Q3 2026 NEWSLETTER

Quarterly Newsletter

Our insights on the markets, financial planning, and the issues that matter most to our clients and community.

Direct Indexing vs. ETFs: Is There a Better Way to Own the Market?

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For decades, ETFs have been one of the simplest and most effective ways for investors to build a diversified portfolio. Instead of trying to pick individual stocks, an investor can purchase one ETF and gain exposure to hundreds of companies at a relatively low cost.

But for investors with larger taxable portfolios, there is another strategy gaining attention: direct indexing.

Direct indexing attempts to provide similar market exposure to an index fund or ETF, but instead of owning shares of a fund, you own many of the **individual stocks that make up the index**.

That seemingly small difference can create some interesting tax-planning opportunities.

ETF Investing vs. Direct Indexing

Suppose you want exposure similar to the S&P 500.

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With an ETF, you might purchase an S&P 500 index ETF. Your account owns shares of the ETF, while the fund itself owns the underlying companies.

With direct indexing, your account could instead own individual positions in companies such as Apple, Microsoft, Amazon, JPMorgan Chase and hundreds of other stocks.

The goal isn't necessarily to beat the S&P 500. The portfolio is generally designed to track the index while giving the investor greater control over the individual securities.

That control is where direct indexing becomes interesting.

The Potential Tax Advantage

Imagine the S&P 500 finishes the year up 10%.

Your ETF may also be up approximately 10%, meaning there may not be much opportunity to harvest a loss from that position.

But underneath that positive return, dozens or even hundreds of individual stocks may have declined. With direct indexing, an investor may be able to sell some of those losing positions, realize the losses for tax purposes and replace them with similar investments while maintaining overall market exposure.

Those realized losses can potentially be used to offset capital gains elsewhere in the portfolio.
This process is known as tax-loss harvesting.

Over many years, consistently harvesting losses may create a valuable pool of realized tax losses that can be particularly useful for investors who regularly realize capital gains.

Where It Can Become Especially Valuable

Consider a business owner who plans to sell their company several years from now.

They might know that the sale will eventually generate a significant taxable gain.

Rather than waiting until the year of the sale to begin thinking about taxes, direct indexing could potentially become one piece of a broader tax strategy years in advance.

The investor may accumulate harvested losses within their taxable portfolio that could potentially offset other realized capital gains, subject to applicable tax rules.

Similar opportunities may exist for executives with concentrated stock positions, real estate investors, or investors gradually diversifying a portfolio with large embedded gains.

This highlights an important distinction:

Direct indexing isn't necessarily about generating higher investment returns. It can be about improving after-tax outcomes.

Customizing Your Portfolio

Taxes aren't the only potential benefit.

Because the investor owns individual securities, a direct indexing portfolio can potentially be customized in ways that are difficult with a traditional ETF.

An investor could potentially exclude certain companies or industries, reduce exposure to an employer's stock, or account for another concentrated investment elsewhere in the portfolio.

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For example, an executive who already owns significant technology stock through company compensation may not want their taxable portfolio adding even more technology exposure.

Direct indexing can potentially provide more flexibility to address that situation.

So Why Doesn't Everyone Use Direct Indexing?

Because ETFs are still extremely good investments.

They're inexpensive, diversified, easy to understand and tax-efficient.

Direct indexing introduces additional complexity.

You may own hundreds of individual securities. There can be additional management costs, tracking error relative to the index and significantly more tax reporting.

Tax-loss harvesting also isn't free money. In many cases, the benefit is partly a **deferral of taxes rather than permanent elimination of them**, and the eventual value depends on the investor's future tax situation.

For someone investing $25,000 or $50,000 into a taxable brokerage account, the additional complexity may provide little benefit compared with simply owning a low-cost ETF.

As taxable assets grow, however, the potential benefits can become more meaningful.

Who Should Consider Direct Indexing?

Direct indexing may be worth evaluating for investors who have:

- Significant assets in taxable investment accounts
- Regular capital gains from investments, real estate or business interests
- Concentrated stock positions
- Highly appreciated investments they want to diversify
- A future business sale or other anticipated liquidity event
- A desire to customize their portfolio
- A relatively high marginal tax rate

The important question isn't simply whether direct indexing is better than an ETF.

It's: Does direct indexing provide enough additional after-tax value for this particular investor to justify the added cost and complexity?

For many investors, the answer will still be no.

A diversified portfolio of low-cost ETFs can remain an excellent solution.

But as wealth increases, investment management and tax planning increasingly overlap. At that point, simply asking “What did my portfolio return?” doesn't tell the entire story.

The better question may be: “How much of my return did I actually keep after taxes?”

That is where direct indexing can become a powerful planning tool.

