

Asset Location Made Simple

The free 5-page guide that shows you EXACTLY which investments belong in which accounts



The Basic Rule

Most tax-efficient → Taxable Account

Highest expected growth → Roth Account

Everything else → Pre-Tax Account

Taxable Account → Put these here:

- Total Stock Market Index funds (VTI, VTSAX, etc.)
- Large-cap index funds
- Most tax-efficient funds (low turnover, minimal distributions)

Why?	What to avoid putting here?
These funds have the lowest "tax drag" - they don't generate many taxable events while you hold them. You'll pay taxes on gains only when YOU decide to sell.	Actively managed funds, REITs, bond funds (except tax-free municipal bonds)

ROTH ACCOUNT → Put these here:

- Growth funds (like Fidelity Blue Chip Growth)
- Small-cap funds
- Whatever you expect to grow the most
- Higher turnover funds, e.g. actively managed mutual funds (if you must hold them)

Why?

All growth in a Roth is tax-free forever. Since Roth contribution limits are low, maximize the growth potential of every dollar you can get in there.

Strategy Tip

If you can only pick one fund for your Roth, pick the one you think will be worth the most in 20-30 years.

PRE-TAX (TRADITIONAL) ACCOUNT → Put these here:

- International funds (you don't lose the foreign tax credit)
- Bond funds
- REITs
- Less tax-efficient funds
- Everything that doesn't fit the other two categories

Why?

You'll pay taxes on withdrawals anyway, so tax efficiency during accumulation matters less. This is often your largest account, so it holds the "leftover" allocation.

Quick Decision Tree

Step 1: Is this fund very tax-efficient (low turnover index fund, e.g. large cap index)?
→ YES: Consider taxable account

Step 2: Do I expect this to grow the most over the next 20+ years?
→ YES: Put in Roth

Step 3: Everything else goes in pre-tax

The “36 Transactions” Problem (And Solution)

The Problem: If you have multiple accounts with multiple funds, you might think you need to rebalance every single fund in every single account. Example: 6 accounts × 6 funds = 36 potential transactions every time you rebalance.

The Smart Solution: Only make trades in 1-2 accounts that have enough money to fix your overall allocation.

INSTEAD OF THIS (COMPLICATED)

You're currently 75% stocks, 25% bonds but want 70% stocks, 30% bonds. You need to move \$5,000 from stocks to bonds.

What most people think they need to do:

- Sell \$800 stocks in 401k, buy \$800 bonds in 401k
- Sell \$600 stocks in Roth IRA, buy \$600 bonds in Roth IRA
- Sell \$900 stocks in taxable account, buy \$900 bonds in taxable account
- Sell \$700 stocks in spouse's 401k, buy \$700 bonds in spouse's 401k
- Sell \$1,000 stocks in spouse's Roth, buy \$1,000 bonds in spouse's Roth
- Sell \$1,000 stocks in spouse's taxable, buy \$1,000 bonds in spouse's taxable

✗ Result: 12+ transactions, bonds in wrong accounts, potential tax events

DO THIS (SIMPLE):

Check your pre-tax accounts first (401k, traditional IRA) – these should hold most of your bonds anyway.

If your 401k has \$5,000+ in stocks:

- Sell \$5,000 of stocks in your 401k
- Buy \$5,000 of bonds in your 401k

✓ **Result: 2 transactions, bonds in the right account, no taxes**

REBALANCING PRIORITY ORDER:

1. Pre-tax accounts (401k, traditional IRA) – best for bond purchases
2. Roth accounts – but only trade between stock funds, avoid adding bonds
3. Taxable accounts – last resort due to tax consequences

“WHAT IF THE “RIGHT” ACCOUNT DOESN'T HAVE ENOUGH MONEY?”

Option 1: Use multiple accounts of the same type (e.g., both your 401k AND your spouse's 401k)

Option 2: Make a smaller rebalancing trade now, redirect future contributions to fix the rest

Option 3: Temporarily hold a “wrong” asset in an account, then fix it with your next contribution

THE KEY PRINCIPLE:

Good asset location beats perfect rebalancing. It's better to be slightly off your target allocation than to put the wrong assets in the wrong accounts just to minimize transactions.

Joe's Rule: Pick the account that has enough money AND makes sense for what you're buying/selling.

Common Mistakes to Avoid

- **Don't obsess over perfection** - "close enough" beats perfect
- **Don't put bonds in Roth** (unless they're high-yield junk bonds)
- **Don't put your highest-growth expectations in pre-tax** - you're wasting Roth space
- **Don't rebalance in every account** - pick 1-2 accounts and make it simple

The "Good Enough Principle"

From the podcast: You don't need 16.75% allocation - just round to 15% or 20%. The efficient frontier changes every year anyway. Focus on getting the big decisions right, not the tiny optimizations.

Remember: The goal is tax efficiency over decades, not perfection in any single year.

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