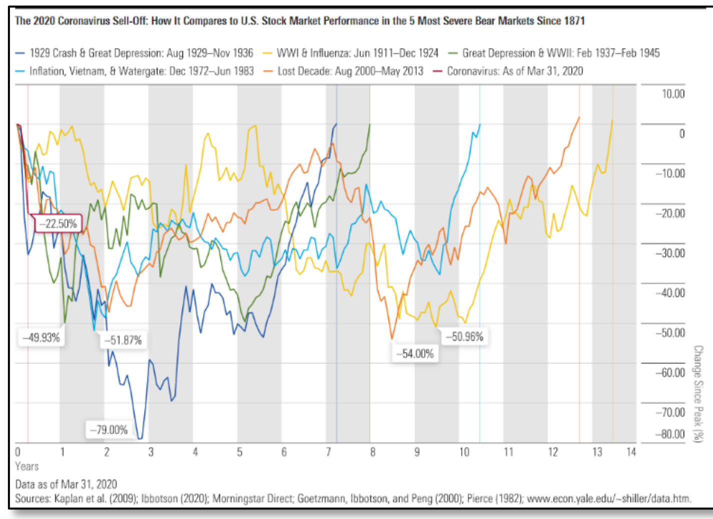
ASSET MANAGEMENT

April 20, 2020

Harvesting Strategy

Not Throwing Away Your Shot

After the March 9, 2009 bottom during the Great Financial Crisis (GFC), the S&P 500 went on to return over 500%. Investors who had stayed the course, or better yet invested more during the crisis, were well rewarded. Fast forward to today, the S&P500 added 3% last week, elevating the recovery off of its March 18 low to a cumulative +28.7%. The widely regarded U.S. equity large cap index is now just 14.8% off its all-time highs. An enduring rally? Or a bear market bounce with lower lows ahead, as comparisons to other bear markets suggest (see chart[1])? Whatever their view, investors' fundamental choices are either to sell/hedge or maintain/increase equity exposure. Either way, investors should consider the value of integrating a Tax Benefit Capture (TBC) strategy into this equation.



On the one hand, market declines are where the opportunities for significant TBC occur. As my colleague Jeff Conway, CIO of Green Harvest, discussed last week, our average account captured most if not all of the potential TBC available during the recent peak-to-trough 33.9% decline.[2] Throughout each and every day, our Smart Capture discipline sought out tax benefits, such that whenever the market bottomed, we would have captured all that could be captured. However, even if the bottom is (hopefully) already behind us, it's still possible to capture tax benefits in rising markets. For the better part of 2017, the S&P500 rose nearly unmitigated yet Green Harvest still captured 2.5 percent in losses by year-end in our S&P500 benchmarked strategy. In either case, we did not want to, and ultimately did not throw away our shot.

One of the important roles that financial advisors have is to help investors through volatility so they don't give up and sell out at the bottom. It's easier to do perhaps when they're capturing benefits in both up and down markets. They don't just stay the course, they make their shot count too.

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Download Our Latest White Paper: Future Value of Tax Benefits

[1]Kaplan, Paul Ph.D., CFA. "What Prior Market Crashes Can Teach Us About Navigating the Current One." *Morningstar*, April 16, 2020
[2]One measure or benchmark of the potential available TBC is the broad index's maximum drawdown. In this case, an account invested at the S&P500 peak on February 19, 2020 would have a potential TBC of 33.9%. See our white paper for further discussion

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Market Data Heat Map Summary for week of April 13 – April 17, 2020:

Market Exposure	Sectors/Regions with GHAM Tax Benefit Capture	Total Return (%)	Weekly Max Drawdown (%)	Weekly Max Drawdown Day of Low
S&P500		**3.0%**	**-2.9%**	**Wednesday**
Materials	X	-2.3%	-7.6%	Thursday
Energy	X	0.1%	-9.6%	Thursday
Financials	X	-4.2%	-9.9%	Thursday
Industrials	X	-0.2%	-6.1%	Thursday
Consumer Staples	X	4.1%	-2.8%	Tuesday
Utilities		-0.5%	-4.6%	Thursday
Health Care		6.3%	-2.3%	Monday
Real Estate	X	-2.8%	-6.4%	Thursday
Info Tech		4.8%	-2.9%	Wednesday
Consumer Discretionary	X	5.9%	-3.4%	Wednesday
Communication Services		4.0%	-2.3%	Monday
MSCI ACWI Ex-US		**0.8%**	**-3.5%**	**Thursday**
Asia Ex-Japan	X	3.2%	-2.0%	Wednesday
Japan	X	0.9%	-2.3%	Thursday
Australia	X	2.2%	-3.1%	Wednesday
Switzerland		-0.6%	-5.1%	Thursday
EuroZone	X	-0.6%	-5.8%	Thursday
United Kingdom	X	-0.9%	-5.1%	Wednesday
Lat America	X	-2.1%	-5.6%	Thursday
Canada	X	0.0%	-4.0%	Wednesday