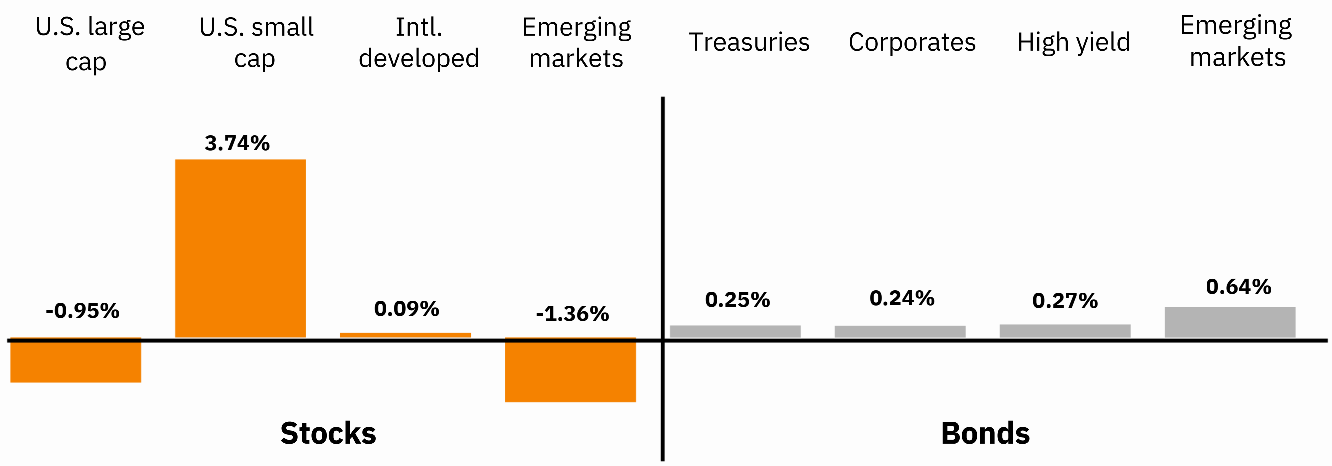
This material is for informational purposes only and is not intended as individualized investment, legal or tax advice. Tax-loss harvesting and direct indexing strategies involve risks and may not be appropriate for every investor. Investors should consult their financial and tax professionals regarding their individual circumstances.

Market Updates: August 2026

June was a month of resilient but rotating markets. Leadership broadened and equities generally outpaced bonds, though neither asset class enjoyed a perfectly smooth summer ride. U.S. large cap indices were comparatively muted as pressure on several mega-cap growth names offset the blistering enthusiasm for chipmakers, while international developed-market equities benefited from a more diversified sector mix and improving confidence around global trade. Hopes for a U.S.-Iran truce and the reopening of key shipping routes helped cool crude prices and inflation anxiety, even as sporadic flare-ups reminded investors that peace dividends remained provisional rather than permanent.

AI remained a powerful structural tailwind, but June also showed that the “picks-and- shovels” side of the buildout could keep humming even as some of the hyperscaler companies funding the investment cycle lost a little altitude. The new Warsh-led Fed held policy rates unchanged in a unanimous decision, citing solid economic activity, stable labor market conditions, and inflation that remained above target amid energy- related supply shocks. Treasuries, meanwhile, were caught between two currents: lower oil prices and geopolitical relief on one side, and the Fed’s hawkish posture and resilient economic data on the other.

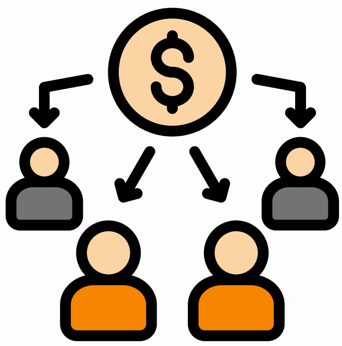
Market performance: June 2026



Source: BlackRock. Monthly returns for the period 6/1/2026 – 6/30/2026. U.S. large cap stocks represented by the S&P 500 Index; U.S. small cap, Russell 2000 Index; international developed, MSCI EAFE Index; emerging market stocks, MSCI Emerging Markets Index; Treasury bonds, Bloomberg U.S. Treasury 7-10 Year Total Return Index; corporate bonds, Bloomberg U.S. Aggregate Bond Index; high yield bonds, Bloomberg High Yield 2 Issuer Capped Index; EM bonds, JP Morgan Emerging Market Bond Index-Global. Index performance is for illustrative purposes only. Index performance does not reflect any management fees or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Minute Money Tip: Don’t Forget Your Beneficiaries

When was the last time you reviewed your beneficiary designations? While many investors regularly check account balances and investment performance, beneficiary elections on retirement and investment accounts are often overlooked.



