



More on 130/30 Funds

The following letter was received in response to our [article](#) on the Track Record of 130/30 Funds.

Dear Editor,

Your 130/30 article is useful but it misses a key element for the HNW crowd. If you have a long only portfolio and the market has a positive return for a while (as it usually does), a very large portion of your positions will have unrealized capital gains for tax purposes. Eventually you get to a point where you have to pay a capital gain tax in order to trade the portfolio at all. We call this situation "tax lock up". By having some short positions in the portfolio, you will always have both gains and losses on individual positions within the portfolio, irrespective of whether the market is up or down. This gives the manager a lot more flexibility to strategically offset gains and losses to minimize tax impact over the long run. A 130/30 strategy, especially in a separately managed account that can pass through net losses to investors, offers a much bigger advantage on an after tax basis than on a pre-tax basis.

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