TAX LOSS/GAIN HARVESTING

Volatile markets create fertile ground to generate **tax alpha** — the improvement in portfolio returns created by strategically harvesting depreciated assets to offset portfolio gains.

In addition to harvesting losses as opportunities occur, **harvesting gains** also may create tax efficiencies.

LET'S START →

Harvested losses can have real and ongoing value. Here's how:

Capital losses first offset any gains from the current year.

Excess losses then offset up to $3,000 of the current year's ordinary income.

A loss that's more than $3,000 can be "carried forward" to offset capital gains and ordinary income in future years.

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Just watch the Wash Sale Rule.
According to the Internal Revenue Service:

Investors can't claim a loss on the sale of an investment if the same or "substantially identical" investment is purchased within **30 days** before or after the sale date.

A "tax swap" can serve as a placeholder to maintain exposure to the asset class for 30 days.

After 30 days, investors can switch back to their original holding or stay invested in the new position.

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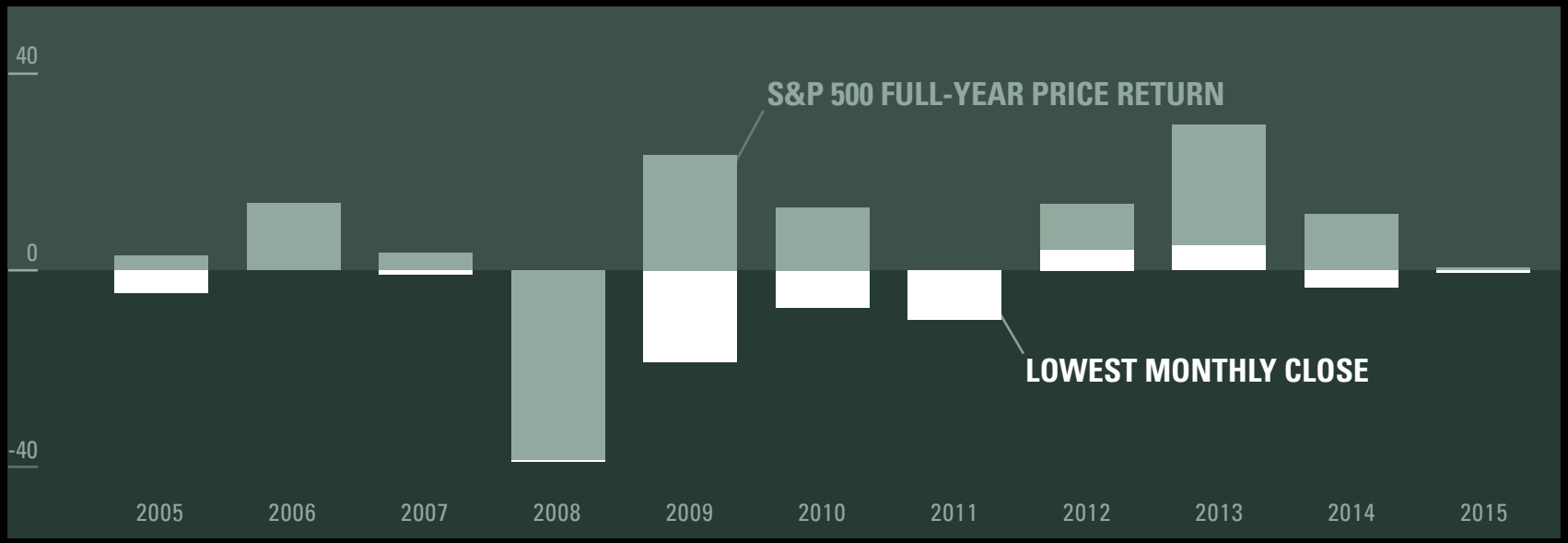
Harvest losses year-round.

Wait until year-end to harvest losses, and investments that were down early in the year could bounce back into positive territory — resulting in missed opportunities to sell losers and book losses to offset gains. In six years since 2005, the S&P 500® Index delivered positive annual returns on a price basis but closed in negative territory at the end of at least one month during the year.



Source: FactSet / SSGA, January 2005 to December 2015.
Past performance is not a guarantee of future results. The index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect capital gains and losses, income, and the reinvestment of dividends.

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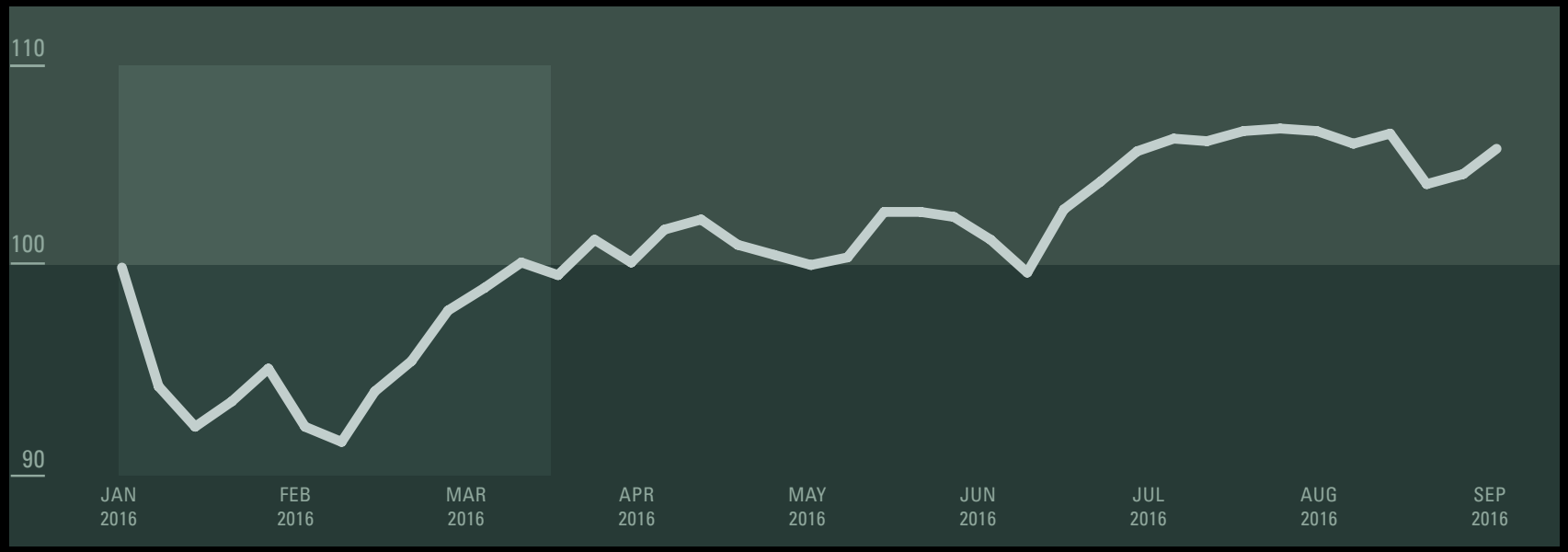
2016 — A textbook case for "use it or lose it" loss harvesting

