FOR YOUR INFORMATION

How well is my investment performing?

Right around this time of year, many clients unknowingly mistake the "unrealized gain (loss)" section on their monthly account statement with the actual performance of their investment. This is a relatively common occurrence, so we thought we'd share some information with you about how best to interpret this information on your monthly account statement.

The underlying cause of confusion primarily lies in the difference between two terms: "original cost" (sometimes referred to as "purchase price") and "adjusted cost basis."

Original cost (purchase price)

Original cost is the total amount you invested to purchase a security, such as a mutual fund. In other words, this is the amount of principal that you have invested in the fund.

Example A

If you invested $10 of principal in XYZ fund, and down the road that mutual fund is worth $11, you can compare your original cost of $10 to the current value of $11 and easily see that you have gained $1, or 10%.

Holdings

Description	Quantity (number of shares)	Price on 11/30/16	Current Market Value	Original/Adjusted Cost Basis	Unrealized Gain (Loss)
XYZ mutual fund	1	$10	$11	$10	$1

Adjusted cost basis

Adjusted cost basis — sometimes called cost basis or tax cost basis — is an income tax term that defines how the investment will be taxed upon sale. Depending on the type of investment vehicle, the adjusted cost basis of the investment will be the original cost *plus* any reinvested interest, dividends or capital gains.

Mutual funds (and exchange-traded funds) are made up of stocks and/or bonds pooled into one investment. A fund realizes a long-term or short-term capital gain/loss every time it sells an investment for more/less than its purchase price. At the end of the year, mutual funds are required to "pass-through" capital gain and/or dividend distributions to their shareholders. When the fund pays out the distribution, the share price of the fund drops by the value of the distribution.

You are required to pay taxes on these mutual fund distributions regardless of whether you reinvest in additional fund shares or receive your distributions in cash. Note: this does not impact your mutual funds that are held in tax-advantaged accounts such as IRA, 401(k) and 403(b) accounts.

When you reinvest your distributions

Because you have paid taxes on your mutual fund distributions, when you **reinvest these distributions**, you are buying new mutual fund shares with post-tax money. To ensure that you do not pay tax on these distributions twice (now and at the time of the sale of the fund), your original cost must be increased by the value of the distributions to create an increased adjusted cost basis.

Example B

You invested $10 in XYZ fund, which has grown in value to $11 (10% performance return). The fund then pays a $2 distribution and the share price falls by $2. You then reinvest the distribution and buy new shares in the fund at the lower share price (your investment is still worth $11). Your tax cost basis "adjusts" higher by $2, from $10 to $12. It appears on your statement as if you have a $1 loss when in reality you have made $1 in performance return (10%).

Holdings

Description	Quantity (number of shares)	Price on 11/30/16	Current Market Value	Original/Adjusted Cost Basis	Unrealized Gain (Loss)
XYZ mutual fund	1.22	$9	$11	$12	($1)

Since you reinvested your distribution, this is your adjusted cost basis, not your original cost, which was $10

Note: In this example you bought .22 new shares at $9 per share

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When you take your distributions in cash
When you choose to receive your mutual fund distributions in cash (or have them deposited into a different account), it is easy to forget to factor in these distributions when looking at overall fund performance.

Example C
You invested $10 in XYZ fund, which has grown in value to $11 (10% performance return). The fund then pays a $2 distribution, which decreases the current market value by $2 (to $9), but pays you $2 in cash. It appears on your statement as if you have a $1 loss when in reality you have made $1 in market value gain, or 10% on your investment.

Holdings

Description	Quantity (number of shares)	Price on 11/30/16	Current Market Value	Original/Adjusted Cost Basis	Unrealized Gain (Loss)
XYZ mutual fund	1	$9	$9	$10	($1)

Summary

Knowing how well your investments are performing is an important component of any financial plan. The best source of this information is of course your wealth advisor, and in between visits, your quarterly performance report.

In a nutshell, if you want to understand how well your investment is **performing**, your best source of information is your quarterly performance report. If you want to understand the **tax impact** of selling the investment, then your monthly statement provides that information.

Please don't hesitate to call us if you have any questions about this or other important financial planning topics.

Mesirow Wealth Advisors is committed to you
Mesirow Wealth Advisors understands the challenges and pressures that individuals face when trying to manage their personal wealth, throughout the many stages and events of a lifetime. We partner with you to understand your personal goals, and then together we develop a plan designed to accumulate, grow, protect and distribute your wealth as planned. We are dedicated to helping you make the best financial decisions that support your most important life decisions.

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