



MOORS & CABOT
INVESTMENTS

Banking & Advisory Group

INVESTMENT
INSIGHTS

Perspective on Tax Swaps



HOW TO TURN A TAX BITE INTO A TAX SWAP...

If your clients are like many investors, they're probably calculating their potential tax liabilities for the year on their stock market capital gains. If they also hold bonds that are currently selling for less than they paid for them, tax swapping may be a way for your clients to turn a *potential tax liability into a possible tax advantage*.

Tax Swapping, Defined. A tax swap lets the investor sell a bond with a market price that's below its original cost and then buy a bond that is essentially "similar". This establishes a capital loss for federal income tax purposes which can offset capital gains tax. At the same time, the investor then establishes a current market position of their bond holdings.

Moors & Cabot has participated in fixed-income activities since its inception. We maintain an active secondary market in all securities that we sell as principal; and participate in underwriting syndicates in the new issue markets. The firm has made a strategic decision to significantly expand its fixed-income activities, our desk has state-of-the-art technology and we have a team of seasoned fixed-income professionals. Therefore, we can provide you with a variety of bond swapping alternatives and help you map a strategy that's tailored precisely for your client's needs.

Why a Swap may make sense?

- ☞ Realizing tax benefits
- ☞ Consolidating “odd lots” into more manageable or marketable blocks
- ☞ Diversifying the portfolio
- ☞ As ratings change ... maintaining or upgrading the quality of the portfolio
- ☞ Increasing current income
- ☞ Lengthening or shortening maturities in response to future expectations of rates
- ☞ Improving “call protection”
- ☞ Taking advantage of technical or temporary market aberrations
- ☞ Increasing tax-free income by extending maturities further along the yield curve
- ☞ Creating portfolio ladders, so as bonds mature, establishes better liquidity
- ☞ Repositioning maturities to reflect prior strategies, as bonds get closer to maturity
- ☞ Providing opportunities for exemption of federal or state taxes

To see how we can help you lessen your client’s tax liabilities through tax swapping:



- ✓ Answer the following questions;
- ✓ Provide us with a list of bond candidates for swaps;
- ✓ Tell us the original purchase price or “tax cost” basis;
- ✓ Contact us @ x 276 or jshipos@moorscabot.com

ACCOUNT #	CLIENT NAME	RR#	RR Telephone extension

And, twelve questions to consider:

- 1) How much offsetting profit or loss is required for tax purposes? _____
- 2) What quality rating(s) will be considered?
Aaa Aa A Baa
- 3) Will maturity range be extended to improve income? Yes No
- 4) Will allow additional cost to shorten maturities? Yes No
- 5) Will incur additional cost for higher coupons, for more income? Yes No
- 6) How much additional cash willing to add for 4) or 5) above? _____
- 7) Is lower par value acceptable if no cash is available? Yes No
- 8) Desire to consolidate holdings into larger blocks? Yes No
- 9) Are out-of-state bonds acceptable? Yes No
- 10) What geographic locations are preferred for replacements? _____
- 11) What specific regions or sectors are to be avoided? _____
- 12) Are there any other specific investment objectives? _____