

May 18, 2020

Harvesting Strategy

3 Critical Tools for This Market Environment

We've all been trying to acclimate to our new circumstances. As investors, we also need to adapt to and innovate in changing market environments. For instance, all future risk management analysis will have to account for this year's [record pace of market decline](#). Ditto [unprecedented Federal Reserve intervention](#) amidst [record expected economic declines](#). One more, but not the least, is today's record low bond yields and interest rates (see chart).¹

Fortunately, investors aren't starting from scratch as there are already many tools and strategies that automatically adapt to changing market conditions. Here are three:

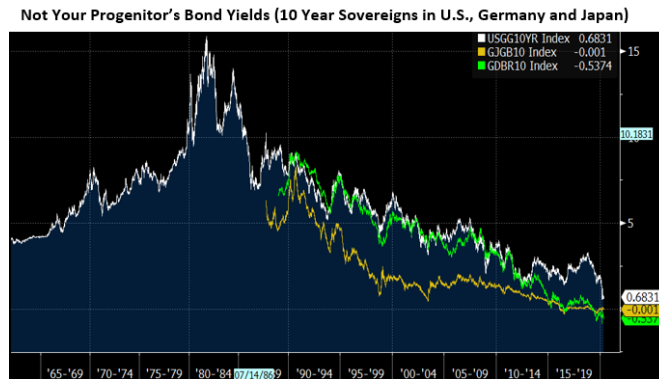
Indexes automatically adapt. Thirty years ago, the energy sector was more than double the size of the Tech sector. Today, over 20% of today's market capitalization-weighted S&P500 is comprised of 5 dominant tech firms, the FAAAM². The oldest of these is only 45 years young. Each of the FAAAM, except Facebook, has a larger market cap than the whole beleaguered energy sector put together. The dominance of the S&P500 by tech and communications also helps explain why it has performed so well of late.

Rebalancing is a strategy that can adapt our portfolios to new investment prices and expected returns as temporary winning positions are sold and proceeds added to losing positions. New technologies have facilitated tax-sensitive rebalancing but there can still be a tax cost to consider. Which brings us to our favorite and most recent development...

A robust Tax Benefit Capture strategy (TBC). Constructing portfolios with multiple ETFs, and swapping (i.e., simultaneously selling and buying) between similar ETFs when prices fall, can enable tax benefit capture without reducing investment exposure. A robust TBC program adapts to market conditions, accelerating, decelerating and/or modifying activities based on the client's circumstances as well as liquidity, volatility and cross-sectional correlation information.

It's clear investors are considering every option when thinking about adapting their portfolios and strategies to the new environment and market conditions. At Green Harvest, we're working hard to offer best-in-class TBC and other strategies as part of our small contribution to get us through the challenges we are all facing together.

Last, to end on a further optimistic note, sometimes humans adapt to new environments much better than expected. If you've read William Golding's 'Lord of the Flies', then you might enjoy this [truer to life](#)



¹ There are many changes today including job losses. This is not meant to be an exhaustive list. Here's a few more: <https://theirrelevantinvestor.com/2020/05/06/off-the-charts/>

² Facebook, Apple, Alphabet, Amazon, Microsoft. Listed in the order of their catchy acronym, not their market cap.

[version of actual English boys stranded on a deserted island](#). Be forewarned, it's a calmer tale of adaptation filled with friendship, loyalty and joy.

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Market Data Heat Map Summary for week of May 11 – May 15, 2020:

Market Exposure	Sectors/Regions with GHAM Tax Benefit Capture	Total Return (%)	Weekly Max Drawdown	
			(%)	Day of Low
S&P500		-2.1%	-6.7%	Thursday
Materials	X	-3.1%	-7.9%	Thursday
Energy	X	-7.2%	-11.6%	Thursday
Financials	X	-5.6%	-9.9%	Thursday
Industrials	X	-5.8%	-9.7%	Thursday
Consumer Staples	X	-1.3%	-3.7%	Thursday
Utilities	X	-2.4%	-4.5%	Thursday
Health Care	X	1.0%	-3.5%	Thursday
Real Estate	X	-7.1%	-10.0%	Thursday
Info Tech	X	-1.4%	-5.5%	Thursday
Consumer Discretionary	X	-1.5%	-6.1%	Thursday
Communication Services	X	-1.2%	-5.5%	Thursday
MSCI ACWI Ex-US		-2.6%	-4.5%	Thursday
Asia Ex-Japan		-2.0%	-2.0%	Friday
Japan		-1.0%	-3.6%	Thursday
Australia		-2.0%	-3.9%	Thursday
Switzerland		-4.7%	-6.9%	Thursday
EuroZone		-4.3%	-7.3%	Thursday
United Kingdom	X	-4.5%	-6.9%	Thursday
Lat America	X	-6.1%	-10.4%	Thursday
Canada		-3.1%	-6.4%	Thursday

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. Darker shaded areas contained more TBCs.

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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