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## Smartt Fund Choices

By Cort Smith

From the [October 2002 Issue](#) of *Investment Advisor Magazine*

In the midst of this challenging investment environment, John Smartt Jr., a CPA (but not a tax preparer) with the planning firm Financial Counseling & Administration in Knoxville, Tennessee, relies heavily on Vanguard's Tax-Managed Capital Appreciation Fund (VMCAX), which he says is classified as large-cap growth by Morningstar, but actually is managed to the Russell 1000 blend. By contrast, Vanguard's Tax-Managed Growth & Income Fund (VTGIX) is the "receiving fund" of choice, says Smartt, when he wants to move a client with a big loss in a mutual fund like the Vanguard S&P 500 Index fund to a fund that carries a large embedded tax-loss carry-forward. "The issue, generally, is the extent of early exit fees payable versus the amount of the tax loss generated. I have recommended that my clients not pay the 2% exit fee (in the first year of ownership), but it is okay to pay the 1% fee in years two through five."

A client recently asked Smartt whether now was the right time to take losses, especially since there is some talk in Washington that there might be an increase in the allowable annual tax loss. Smartt's answer: "There is already concern that such legislation might lead to more selling and a decline in stock market values. If this provision were included in the legislation, the effect would be even greater; therefore, at a guess, this provision will not be included in the legislation and taking the losses now is the prudent course."

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