

# Direct Indexing

*An old way to manage a portfolio is getting some new attention.*

Provided by DSA Financial Group

**“Indexing” is a familiar phrase in investment jargon, and a familiar concept.** Money managers structure certain investment vehicles to contain all of the stocks within a particular Wall Street index, such as the Standard & Poor’s 500 stock index. This equity exposure may fit the investment strategy for some investors depending on their risk tolerance, time horizon and goals.

**“Direct indexing” is a variation on this idea.** The goals are the same: to match the performance of an index. The methodology differs, however. Instead of buying one investment designed to mirror the composition of an index, the investor buys shares of each stock within the index.

**Why would an investor go to such lengths?** To start, the pursuit of tax efficiency. Direct indexing can also lead to a more customized portfolio, giving an investor more ability to add and subtract companies that do or do not align with that investor’s values or market objectives.<sup>1</sup>

**This article is for informational purposes only.** It’s not a replacement for real-life advice, so make sure to consult your tax or accounting professionals before modifying your tax strategy if you are considering direct indexing.

Technological advances have put direct indexing within reach of more investors today. Years ago, it was largely the domain of hands-on types with considerable assets in their portfolios. Now, there are firms that can help with this approach.

**Direct indexing can encourage more trades.** A hands-on investor closely scrutinizing performance may want to consider a direct indexing strategy, especially when the equities market turns turbulent. But that can lead to more fees, which may offset the potential benefits of the approach.<sup>2</sup>

This article is strictly an explanation of the basics of direct indexing, and not an endorsement or recommendation of the strategy. If direct indexing interests you, feel free to explore the approach by consulting a professional before attempting it.

*Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. The S&P 500 Composite Index is an unmanaged index that is considered representative of the overall U.S. stock market. Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance. Past performance does not guarantee future results. Consult your financial professional before making any investment decision. This information is designed to provide general information on the subjects covered. It is not, however, intended to*

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#### **Citations**

1. Forbes, April 15, 2021
2. Bloomberg, January 9, 2020