Introduction to Tax-Loss Harvesting
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What is Tax-Loss Harvesting?
Tax-loss harvesting is the process of selling a security at a loss for the purpose of capturing, or harvesting, a capital loss to offset a current or expected capital gain. Capital gains usually come from the sale of appreciated assets, which might include low-cost basis securities, a business, or even from unwanted and unexpected sources such as mutual fund capital gains distributions. Capturing losses to offset current gains and offset future gains may be a prudent strategy after the long run of the current bull market.

There are many strategies investors implement to capture losses. Many investors and their advisors capture losses at year-end, not a recommended practice by those who understand how loss harvesting works and how to implement it. A rigorous, ongoing process has proven to be the best way to efficiently and effectively capture losses. Here are three of the most popular methods:

<table>
<thead>
<tr>
<th>Bailing Out Strategy</th>
<th>Sell and Repurchase Strategy</th>
<th>Green Harvest Strategy</th>
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</thead>
<tbody>
<tr>
<td>A security is sold and no attempt to replace the exposure occurs.</td>
<td>A security is sold and repurchased after 31 days.</td>
<td>A security is sold and simultaneously swapped with a similar security.</td>
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<tr>
<td><img src="sell.png" alt="Sell ABC Stock, mutual fund, or ETF" /></td>
<td><img src="sell.png" alt="Sell ABC Stock, mutual fund, or ETF" /></td>
<td><img src="sell.png" alt="Sell ETF #1" /></td>
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<td><img src="wait.png" alt="Wait 31 days" /></td>
<td><img src="buy_back.png" alt="Buy back ABC Stock, mutual fund, or ETF" /></td>
<td><img src="buy.png" alt="Buy ETF #2" /></td>
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<tr>
<td>Loss is captured; no similar security purchased</td>
<td>Loss is captured; cash exposure for 31 days</td>
<td>Loss is captured; similar exposure maintained</td>
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All three have potential benefits and drawbacks. One may be chosen over another depending on the client’s overall investment strategy. A closer look at the three uncovers some interesting outcomes.

The Bailing Out Strategy
So, you bought the high-flying growth stock everyone was talking about. They all purchased it when it was a fraction of its current price and they think it will be their pick of the decade. You bought it on the day that it hit it has all-time high and it has since given up almost half of its value. You have now admitted to yourself it was a mistake and you want to sell it and forget about it. The loss you capture is the difference between its initial value and current value. You start your quest for the next high-flyer.

Benefits: You have captured a loss. You may match this loss against a similar gain to reduce your capital gains exposure. If you have no gains for this calendar year, you may be able to "carry the loss forward" into the next calendar year. As you have no intention of re-purchasing the same security, you will not run afoul of any IRS tax rules regarding repurchasing a "substantially identical" security or exposure.

Drawbacks: You no longer have exposure to this company and perhaps its industry or sector. If the security turns higher, you do not own the benefit of any potential upside. If the security is an individual equity, there is likely no "substantially similar" security to "swap" into to maintain exposure.
Sell and Repurchase Strategy
As in the first loss-harvesting strategy, you bought the high-flying growth stock everyone was talking about for the same reason and at the same time and you currently have the same loss. Except this time, you still like the story. Perhaps some news outside the company, or even outside its industry, has taken down many companies including the one you purchased. You would like to own this stock for a longer period of time, but you would also like to capture a loss. The loss you capture is still the difference between its initial value and current value. This time, you wait the 31 days required to avoid violating the IRS wash sale rules and you then re-purchase the same stock.

Benefits: You have captured a loss. You may match this loss against a similar gain to reduce your capital gains exposure. If you have no gains for this calendar year, you may be able to “carry the loss forward” into the next calendar year. As you have no intention of re-purchasing the same security, you will not run afoul of any IRS tax rules regarding repurchasing a “substantially identical” security or exposure.

Drawbacks: You no longer have exposure to this company and perhaps its industry or sector. If the security turns higher before you re-purchase it, you do not own the benefit of any potential upside. If the security is an individual equity, there is likely no “substantially similar” security to “swap” into to maintain exposure. Beyond waiting 31 days, you also need to understand all the nuances of the wash sale rule to avoid the many traps that would disallow a loss.

The Simultaneous Swap, or the Green Harvest Strategy
This is the most complex, yet likely, the most valuable strategy of the three. It requires a fair knowledge of the rules and time to research your “swap candidate” as well as your initial purchase. Your ability to trade two securities quickly and for the about the same dollar value is also required. Perhaps most importantly, the security should be “substantially similar” but not “substantially identical”.

Benefits: You have captured a loss, with all that would imply for any other trade that would have the same outcome. If you have purchased a “substantially similar” security, you should not run afoul of any IRS tax rules regarding repurchasing this exposure. For investors that have a requirement to minimize “tracking difference”, this is the only viable strategy as if the security price goes up, your exposure is maintained. If you are actively capturing losses, swapping allows you to capture additional losses.

