Green Harvest
ASSET MANAGEMENT

June 15, 2020

Harvesting Strategy

Festival of the Fearless and a Few Other Updates

After rising 43% since March 23rd, the S&P 500 finally stumbled last Thursday with a 6% drop. Signs of speculative excess had been on the rise. Foremost may have been the approval for Hertz's stock listing… while in bankruptcy. Another potential sign of speculation: new investors, many allegedly millennial and bored, turning to day-trading bankrupt companies, high beta airlines and complex ETFs at Robinhood and other venues.[1]

Many criticize these new traders, but perhaps more than entertainment and a chance to win, they're gaining a valuable lesson in markets and investing. While the criticism isn't often fully articulated, it seems to typically run along the lines of, "they're late to the party, they probably don't get bankruptcy, and don't they know that their trading is a zero-sum game?"

Not all trading is necessarily zero-sum, of course. Investors often benefit from repositioning portfolios to adjust risk exposures to align with their own particular needs.[2] Investors can also capture tax benefits when stocks decline, or even rise. Speaking of which, here's a quick update on what we at Green Harvest have been seeing and how we've been managing index exposure and facilitating Tax Benefit Capture (TBC) at the tail end of this rally: [3]

- The breadth of the 43% rally was so strong that every S&P 500 stock was up. Industry sectors, which we've identified as the indexing and TBC sweet spot, have historically demonstrated meaningful divergence and even there, returns ranged from +19.5% (Consumer Staples) to +68.9% (Energy) - see chart.

- In Green Harvest accounts, a growing portion of the TBC in the last few weeks was in our hedged strategies. With hedged swaps, we exchange a short ETF position for another similar, but not identical, short ETF position as we realign hedged exposure to manage overall portfolio exposure. The mechanics are similar to our long TBC swaps, but in reverse: buy back ("cover") the short position and at the same time initiate a new short position.

With new money being invested at a higher basis and stocks having just paused in their upward run, we expect we'll see more TBC opportunities resume on the long side as well. For more on Green Harvest's indexing and TBC approach, check out our latest webinar.

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[1] Track the Robinhood phenomenon here

[2] Under zero-sum game thinking, if one investor is selling because s/he thinks the stock will underperform xyz benchmark while the other is buying presuming outperformance, only one will later be right. However, it can also be the case that two investors can both improve their positioning even if one investor may be selling while another is buying as each may be realigning portfolio risk and exposures to better suit their own particular needs.

[3] Tax Benefit Capture (TBC) in this context refers to the practice of purposely capturing realized losses to minimize taxes by offsetting realized gains

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Market Data Heat Map Summary during recent rally March 23 – June 12, 2020:

Market Exposure	Sectors/Regions with GHAM Tax Benefit Capture	Total Return (%)	Maximum Drawdown	
			(%)	Date of Intra-day Low
S&P500		**36.4%**	**-7.6%**	**6/12**
Materials	X	43.5%	-10.3%	6/11
Energy	X	68.9%	-17.4%	6/11
Financials	X	34.9%	-14.1%	5/14
Industrials	X	41.1%	-13.0%	5/14
Consumer Staples	X	19.5%	-7.5%	5/14
Utilities	X	30.6%	-11.8%	5/14
Health Care	X	30.8%	-7.7%	6/12
Real Estate	X	39.6%	-15.5%	5/14
Info Tech	X	41.2%	-7.7%	4/2
Consumer Discretionary	X	43.2%	-10.1%	4/3
Communication Services	X	34.2%	-6.6%	4/3
MSCI ACWI Ex-US		**32.1%**	**-6.9%**	**4/3**
Asia Ex-Japan	X	27.0%	-5.6%	4/1
Japan	X	26.4%	-8.5%	4/3
Australia	X	26.5%	-4.3%	6/11
Switzerland	X	33.5%	-9.4%	6/11
EuroZone	X	35.2%	-9.8%	5/14
United Kingdom	X	34.7%	-9.4%	6/11
Lat America	X	46.0%	-14.7%	5/14
Canada	X	43.6%	-7.6%	5/14

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

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.