Darker areas indicate a greater number of tax benefit capture trades were executed in those market exposures across all eligible accounts for period specified. Conversely, lighter areas had fewer TBC trades.

Max Drawdown calculated as max decline from interim peak to Intra-Day Low.

Market Data Source: Bloomberg

Market statistics calculated using representative ETFs.

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GHAM does not provide tax advice. Although GHAM does not employ a Certified Public Accountant on its staff, we have, and continue to work with outside accounting firms and outside tax counsel that provide ongoing guidance and updates on all relevant tax law. Federal, state and local tax laws are subject to change. GHAM is not responsible for providing clients updates on any changes in tax laws, rules or statutes.

Reasons to harvest capital losses, sources of capital gains and the suggestion that mutual funds distribute capital gains are for example purposes only and not meant to be tax, estate planning or investment advice in any form or for any specific client.

All performance and estimates of strategy performance, after tax alpha, after tax alpha opportunities and other performance figures are derived from data provided from multiple third-party sources. All estimates were created with the benefit of hindsight and may not be achieved in a live account. The data received by GHAM is unaudited and its reliability and accuracy is not guaranteed.

The availability of tax alpha is highly dependent upon the initial date and time of investment as well as market direction and security volatility during the investment period. Tax loss harvesting outcomes may vary greatly for clients who invest on different days, weeks, months and all other time periods.

All estimates of past returns of broad, narrow, sector, country, regional or other indices do not include the impact of advisor fees, unless specifically indicated. Past performance and volatility figures should not be relied upon as an indicator of future performance or volatility.

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Hedged Strategies Risk

The Hedged Strategies take "short" positions by selling an index ETF that the client portfolio does not own, which exposes the portfolio to costs and risks that are not associated with owning securities long. Certain of these costs and risks are described in the margin disclosure statement provided to you by the financial institution holding your account, and we encourage you to discuss those risks and costs with your advisor. The following disclosure discusses the risks related to Green Harvest's investment strategy.

A short position has an opposing or "inverse" relationship to a long position on the same asset. Generally, the short index position will lose money when the overall long portfolio is rising in value, and the short position will increase in value when the long portfolio is losing money. This relationship provides the "hedging" aspect of the Strategy. Green Harvest seeks to short an index ETF that is expected to have a strong inverse relationship with the strategy benchmark. If the index ETF underlying the short position deviates from this inverse correlation to the benchmark performance, then the Strategy will not perform as desired, and you could have limited tax loss harvesting outcomes as well as low or negative portfolio returns. Although the short position is intended as a hedge against negative or low returns of the markets, the Strategy's return may be negative. Any dividends paid by ETFs underlying the short position must be paid to the institution lending the security and thus will not generate income for your account.

Tax loss harvesting opportunities exist when the long portfolio has gains and when the short position has losses. Portfolio losses may result in margin calls from your financial institution, and when you instruct Green Harvest to sell portfolio assets in response to margin calls, such sales could generate taxable capital gains. Alternatively, you will be required to add cash to the account in response to margin calls.

Short positions can lead to more volatile performance of the underlying security. In addition, the ETFs underlying short positions may experience periods of low trading volume or reduced liquidity, which would restrict the ability to enter short positions. In these periods, Green Harvest can seek to enter short positions through other available transactions, which may have higher transaction costs. All investments are subject to liquidity risk, especially when markets are not functioning normally. If Green Harvest is unable to acquire or dispose of holdings quickly or at prices that represent perceived market value, then the Strategy will be negatively impacted. Examples of events that can lead to heightened liquidity risk include domestic and foreign economic crises, natural disasters, political instability, and regulatory changes.