Drawbacks: Although you likely own a similar exposure, you no longer have exposure to exactly the same exposure, as this would be a signal that you have violated the IRS wash sale rule by owning a “substantially identical” security. If you sold a security with a unique and favorable attribute, you might not experience the same benefit. If the security is an individual equity, there is likely no “substantially similar” security to “swap” into to maintain exposure. You may end up swapping one individual company for another and the two companies may not act as similar as you would have liked. If the newly acquired security increases in value in the next 30 days and you need to sell it to buy back the original security, you may incur a gain, which may offset your loss. You also need to understand all the nuances of the wash sale rule to avoid the many other traps that would disallow a loss.

Tax Deferral or Tax Avoidance
Capturing a loss is likely a “tax deferral” strategy meaning that an investor will eventually end up owning a security at its lowest historical price and selling it at some future point and likely realizing a gain.
Learn more about Tax Deferral or Tax Avoidance.

Reinvestment of Your Tax Alpha
The statement “a penny saved is a penny earned” has never been more applicable than it is here. The pennies, or dollars you save here can be reinvested and continue to work for you for years or even decades to come.
Learn more about Reinvestment of Your Tax Alpha.

Benchmarking Your Loss Capture Efficiency
There are a handful of asset managers and investment advisory firms that offer loss harvesting as a feature or benefit to their investment process. As most of these managers attempt to match the return of a broad index, measuring their success of that part of their process should be a simple exercise. We believe a manager’s ability to capture losses versus the availability of losses should be benchmarked as well.
Learn more about **Benchmarking Your Loss Capture Efficiency**.

**Best Products for Loss Harvesting**

Although most investors think about harvesting losses with individual equities and municipal bonds, almost any securities can be used for capturing losses. Exchange-traded funds (ETFs) are, in our view, the best candidate for an effective loss harvesting strategy.

Learn more about **Best Products for Loss Harvesting**.

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This insight was prepared to support the marketing of Green Harvest Asset Management's investment products, as well as to explain its tax-loss harvesting strategies. Nothing in this white paper should be construed as tax advice, a solicitation or offer, or recommendation, to buy or sell any security.

There is no guarantee that the tax consequences described as part of its tax-loss harvesting service will be achieved or that Green Harvest Asset Management's tax-loss harvesting service, or any of its products and/or services, will result in any particular tax consequence. The tax consequences of the tax-loss harvesting service and other strategies that Green Harvest Asset Management may pursue are complex and uncertain and may be challenged by the IRS. The information with regard to this service was not prepared to be used, and it cannot be used, by any investor to avoid penalties or interest.

The effectiveness of the tax-loss harvesting strategy to reduce the tax liability of the client will depend on the client's entire tax and investment profile, including purchases and dispositions in a client's (or client's spouse's) accounts outside of Green Harvest Asset Management and type of investments (e.g., taxable or nontaxable) or holding period (e.g., short-term or long-term). Except as set forth above, Green Harvest Asset Management will monitor only a client's (or client's spouse's) Green Harvest Asset Management accounts to determine if there are unrealized losses for purposes of determining whether to harvest such losses. Transactions outside of Green Harvest Asset Management accounts may affect whether a loss is successfully harvested and, if so, whether that loss is usable by the client in the most efficient manner.

When Green Harvest Asset Management says it replaces investments with "similar" investments as part of the tax-loss harvesting strategy, it is a reference to investments that are expected, but are not guaranteed, to perform similarly and that might lower an investor's tax bill while maintaining a similar expected risk and return on the investor's portfolio. Expected returns and risk characteristics are no guarantee of actual performance.

Prospective investors should confer with their personal tax advisors regarding the tax consequences of investing with Green Harvest Asset Management and engaging in these tax strategies, based on their particular circumstances. Investors and their personal tax advisors are responsible for how the transactions conducted in an account are reported to the IRS or any other taxing authority on the investor's personal tax returns. Green Harvest Asset Management assumes no responsibility for the tax consequences to any investor of any transaction.

**ETF Fee and Performance Disclosure**

An ETF typically includes embedded expenses that may reduce its net asset value, and therefore directly affect its performance and indirectly affect a Client's portfolio performance or an index benchmark comparison. These expenses may include management fees, custodian fees, and legal and accounting fees. ETF expenses may change from time to time at the sole discretion of the ETF issuer. Green Harvest Asset Management discloses each ETF's current information, including expenses, on the Site or App. ETF tracking error and expenses may vary.

Furthermore, ETF performance may not exactly match the performance of the index or market benchmark that the ETF is designed to track because 1) the ETF incurs expenses and transaction costs not incurred by any applicable index or market benchmark; 2) certain securities comprising the index or market benchmark tracked by the ETF may, from time to time, temporarily be unavailable; and 3) supply and demand in the market for either the ETF and/or for the securities held by the ETF may cause the ETF shares to trade at a premium or discount to the actual net asset value of the securities owned by the ETF. Clients should be aware that in some limited instances it may be difficult or impossible to trade the Clients’ securities. This liquidity risk may be caused by numerous factors, including but not limited to: 1) extreme market volatility, 2) a decision by exchange participants to withhold some or all of their quoted market bids, 3) exchange technical issues or exchange closure, 4) delisted or halted securities, and/or 5) a position across Client accounts that is large relative to the average daily trading volume of the security.