Major life events such as marriage, divorce, or the birth of a child may warrant updates. Keeping these designations current can help ensure your assets are distributed according to your wishes.

Quick Tip: Take five minutes this month to review the beneficiaries listed on your retirement and investment accounts. It's a simple step that can make a big difference for your loved ones.

Planning Spotlight: How One Business Owner Turned a Tax Bill into an Opportunity

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Financial Advisor

As football season kicks off and fall routines take shape, it's a great reminder that success often starts with a solid game plan. The same is true when it comes to managing wealth.

A 58-year-old business owner came to DWT Wealth after selling a minority interest in his business. The transaction left him with approximately $4.2 million in investable assets, including $2.3 million in taxable investments and $1.9 million in retirement accounts.

Like many successful investors, he had built substantial wealth over time. His portfolio included individual stocks, index funds, and municipal bonds, but it had never been reviewed through a comprehensive tax planning lens. Without that review, he may have been leaving valuable opportunities on the field.

Wanting to make sure the proceeds from the sale were working as hard as he had, he turned to DWT Wealth. A closer look at his financial picture revealed several opportunities to improve tax efficiency and strengthen his long-term plan.

Kicking Off a Winning Tax Plan

Our first step was working alongside his CPA to evaluate how recent tax law changes could benefit his financial strategy.

Did you know? A financial planner often serves as the quarterback of a person's financial team, coordinating with professionals like CPAs and attorneys to help keep everyone moving toward the same goal.

Together, we developed a plan designed to increase retirement flexibility while taking advantage of current tax opportunities.

The Next Play: Direct Indexing

Next, we partnered with one of our industry partners specializing in direct indexing strategies. Rather than investing through a single index fund, the client's portfolio owned many of the individual stocks that make up an index.

This approach created opportunities to harvest losses throughout the year. While losses may sound like a setback, they can be similar to giving up a few yards to gain better field position. Realizing strategic losses can help offset capital gains and improve tax efficiency over time.

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Making Every Yard (and Investment) Count

We also reviewed the municipal bond allocation in his taxable account. If stocks are the deep passes, municipal bonds are the steady running game, providing balance and consistency within a portfolio.

Several bond holdings had declined in value as interest rates changed. We harvested those losses and reinvested the proceeds into comparable municipal bonds, helping maintain the portfolio's objectives while creating tax benefits elsewhere in the portfolio.

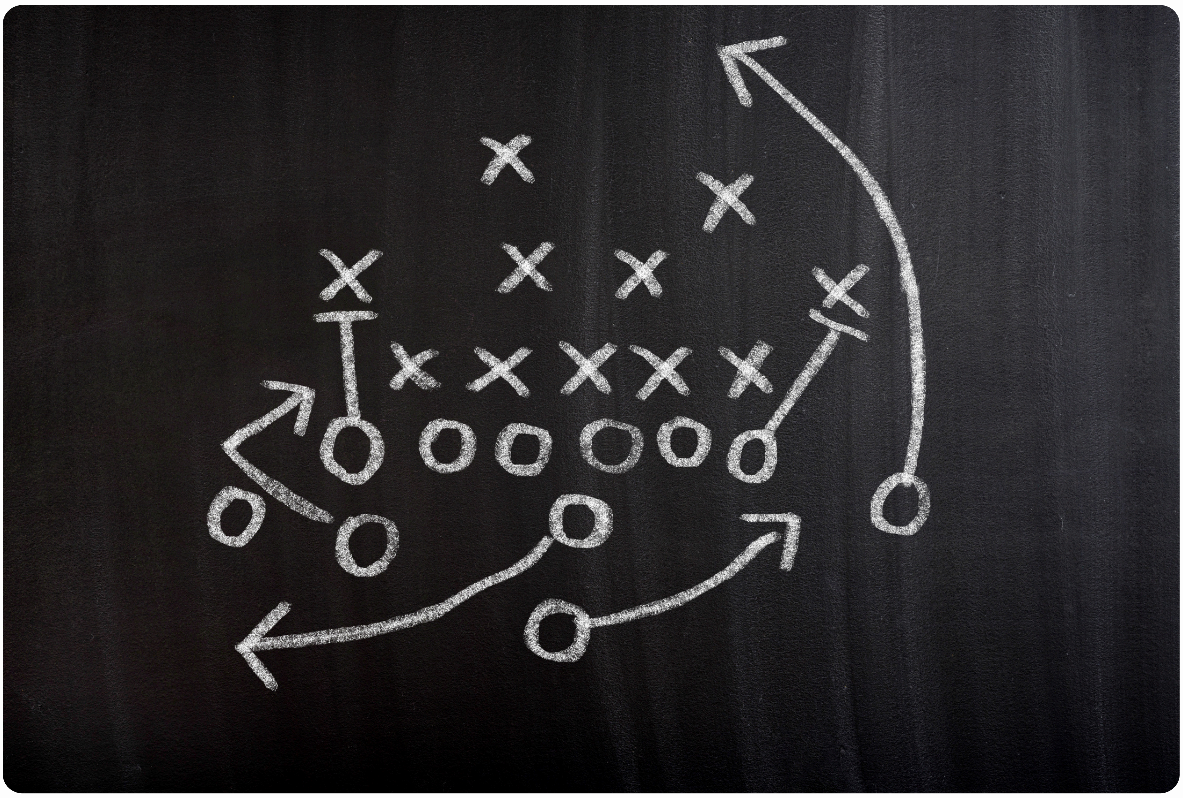
What's the Final Score?

