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May 11, 2020

## Harvesting Strategy

How Did We Do?

Hope you had a wonderful Mother's Day. For many of us it's that much more difficult these days to celebrate anything together, and speaking for myself, any time with my mother and the mother of my children has seemed all the more precious.

We've talked the last few weeks about capturing tax benefits during the recent bear market decline and rebound. Some of you have also been asking for more specific Tax Benefit Capture (TBC)<sup>1</sup> statistics. Start date and other factors affect TBC outcomes and pose a challenge for meaningful comparisons.<sup>2</sup> To enable cleaner calendar-year assessments, we seeded several accounts in many of our strategies at the beginning of 2020. Our goal is to lead the industry in providing the maximum amount of benefits possible for a given target index or custom index(es). So how did we do?

- The U.S. Equity S&P 500-benchmarked strategy seed account opened at the beginning of the year had 30% cumulative TBC as of Friday's close.<sup>3</sup> To put this in practical terms, this would be equivalent to \$300,000 of potential capital gain offsets on a \$1 million investment in this strategy at the beginning of the year. The TBC opportunity during this period was significant given the sharp declines in equity markets in February and March. As such, these results would not be expected to be achievable in the future.
- The U.S. Equity S&P 500-benchmarked strategy seed account with a 50% hedge overlay opened at the beginning of the year had 32% cumulative TBC as of Friday's close. Again, these results are for a short time period that included significant market volatility, and Green Harvest does not expect these results to be repeatable over longer periods.

Green Harvest's initial strategies just celebrated their three-year anniversary. And this week marks the one-year anniversary of our weekly blog, which is one of the ways we aim to regularly stay in touch with you. To all our clients, readers and friends, we appreciate your business, your time and your support. Thank you and be well.

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[Download Our Latest White Paper: Future Value of Tax Benefits](#)

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<sup>1</sup>Tax Benefit Capture (TBC) in this context refers to the practice of purposely capturing realized losses to minimize taxes by offsetting realized gains.

<sup>2</sup>Examples of other factors include but are not limited to deposits, withdrawals and client specific adjustments

<sup>3</sup>For our purposes, percentage of cumulative TBC is calculated as total realized losses captured divided by initial \$ investment.

**Market Data Heat Map Summary for week of May 4 – May 8, 2020:**

Market Exposure	Sectors/Regions with GHAM Tax Benefit Capture	Total Return (%)	Weekly Max Drawdown	
			(%)	Day of Low
<b>S&amp;P500</b>		<b>3.4%</b>	<b>-1.6%</b>	<b>Monday</b>
Materials	X	3.3%	-2.1%	Monday
Energy	X	8.2%	-5.6%	Monday
Financials	X	1.0%	-3.4%	Wednesday
Industrials	X	1.3%	-2.7%	Monday
Consumer Staples	X	0.9%	-1.6%	Thursday
Utilities	X	0.5%	-3.5%	Wednesday
Health Care	X	1.6%	-1.5%	Tuesday
Real Estate	X	1.4%	-2.4%	Monday
Info Tech	X	6.6%	-2.2%	Monday
Consumer Discretionary	X	4.5%	-2.4%	Monday
Communication Services	0	4.6%	-1.7%	Monday
<b>MSCI ACWI Ex-US</b>		<b>3.0%</b>	<b>-1.1%</b>	<b>Monday</b>
Asia Ex-Japan	X	4.1%	-0.7%	Friday
Japan	X	2.8%	-1.3%	Monday
Australia	X	2.4%	-1.0%	Monday
Switzerland	X	3.1%	-1.5%	Monday
EuroZone	X	1.4%	-2.1%	Wednesday
United Kingdom	X	3.2%	-1.3%	Monday
Lat America	X	3.7%	-3.7%	Thursday
Canada	X	3.5%	-0.5%	Wednesday

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.



Disclaimers:

Performance quoted represents past performance, which is no guarantee of future results. Investment return and principal value will fluctuate, so you may have a gain or loss when the portfolio is liquidated. Current performance may be higher or lower than that quoted. Performance of an index is not illustrative of any particular investment. It is not possible to invest directly in an index.

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.

Performance and other figures are derived from data provided from third-party sources. The data received by GHAM is unaudited and its reliability and accuracy is not guaranteed.

The availability of TBC 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.

Past returns of 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.

This material is not intended to be relied upon as legal, investment or tax advice in any form or for any specific client. The information provided does not take into account the specific objectives, financial situation or particular needs of any specific person. All investments carry a certain degree of risk, and there is no assurance that an investment will perform as expected over any period of time.

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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.