

## WHAT DO YOU NEED TO KNOW

# Mandatory Cost Basis Reporting

## General Information

Cost basis information for mutual fund shares purchased on or after January 1, 2012, and subsequently redeemed are reported to shareholders and the IRS on Form 1099B beginning with the 2012 tax year. Cost basis information for shares purchased prior to January 1, 2012, will be reported only to eligible shareholders using the Average Cost method.

Since January 1, 2012, accounts have two (2) pools of shares that calculate cost basis separately, covered and noncovered shares. Shares acquired **after** January 1, 2012, are generally called "covered." For tax purposes only, they will be considered to be in a separate account from shares acquired before this date. Shares acquired **before** January 1, 2012 are called "noncovered." The calculations in these two pools of shares are completely separate from one another. This also means that any shares purchased after January 1, 2012 will not be considered a wash for noncovered shares. Covered shares may become noncovered shares if basis information is not provided when shares are transferred between custodians, such as when shares are transferred from a brokerage account to an account held directly with the fund company.

## Noncovered Shares and Voluntary Cost Basis Reporting

For noncovered shares, Guggenheim Investments provides cost basis to eligible shareholders using the Average Cost method.

Please note that noncovered shares may include shares purchased before or after the effective date of January 1, 2012. We will generally be able to provide cost basis information for shares acquired before this date as long as there was not a transfer or certain other share adjustments in the account.

## Fund Default

Guggenheim Investments will use Average Cost to calculate cost basis on covered shares unless other instructions are provided by the shareholder.

## Account Level Default and Available Methods

If a shareholder does not wish to use Average Cost for their covered shares, they may elect a different account level default method to be used for all current and future funds in their account. When electing an account level default, we ask that shareholders provide a complete list of accounts to which the method should apply.

Shareholders may select among the following methods that will be handled systematically:

- Average Cost (Fund default method, no action required to use this method)
- FIFO—First In First Out: The oldest available lots are redeemed first.
- LIFO—Last In First Out: The newest available lots are redeemed first.
- HIFO—Highest Cost In First Out: The highest cost lots are redeemed first.

Shareholders may also specifically identify individual cost basis share lots that they wish to sell at the time of a redemption or exchange redemption. If a shareholder wishes to specifically identify shares, they must select an account level default among FIFO, LIFO and HIFO. Average Cost cannot be used with specific share identification because all lots would carry the same averaged cost.

Shareholders may now make a cost basis method election at the time the account is opened. Existing shareholders may elect an account level default by:

- Logging into their account at [traderydex.com](http://traderydex.com) and selecting Cost Basis Method from the menu on the left.

OR

- Using the Cost Basis Method Election Form

OR

- By telephone at 877.887.9339 (Monday–Friday 8:30 a.m.–5:30 p.m. ET) (Only if not switching to or from Average Cost)

Shareholders who wish to use a method other than Average Cost are encouraged to elect it before they redeem or transfer

any covered shares. Any redemptions or exchange redemptions and certain transfers of covered shares will “lock in” the Average Cost for any remaining covered shares and a new method will only apply to shares purchased **after** the new method has been applied to the account. (See also Modifications to the Account Level Default).

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### Lot Depletion Method

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The order in which covered and noncovered shares are redeemed or transferred is referred to as the lot depletion method. Regardless of the account level default method selected for covered shares and unless requested otherwise at the time of the transaction, we will redeem shares in the following order:

- Undated, noncovered shares (for example: shares without complete cost basis history information)
- Noncovered shares in FIFO order
- Covered shares

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### Modifications to the Account Level Default

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**Important note:** Any modification to or from Average Cost must be made in writing or via traderydex.com.

#### Changing Methods

Shareholders may change their cost basis method for future redemptions at any time, including pending transactions up until close of business on the trade date. If a shareholder is changing from Average Cost to a different method any existing shares in the fund will retain their averaged basis and any newly purchased shares will begin to use their actual purchase cost.

For noncovered shares, Guggenheim Investments will only provide cost basis to eligible shareholders using the Average Cost method.

#### Revoking Average Cost

Shareholders may only revoke Average Cost if there have been no redemptions or exchange redemptions of covered shares in a given fund. If a fund has had an exchange redemption or redemption, the cost basis method may only be **changed** prospectively (see Changing Methods section above.)

