



## TAX AWARE

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### Should Taxable Investors Shun Dividends?

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While the benefits of capital gains management to the tax efficiency of investment strategies have been extensively documented in the literature, evidence on the benefits of avoiding high-dividend-paying stocks is less conclusive. We evaluate the tax benefit of dividend avoidance for quantitative multi-style strategies. We find that dividend avoidance generally reduces implementation efficiency, thus lowering expected pre-tax returns. Such reduction in implementation efficiency is particularly pronounced for strategies with naturally higher dividend yields, such as strategies with a large exposure to the value style. Importantly, dividend avoidance detracts from the ability to manage capital gains. All things considered, the tax benefit of lowering the dividend yield is not enough to compensate for the associated increase in capital gains taxes and decrease in expected pre-tax returns.

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