



Direct Indexing

A powerful strategy that can boost your after-tax investment returns.

Keep more of what you earn where it belongs, so you can reach your financial goals.

Market ups and downs can become tax-saving opportunities. With Direct Indexing, stocks are purchased individually, to match those in a particular index. (In our case it's the Russell 1000 Index.) Those individual stocks can be strategically sold at a loss to reduce the amount of capital gains taxes you pay on your investment profits. This is known as tax-loss harvesting.

Direct Indexing can also offer more personalized investments, including options aligned with faith-based or environmental values, and we can exclude certain stocks as preferred. Investing is a powerful way to bring your financial goals to life, and Direct Indexing isn't a strategy that can be done on your own.



Reduce your tax bill

Tax-loss harvesting with Direct Indexing could deliver an average of 1.1% of your portfolio value in tax savings per year.*



Values-based investing

You can choose Direct Indexing portfolio options that are designed with faith-based and environmental exclusions.



More control over exclusions

Exclude any stock you don't want included in your portfolio for work or diversification reasons.

How Direct Indexing works at Facet.

1

Review your strategy recommendations.

Based on your situation, tax bracket, and resources, we'll create an investing strategy as part of your roadmap. This may include Direct Indexing, to help you reach your goals.

2

Open and fund your account.

You'll be given steps to open and fund a new investment account with Facet, and you'll choose from available customization options.

3

You're good to go.

The Direct Indexing algorithm takes it from there. Stocks will be bought and sold on your behalf and you'll be able to see the tax benefits accruing on the Facet app.

Investing strategies personalized directly for your life.

At Facet, we don't just invest your money – we take a full-picture approach to your entire financial life. Your investments work in unison with your roadmap, considering your goals, cash flow, debts, taxes, and how much risk you're comfortable with. We tailor portfolios for growth potential, market resilience, and tax savings.

Our professional investment team takes care of everything: making your investments tax-efficient, monitoring the market, and seeking out the best possible balance of return and risk.



We build portfolios with exchange-traded funds (ETFs) which is like a basket of stocks or bonds that you can buy or sell just like a single stock, and depending on your plan and goals, we also offer advanced investment strategies like Direct Indexing and Alternative Income investments.

Direct Indexing allows us to optimize a technique called "tax-loss harvesting." When some of your stocks lose value, we can sell them individually to offset the taxes you'd pay when other stocks gain value. This means you keep more of your investment profits.

We can also build your Direct Indexing portfolio to match your specific interests. Like to reflect your faith or environmental values. Or, if there are certain companies you don't want to invest in, we can exclude them.

* Based on a 2020 academic study led by MIT economists.

Source: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3351382

Direct Indexing FAQs

What are the benefits of Direct Indexing?

The biggest benefit is potential tax-savings. Within a Direct Indexing stock portfolio, we can consistently look for opportunities to sell losing stocks individually. That way, you can claim a tax loss, potentially saving money on your taxes. Then we can buy other stocks to replace those sold. Facet brings this strategy to our members, and it isn't one you can do on your own.

What is Direct Indexing and how does it work at Facet?

Instead of buying a fund that tracks the stock market, we buy a portion of the actual stocks in an index directly. We focus on the Russell 1000 Index, which is a set of roughly the 1,000 largest U.S. companies. But instead of buying all 1,000 individual stocks, we use an algorithm to carefully select around 150 to closely mirror the return of the whole index. Our goal is not to try to "beat the market" but to just match it.

Owning the stocks individually allows for even more sophisticated tax-loss harvesting, because we can sell certain stocks to take losses to reduce the amount you pay in capital gains taxes, on the profit you make when you sell your investments. Similar stocks are purchased to replace those that are sold.



What's an index?

In the stock market, an index tracks the performance of a group of stocks. An example is the Russell 1000, which tracks the performance of 1,000 of the largest U.S. companies.

How much can I save in taxes with Direct Indexing?

It varies, but studies suggest it could be around 1% of your portfolio value per year.¹ So, on a \$500,000 portfolio, that could mean roughly \$5,000 in tax savings per year.

Is Direct Indexing right for me?

Direct Indexing is available for Complete members with \$200,000+ in a "taxable account," you can put to towards this strategy, which could include brokerage and money market accounts. We also consider if you have:

- Concentrated stock holdings, for tax-efficient diversification
- Low cost basis portfolios, to manage potential capital gains taxes
- Employer compliance needs, to exclude specific stocks
- Other stock exclusion preferences
- Interest in values-based investing, with environmental or faith-based stock exclusions available

How would Direct Indexing fit into my overall portfolio?

We use Direct Indexing for the large U.S. company portion of your portfolio. For everything else – bonds, international stocks, smaller companies – we use ETFs (exchange-traded funds).

What's the difference between an ETF (exchange-traded fund) and a Direct Indexing portfolio?

With a traditional fund, like an ETF, we buy a pre-made basket of stocks that must all be bought and sold together. With Direct Indexing, individual stocks are purchased to create a set (or portfolio) that mirrors the index. The stocks can be bought and sold individually.

How often will Facet sell declining stocks (and buy new ones) in a Direct Indexing fund?

This will depend on market conditions, your pre-existing assets, capital gains budget, and any exclusions selected. Trades will occur as often as there are tax-loss opportunities to realize.

Is there a fee for the Direct Indexing strategy?

Facet uses a third-party manager to handle the Direct Indexing algorithm. This manager charges 0.15% of assets that are in the DI program. This is similar to how ETFs charge investors, with the main difference being that the 0.15% will be debited from your Facet account (for the Direct Indexing portion only).

Note that these fees do not go to Facet. It simply pays for the cost of the third-party to operate the portfolio.

Can I exclude specific stocks?

Yes, members can exclude any stocks they wish. Just bear in mind that the more restrictions we place on the algorithm, the more it will impact the investment performance and possibly the amount of tax benefits the strategy produces. This is why Facet recommends excluding as few stocks as possible, or selecting one of our pre-made values-based exclusion sets.

Do you have values-based options?

Yes. We offer two pre-set screened portfolios. One based on faith-based exclusions and one based on environmental exclusions.

Faith-based exclusions:

- Any involvement in abortion procedures or abortifacients
- More than 10% of revenue from adult entertainment or content
- More than 10% of revenue from cannabis products
- Any revenue from contraceptives
- More than 10% of revenue from biological, chemical or nuclear weapons
- More than 10% of revenue from gambling
- Any involvement in stem cell research
- More than 10% of revenue from tobacco products

Environmental-based exclusions:

- More than 10% of revenue from nuclear power generation
- More than 10% of revenue from fossil fuels
- More than 10% of revenue from palm oil
- Any involvement in pesticides



¹ Source: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3351382

There will be a record keeping fee for Facet's Sub Advisor, Orion Portfolio Services, assessed to members who chose Facet's Direct Indexing Services. The fee for this service will be paid to the Sub Advisor.

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An investment in Facet's strategies involves various risks. Only investors who can bear this type of economic risk for an indefinite period of time; and, the risk of loss of their entire investment should invest in Facet's securities.