Green Harvest
ASSET MANAGEMENT

April 27, 2020

Harvesting Strategy

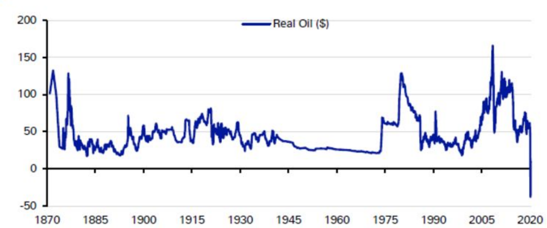
Investing While in the Upside Down

The advent of negative interest rates a few years ago left many investors wondering what stranger things we would see next. The recent world of investing bears an eerie resemblance to the “the Upside Down”, the alternate dimension found in Netflix’s hit show *Stranger Things*. With prices and signals turning upside down, it’s important not to get lost in the “good” or “bad”, but to try to understand the implications. For instance, as Larry Swedroe [recently highlighted], studies show that low/negative rates may in fact prompt additional risk taking.

For many things, a reasonable explanation can be offered. For instance, all the ‘home time’ triggered Netflix’s blowout customer growth during a period when GDP is turning negative and 26-ish million are recently unemployed. But stranger events have occurred in the world of investing lately:

- Oil for immediate delivery had a **negative** price last Monday (as in, less than zero – see chart).
- Then, last Tuesday, stocks went up along with the price of oil, despite (or perhaps because of) heightened geopolitical risk as military tensions with Iran escalated.
- During the March credit selloff, bond ETFs were likely the sources of liquidity, not the consumers.
- In March, despite the downturn, U.S. Equity ETFs had positive inflows.
- The Federal Reserve bought junk bonds (one of the many recent unprecedented Fed actions).

Figure 2: The cost of a barrel of oil in real USD terms



Source :Deutsche Bank, Global Financial Data

What does this all mean? Expect the transition to ETFs from mutual funds and individual bonds to continue. Asset prices may continue to behave in unexpected ways. Expect the “impossible”, because as Jared Dillian just colorfully opined, it is possible.

What should investors do? Here are 3 ideas to start with:

1. **Focus on what you can control, such as reducing costs to maximize returns.**
   a. Lower expenses with tax efficient, low-cost ETFs.
   b. Lower tax costs, the largest cost investors incur, through tax beneficial investing.
   c. Pay attention to liquidity and market conditions when trading.
2. **Plan and ensure portfolios are positioned for the appropriate levels and types of risk.** While “risk” may be increasingly harder to define, always be looking for more efficient and effective ways to manage equity or fixed income exposure.
3. **Last but not least, maintaining advisor/client communication is paramount.** Many of us are more isolated from each other in these times and no one wants to be alone when stranger things are happening.

Be safe and reach out to us with your thoughts.

Solomon G. Teller, CFA
Chief Investment Strategist
Green Harvest Asset Management

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Green Harvest Asset Management, LLC
888 7th Avenue, 4th Floor
New York, NY 10106
888-79HARVEST
www.greenharvestam.com

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Market Data Heat Map Summary for week of April 20 – April 24, 2020:

Market Exposure	Sectors/Regions with GHAM Tax Benefit Capture	Total Return (%)	Weekly Max Drawdown (%)	Weekly Max Drawdown Day of Low
S&P500		**-1.3%**	**-5.1%**	**Tuesday**
Materials		-0.8%	-5.3%	Tuesday
Energy		2.0%	-7.5%	Tuesday
Financials		-2.9%	-5.3%	Tuesday
Industrials		-2.4%	-5.3%	Tuesday
Consumer Staples		-3.0%	-4.4%	Tuesday
Utilities	X	-3.7%	-6.4%	Tuesday
Health Care		-0.5%	-4.1%	Tuesday
Real Estate	X	-4.2%	-6.3%	Tuesday
Info Tech	X	-0.7%	-6.3%	Tuesday
Consumer Discretionary		-0.6%	-5.0%	Tuesday
Communication Services		0.5%	-4.7%	Tuesday
MSCI ACWI Ex-US		**-1.0%**	**-3.8%**	**Tuesday**
Asia Ex-Japan		-1.4%	-3.4%	Tuesday
Japan	X	0.5%	-2.3%	Tuesday
Australia		-0.4%	-2.6%	Thursday
Switzerland		-1.5%	-5.1%	Tuesday
EuroZone		-2.7%	-4.3%	Tuesday
United Kingdom		-1.3%	-5.1%	Tuesday
Lat America	X	-10.6%	-12.0%	Friday
Canada		-0.1%	-3.6%	Tuesday

Areas with Tax Benefit Captures (TBCs) indicates where individual tax-loss harvest trades were executed in each market exposure across all eligible accounts for period specified.

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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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.

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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.