Certain taxable fees, including advisor fees and postage fees, are considered redemptions and will also end a shareholder’s ability to revoke Average Cost.

When a shareholder revokes Average Cost, the cost basis is “unwound” and each cost basis lot is restored to its original purchase basis (subject to wash sale and other adjustments).

Revocation must be made in writing. This option is not currently available via traderydex.com.

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### Wash Sales

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As in the past and as required by the new regulations, we will adjust the cost basis of shares when a wash sale occurs. A wash sale occurs when shares are sold at a loss and there is a purchase of shares in the same fund and account 30 days before or 30 days after the sale. Upon the sale of a fund which triggers a wash sale, the loss will be adjusted to disallow the amount of loss attributable to a proportionate number of newly purchased shares.

This will result in some or all of a “realized” loss being disallowed for tax purposes. The amount disallowed due to the wash sale will then be added to the cost basis of the newly purchased shares. The purchase date of the new shares will also be adjusted based on the purchase date of the original shares.

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### Providing Instructions for Specific Share Identification and Different Lot Depletion Orders

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Shareholders who wish to select specific shares, and have already chosen a method other than Average Cost, may do so by phone at the time of the transaction.

The account level default method will apply to any activity that occurs in the account automatically, including:

- Systematic Withdrawal Plans (SWPs)
- Dollar cost averaging
- Transactions via traderydex.com (unless other details are provided by close of business on the trade date)
- Exchanges to money market required to cover drafts (check writing)
- Advisor fees

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### Traderydex.com

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Shareholders may make modifications to their account level cost basis method via traderydex.com. Changes made via the website may take up to two business days to process.

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### Confirmations and Statements

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Guggenheim Investments will provide written confirmation for any modifications to an account’s cost basis method.

Transaction confirmations include the cost basis method used (if other than Average Cost). Transactions that include specifically identified shares (outside of one of the systematic methods) will also have details about the selected lots.

Monthly statements will provide the account level default cost basis method.

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## Transfers

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To facilitate cost basis calculations, cost basis will be transferred with shares when they move to another account within Guggenheim Investments or when shares are transferred "in-kind" to or from another custodian. In most cases, this should happen automatically with no intervention from the shareholder. In the event that we fail to receive cost basis information on transferred shares, these shares will become noncovered.

Unless we are notified otherwise, we must assume that any transfers of ownership are made as gifts. Transfers between accounts with a common owner and transfers between spouses are not included.

### Inheritance Transfers

Previously, Guggenheim Investments did not maintain cost basis information specific to shares transferred due to inheritance. Under the new regulations, we will track cost basis for inherited shares. Unless instructed otherwise by a duly appointed estate representative, we will assign the adjusted basis equal to the fair market value on the date of death. If shares are being divided between two or more heirs, cost basis lots will be divided using FIFO.

### Gift Transfers

Unless notified, we must assume that any transfers of ownership are made as gifts. Transfers between accounts with a common owner and transfers between spouses are not included.

Unless specified otherwise at the time of the transfer, shares will transfer according to the cost basis method on the account. Shareholders must also provide the amount of gift tax paid (if any).

Recipients of shares gifted at a loss are subject to special considerations and procedures:

- Upon redemption either the fair market value as of the date of the gift or the donor's cost basis may be used, depending on the fair market value at the time of redemption.
- The shareholder may not use Average Cost for their basis method unless they notify Guggenheim Investments in writing that they will use the fair market value on the date of the gift as the basis for those shares.

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## 1099B Reporting

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Cost basis information for covered shares will be reported to the IRS and shareholders will be required to use the cost basis information for covered shares that appears on their Combined 1099 Div/B when preparing their taxes. Shareholders may be required to make adjustments to the information Guggenheim Investments reports while preparing their taxes (i.e. adjustments for wash sales of shares held in other accounts).

Except for fund actions (i.e. returns of capital) and errors that we control, Guggenheim Investments will not adjust cost basis selections after close of business on the trade date. Guggenheim Investments may also be required to issue a corrected 1099B if a corrected transfer statement is received for shares transferred into a Guggenheim Investments account. Guggenheim Investments will make required adjustments to cost basis for up to three years. If a shareholder receives a corrected cost basis statement, they may be required to amend prior year tax filings.