The S&P 500 experienced significant drops early in the year, but has since rallied and may end the year in positive territory.

S&P 500 Index Price Return (%)



Source: FactSet, December 1, 2015 to September 23, 2016.
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What's ripe for harvest now?

As of September 30, 2016, not much beyond European equities.

2016 YTD PRICE RETURN Period: 01/01/2016 to 09/30/2016		SPDR ETFS FOR TAX SWAPS Viewable on **SPDRs.com**	
International Equity			
MSCI EAFE Index	-0.85	**QEFA**	MSCI EAFE StrategicFactors℠ ETF*
STOXX Europe 50 Index	-5.13	**FEU**	SPDR STOXX Europe 50 ETF

The SPDR Correlation Tracker can help you identify ETFs with the strongest correlation to investments in your portfolio.

Source: Bloomberg, State Street Global Advisors, as of September 30, 2016.

Past performance is not a guarantee of future results. Performance returns for periods of less than one year are not annualized. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect capital gains and losses, income, and the reinvestment of dividends. You cannot invest directly in an index. Index returns are not intended to reflect the performance of a specific investment.

Tax loss harvesting has certain risks, including the risk that the new investment could perform worse than the original investment, and that transaction costs could offset the tax benefit. There may be other tax implications. Information presented in this piece does not constitute legal, tax, or investment advice. Investors should consult their legal, tax, and financial advisors before making any financial decisions.

*Prior to July 15, 2016, the SPDR® MSCI EAFE StrategicFactors℠ ETF was known as the SPDR® MSCI EAFE Quality Mix ETF.

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Before harvesting losses, consider:

Loss Amount
If a loss is less than $2,000, tax savings can be eroded by transaction and tracking costs.

Holding Period
The longer it is, the greater potential for anything you save in taxes and re-invest to grow.

Legacy Plans
If an asset will be left to heirs, there's less need to measure the value of harvesting a current loss against future taxes that would be due if the asset appreciates. Because heirs receive a step-up in basis, growth doesn't turn into a future tax liability.

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On the flip side, harvest gains

It can be tax-smart to harvest gains for clients in the bottom two tax brackets who pay 0 percent on their capital gains, but expect their income to be higher in the future. In addition to potentially avoiding higher future capital gains taxes, the strategy increases the investment's cost basis.

Other candidates for harvesting gains include clients who:

Foresee an upcoming increase in income

Begin Required Minimum Distributions (RMDs) from large IRAs next year

Plan a large liquidation, like selling a business

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Important Risk Information

Tax Loss Harvesting Risks:

The performance of the new investment may not be consistent with the performance of the original investment, resulting in a reduction in the value derived from tax loss harvesting.

Purchasing what the IRS views as a "substantially identical" security to replace the harvested loss would violate the IRS' Wash-Sale rule, disqualifying the loss.

Transaction costs and tracking error could also reduce the value of harvesting a loss.

Buying a new investment resets the cost basis and when the new investment is sold, taxes will be due on any future gain. In the interim, if the capital gains tax rate or the investor's income increase, higher taxes due could reduce the value of harvesting a loss.

Selling a new investment in less than one year has the potential to create a short-term gain, which is taxed at the ordinary income tax rate. Harvesting losses greater than the current year's gains plus $3,000 results in capital loss carryovers to apply to future tax years where tax rates and rules could change.

ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETFs net asset value. Brokerage commissions and ETF expenses will reduce returns.

While the shares of ETFs are tradable on secondary markets, they may not readily trade in all market conditions and may trade at significant discounts in periods of **market stress.**

Equity securities may fluctuate in value in response to the activities of individual companies and general market and economic conditions.

Passively managed funds hold a range of securities that, in the aggregate, approximates the full Index in terms of key risk factors and other characteristics. This may cause the fund to experience tracking errors relative to performance of the index.

Foreign (non-U.S.) Securities may be subject to greater political, economic, environmental, credit and information risks. Foreign securities may be subject to higher volatility than U.S. securities, due to varying degrees of regulation and limited liquidity. These risks are magnified in emerging markets.

Non-diversified funds that focus on a relatively small number of securities tend to be more volatile than diversified funds and the market as a whole.

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Before investing, consider the funds' investment objectives, risks, charges and expenses. To obtain a prospectus or summary prospectus which contains this and other information, call 866.787.2257 or visit spdrs.com. Read it carefully.

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