advisorXLS®

RESEARCH · 04 | TAX MANAGEMENT

Before you quote a tax alpha, ask where the losses go

Every tax-loss harvesting provider shows a tax alpha. That number rests on an assumption most never state: that your client has gains somewhere else to use the losses against.

AUTHOR	CATEGORY	PUBLISHED	READ TIME
AdvisorXLS Research	Tax Management	November 27, 2026	8 min read

Your clients hear about tax-loss harvesting from every direct indexing provider, and each one shows a tax alpha. That number rests on an assumption most providers never state: that your client has gains somewhere else to use the losses against. We ran into this while building our Tax Loss Harvest Solution, and it changed how we report results to advisors.

Finding losses is the easy part. In every year from 2020 to 2024, between 70% and 96% of the stocks in the S&P 500 offered a loss to harvest at some point in the year.[1] What that harvest is worth to your client depends on what happens after the sale.

YEAR	2020	2021	2022	2023	2024
S&P 500 stocks with a harvestable loss	96%	70%	95%	78%	85%

When we built the Tax Loss Harvest Solution, we had to decide how to report its results to you. Three questions changed the answer more than the harvesting did.

A loss saves tax only when it offsets a gain

Once a loss is booked, it can be used in three places, and each gives your client a different result:

- **In the same account:** against gains the portfolio realizes itself, such as when the model drops or trims a position.
- **Elsewhere in the household:** against gains your client realizes outside the account, such as a concentrated stock sale, a fund's year-end distribution, or the sale of a business or property.
- **Carried forward:** up to $3,000 a year against ordinary income. The rest waits until a gain arrives.

Many published figures assume the second case for every client, every year. That holds for some households and not for others. So the Tax Loss Harvest Solution asks you which case fits your client, and we measured how much the answer matters on a real model portfolio.

SIMULATED, HYPOTHETICAL	TOTAL ALPHA
Client has gains elsewhere	1.72%
No gains elsewhere	0.00%
No gains elsewhere, settings adjusted	0.16%

Total alpha of the model with harvesting against the same model without it. Model #2077, a blend of two published BX models, on a $1,000,000 account from 2021 to 2026, at top federal and California tax rates. With no gains elsewhere, the standard settings leave about $286,000 of losses unused at the end. Simulated results are not a guarantee of future results.

> On the same model and the same five years, the result fell from 1.72% to zero when the client had no other gains to use the losses against.

For a client who sells a business next year, harvesting can be worth a great deal. For a retiree with no other gains, the same program may mostly build a carryforward. It helps to know which kind of client you have before you show them a number.

Some of the benefit is deferred, not saved

When a position is sold at a loss and bought back later, the new shares carry a lower cost basis. The tax comes due when those shares are sold. If your client holds them for life, so the heirs receive a step-up in basis, or donates them to charity, much of that tax may never be paid. If your client sells them, or gifts them to family, who take over the low basis, it will be.

So we show you both results: the account kept, and the account sold at the end of the period. The difference between the two is the deferral. You can then talk to your client about the part that is a saving and the part that is a timing benefit.

Stay close to the model you chose

Each harvest sells a stock and holds something else for 31 days to avoid a wash sale. Every substitution moves the portfolio a little away from your model. A program can report a large tax alpha by letting the portfolio drift a long way from the strategy your client signed up for. We built it the other way round: you set how far the portfolio may drift from your model, and the harvesting works inside that limit.

How the Tax Loss Harvest Solution works for you

- **Three results side by side.** The benchmark, your model without harvesting, and your model with harvesting. Harvesting is judged against the model you chose, so the client sees what it added to your strategy.
- **Keep the winners.** You can tell the program never to sell a client's gains to make a harvest work. Losses are harvested, winners stay, and harvested positions are bought back when the 31-day wash-sale window closes.
- **Settings tested before you use them.** The program tries the harvesting choices over the last 5, 3 and 1 years, inside your drift limit, and prints all 67 settings of the run it recommends. Compliance can see exactly what was run.
- **Results you can rely on from one release to the next.** Before any change ships, we rerun 20 saved test cases and compare every figure. A change that should not affect results must reproduce them to the cent. A ticker change such as Facebook to Meta is not treated as a sale, and Berkshire B shares are one holding however a data source spells them.
- **A daily check of what was traded.** Each morning we read your custodian's files, compare what we recommended with what was traded, and check wash sales across the client's linked accounts. You get the summary by email before the market opens.

