Green Harvest
ASSET MANAGEMENT

May 4, 2020

Harvesting Strategy

Making the Most of the Journey There and (Mostly) Back Again

April 2020 Analysis: With the S&P500 gaining nearly 13%, April was the best month for U.S. stocks in 33 years.

We talked [two weeks ago about catching most, if not all, of the potential tax benefits to be had](#) during the 34%, 34-day S&P500 selloff that ended March 23rd. More interesting to our clients has been Green Harvest's ability to Tax Benefit Capture (TBC) during the ensuing 30% bounce.[1]

Wait…what?!? How does anyone capture tax benefits when markets are rising? Here are four ways we did just that in April:

Hedging

Some of Green Harvest's April TBCs were in accounts employing hedging strategies. By design, these strategies reduced overall portfolio declines on the way down. But they also provided meaningful TBC on the way back up as we were able to unwind hedges and replace with similar positions.

Buy the Dip

Clients who capitalized on declines and bought stocks at discounts have been well rewarded thus far. In addition to appreciation, new investments created additional opportunities for TBC as several sectors and regions experienced double digit drawdowns when measured intraday – see chart on next page.

Dispersion

In the past, we've discussed the role of dispersion in capturing losses in up markets. While we often talk about the decline and subsequent rally as singular events, not all securities, sectors or regions bottom or recover at the same time. For instance, after a modest rise off its March 23 low, Latin America faltered again late April, and is still off 46% year to date. For global portfolios, LatAm was a leading area for us to harvest – see heat map on next page.

Optimization

Besides creating opportunities via dispersion, there's another critical component to a robust TBC program: optimization of capture. Green Harvest has spent a lot of time researching and refining its SmartCapture optimization discipline over the years. With a crystal ball, you might not need to optimize as you could wait for the exact bottom before capturing benefits. In the real world though, no one knows exactly when the bottom will happen. In fact, during the recent record-setting decline, the S&P500 was up 7 days, of which 5 days the index was up more than 4%. To capture tax benefits effectively in any market condition, you need a process that determines how quickly and when you are going to capture specific benefits. Too quickly, and you may overtrade and run out of substitutes.[2] Too slowly and you miss the bottoms. While an optimized

[1]Tax Benefit Capture (TBC) in this context refers to the practice of purposely capturing realized losses to minimize taxes by offsetting realized gains.
[2]In theory, there's an infinite number of substitutes, but in practice the number of quality ones is finite. For a more in-depth discussion, see Future Value of Tax Benefits.

process entails capturing benefits at various intervals during declines, it also follows that captures should continue, at least for some period, on the way back up.

Optimizing your TBC program can help make the most of your and your clients' total financial situations, particularly in volatile environments such as the one we find ourselves in. Talk to us to learn more.

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Download Our Latest White Paper: Future Value of Tax Benefits

Market Data Summary for Month of April 2020:

Market Exposure	Sectors/Regions with GHAM Tax Benefit Capture	Total Return (%)	Standard Deviation	Max Drawdown (%)	Max Drawdown Date of Low
S&P500		**12.7%**	**40.4%**	**-6.3%**	**4/6**
Materials	X	15.2%	51.6%	-7.6%	4/16
Energy	X	30.8%	71.6%	-10.4%	4/16
Financials	X	9.5%	56.2%	-9.9%	4/16
Industrials	X	8.8%	44.6%	-6.1%	4/16
Consumer Staples	X	7.0%	28.2%	-4.4%	4/21
Utilities	X	3.3%	55.8%	-7.8%	4/1
Health Care	X	12.6%	36.0%	-5.2%	4/2
Real Estate	X	9.4%	56.9%	-8.9%	4/21
Info Tech	X	13.7%	48.6%	-6.3%	4/21
Consumer Discretionary	X	18.9%	43.3%	-7.0%	4/3
Communication Services	X	13.7%	39.1%	-6.0%	4/3
MSCI ACWI Ex-US		**6.4%**	**36.7%**	**-5.0%**	**4/3**
Asia Ex-Japan	X	7.2%	30.4%	-3.8%	4/1
Japan	X	4.8%	34.6%	-6.1%	4/3
Australia	X	4.3%	26.0%	-3.1%	4/15
Switzerland	X	5.7%	42.8%	-6.1%	4/3
EuroZone	X	5.3%	42.6%	-6.3%	4/3
United Kingdom	X	6.7%	44.0%	-6.0%	4/21
Lat America	X	4.8%	60.6%	-14.1%	4/24
Canada	X	10.4%	40.3%	-4.8%	4/1

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.

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.

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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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.

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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.

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