not assisted by robust technology. And for some, the idea of adding another system to their technology stack is daunting.

But what if direct indexing technology—capable of streamlining tax-efficient, personalized, client portfolios—was available within your rebalancing platform?

That’s exactly what we did—we married the direct indexing functionality within ASTRO, our SMA optimizer, with our tax-efficient rebalancing platform, Eclipse™ trading. We knew they’d get along, but the chemistry in this relationship is absolutely electric!

Don’t get us wrong. Both platforms thrive on their own. Through Eclipse™ trading, you get full access to tax-intelligent trading and rebalancing technology that is customizable, easy to use, and scalable. And with ASTRO, you get the ability to build fully custom SMA portfolios.

But when you bring them together, you get a one-stop-shop that enables you to manage all of your client portfolios—with more flexibility to differentiate your services with personalized direct indexed portfolios.

### **What does that look like practically?**

For ASTRO-enabled accounts\*, you’ll unlock five pre-defined direct indexing models available for immediate use within Eclipse™ trading:

<b>Model</b>	<b>Replicated Index</b>
Core US Large Cap	iShares S&P 500
Core US Small Cap	iShares Russell 2000
Core US All Cap	iShares Russell 3000
Core Global	iShares MSCI ACWI
Core International Developed	iShares MSCI EAFE

Each of these models is replicated with a specified buy list, number of securities, tracking error, etc.

Once a model is chosen, you can implement various types of restrictions, including security, sector/industry, ESG, and capital gains. After client constraints are determined, the system recommends the securities from the model buy list that have the highest impact for the client. Trades are then sent to the orders grid, where you can choose to process or decline them.

When implemented, each client’s direct indexed portfolio is tracked and monitored for out-of-tolerance alerts and optimization opportunities. That means you will be notified when a portfolio’s tracking error or risk drifts beyond a pre-determined threshold—reducing some of the burden associated with oversight.

Additionally, you will be alerted anytime there's an opportunity to optimize a portfolio, such as an unrealized loss that can be harvested to offset capital gains elsewhere—seamlessly adding tax alpha and improving the portfolio's return potential.

### **But what if you want to replicate an index that isn't covered by one of the pre-defined models?**

If you would rather create a direct indexed portfolio from scratch, simply create a model in ASTRO and import it into Eclipse™ trading—so you can use it for any client in one, centralized system.

### **What are the benefits of direct indexing in one central location?**

**Increased Efficiency** - Save valuable time by optimizing and trading portfolios without jumping between independent systems.

**Decreased Risk** - Secure your client data by eliminating the need to export, send, and import it into another technology environment.

**Differentiated Services** - Offer custom, tax-efficient SMA strategies that exceed client expectations—while maintaining greater transparency across your book of business.

It's clear to see that ASTRO and Eclipse™ trading were made for each other. Advisors are under increasing pressure to differentiate their services and prove their value. Now, advisors can do just that by creating personalized SMA portfolios—while gaining trading efficiencies.

Ready to personalize direct indexed portfolios and execute trades from one place? Register for our upcoming webinar to learn more.

\*The direct Indexing functionality inside Eclipse™ trading requires a \$1000 minimum balance in ASTRO.

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