The result wasn't a change in investment philosophy. It was a more tax-efficient portfolio, greater planning flexibility, and a coordinated strategy designed to help preserve more of the wealth the business owner had worked hard to build.

Plan Updates in a Snapshot:

- Review tax law changes and update the game plan
- Use direct indexing strategies to improve tax efficiency
- Harvest losses in municipal bonds while maintaining portfolio goals

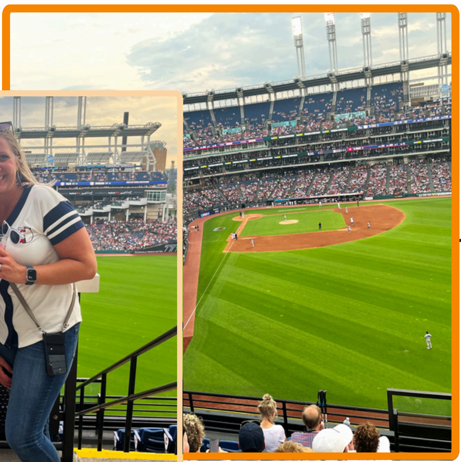
At DWT, we believe successful wealth management is about more than investment returns. It's about combining investment management, tax planning, and trusted partnerships to help clients stay focused on their long-term financial goals and move closer to the end zone.



Disclaimer: *The scenario presented above is a hypothetical illustration based on common client planning situations. It is intended for educational purposes only and does not represent any specific client or actual experience. Individual circumstances vary, and planning strategies should be tailored to each client's unique financial situation.*

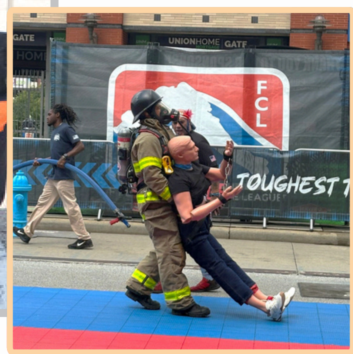
Invested in Our Clients and Community

Business owners and industry experts gathered to discuss business exit planning, growth, and future opportunities at the 2026 Spring Business Owner Strategy Summit.



We enjoyed an evening of baseball, connecting, and great company at the Cleveland Guardians game with some of our amazing clients.

Honored to support the Northeast Region Firefighter Challenge and the incredible first responders who serve our communities every day.



Clients gathered at Michael Angelo's Winery for a Leadership Social Hour featuring insights on strategic leadership from retired U.S. Navy Commander and Special Operations Officer Matt Myers.

Employee Spotlight:
Alex Wells-Brooks

Client Service Associate

What is your role at DWT, and what do you enjoy most about it?

I enjoy getting to know my clients and putting a face and backstory to their name.

What has been your proudest accomplishment, either professionally or personally?

Personally, it's being a wife and mother, Period. A proud accomplishment professionally is being in this role for 8 years.

What's your favorite vacation spot?

Any beach in the Gulf of Mexico because I am a snob for the white sand.

What is something on your bucket list?

To learn Italian and visit Italy and speak only in Italian. I want to visit where my family is from and speak with the relatives who are still there.

What do you like to do outside of work?

3 of my 4 kids are still in school so my free time outside of work consists of school sports. My husband coaches high school football so I can also be found attending his games.

What is the best piece of advice you've ever received?

There is a way to fix almost any mistake.

Congratulations!

We're proud to recognize our advisors for their recent accomplishments. These honors reflect their dedication to serving clients and supporting our community every day.

Matthew Wracher

Managing Partner

2026 Forbes Best-In-State Top Wealth Advisors

2026 AdvisorHub Advisors to Watch Over $1B

Jason DiLauro

Managing Partner

2026 Forbes Best-In-State Top Wealth Advisors

Nathan Cope

Vice President

2026 Forbes Best-In-State Next-Gen Wealth Advisors

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