How we differ

We reviewed the public terms of 26 tax-loss harvesting and direct indexing programs in September and November 2026.[2] Most describe their process in general terms. Only a handful publish the loss that triggers a harvest or how far the portfolio may drift.

	TYPICAL PROGRAM (PUBLIC TERMS)	ADVISORXLS TAX LOSS HARVEST SOLUTION
Whose portfolio	The manager's own index or sampled portfolio. Minimums of $100,000 to $500,000 are common.[3]	Your model: your own, a BX model, a blend, or an ETF rebuilt from its SEC filings. Harvesting is added to it.
How it decides	General wording, such as "opportunistic harvesting" and "wash-sale avoidance". Most do not publish when a harvest is triggered.	Every choice visible and printable: when to harvest, how often to look, what to hold meanwhile, when to buy back, costs. 67 settings on one page.
Drift from your model	Set by the manager. Published by only a few programs.	Set by you, against your model.
Tax savings reported	One figure, often without saying where the losses are used.	Losses used in the account and outside it, the account kept and sold, against the benchmark and against your model without harvesting.
Proof for clients and compliance	Case studies and fact sheets.	A workbook for each run: every trade, every tax lot, gains and losses by year, the settings and the comparison.

	TYPICAL PROGRAM (PUBLIC TERMS)	ADVISORXLS TAX LOSS HARVEST SOLUTION
Daily oversight	Inside the manager's platform.	From your custodian's files each morning: what was recommended, what was traded, wash sales across linked accounts.
Where you work	A separate portal.	Excel, next to your models, client accounts and reports.

It runs on your model. Your investment view stays in charge. We fit the harvesting to your model and show you what it costs in drift.

Every number has a paper trail. Each figure traces to a trade, a tax lot and a setting you can print. When a client or your compliance team asks how a number was reached, the answer is already on paper.

A figure you can defend. We show where each loss goes and how much is saved versus deferred. A smaller number you can explain in a client meeting serves your practice better than a larger one you cannot.

Important information. This article is for financial professionals and is for information only. It is not tax, legal or investment advice, and it is not an offer of any security or service. Consult a tax advisor about any client's situation. The model results above are simulated and hypothetical. They were produced by the AdvisorXLS Tax Loss Harvest Solution with the benefit of hindsight, on a $1,000,000 starting value from 2021 to 2026, with assumed federal rates of 40.8% (short term) and 23.8% (long term), a California rate of 13.3%, trading costs of 3 basis points and taxes paid from outside the account. They do not reflect any client account, actual trading, or the effect of advisory fees. Actual results will differ. Hypothetical performance has inherent limits, and advisors who use it in communications must meet the SEC Marketing Rule. Descriptions of other programs are based on their public documents on the dates shown and may have changed. Names are trademarks of their owners.

NOTES & SOURCES

1. Russell Investments, Personalized Managed Accounts, direct indexing kit (share of S&P 500 stocks with a loss-harvesting opportunity, 2020 to 2024).
2. AdvisorXLS review of the public terms of 26 tax-loss harvesting and direct indexing programs, 29 September 2026 and 18 November 2026, from program fact sheets, Form ADV and Form CRS filings.
3. For example, Russell Investments PMA published minimums of $100,000 to $500,000; Franklin Templeton Canvas retail minimum of $250,000 (OSAM Form ADV and Form CRS).

// topics: Tax-Loss Harvesting | Direct Indexing | Tax Alpha