
Harvesting Strategy

Managing Tail Risk and The In Between

“Great things are done by a series of small things brought together.”

-Vincent Van Gogh

Fastest drop, followed by [fastest rebound](#): is it all about the tails, as Morgan Housel puts it? Morgan writes a widely followed investment blog, and I found [this recent post](#) particularly compelling. I empathized with his story as I too had a near tail event in my late teens, returning with my buddy from a white-water rafting trip in West Virginia. Exhausted from a full day on the river, my buddy fell asleep at the wheel. After side-swiping another car, we turned directly into what looked like a wall of land. *This was it*, I thought, but then we sailed through the air and rolled - five times. Amazingly, we both managed to crawl out, even though (or because) the car had nearly cubed. The folks in the other car were thankfully unhurt.

Like Housel, I realized in hindsight that so many minor changes (and not so minor, like stopping earlier to rest) could have changed the outcome of our accident. As Housel says: “This story isn’t unique... and everyone reading this has made what seemed like know-nothing, inconsequential decisions that fundamentally reshaped their lives. Sometimes those fluke decisions are positive. Sometimes they’re negative. But they’re always out of the blue, unforeseeable. It’s just how life works.”

His point as it relates to investing, and life, is that tail risk is what matters. In his words: “In investing, the average consequences of risk make up most of the daily news headlines. But the tail-end consequences of risk – like pandemics, and depressions – are what make the pages of history books. *They’re all that matter.* They’re all you should focus on.”

I’m not sure I fully agree with his conclusion though. For one thing, we don’t really know when we’re in the tails except in hindsight, so how do we act on what’s already in the rearview mirror? Moreover, what other risks or opportunities do we miss by constantly looking for tails? A tail event may bias us towards future tail events, so sometimes we may even need to reorient to be sure we’re not overly focused on them. For many years after my accident, I couldn’t easily sit in the passenger seat of any car. But in reality, getting in a car [carries risk](#) regardless of who is driving.

Focusing on tail events may also lead to missing or discounting the importance of the everyday little things that build over time. For instance, eating one unhealthy meal (at home) is unlikely to lead to a tail event, but how we eat, and other ways we take care of ourselves, our families and communities day in and day out can have enormous impact on long term well-being.

In markets too, we need to do the everyday things to get where we want to go. Developing and persisting in a sound investment program focused on long term after-tax returns offers a great advantage for compounding wealth. The long term is just a series of many days in and days out, through each and every up and down. Let’s adopt [strategies](#) to cope with and hopefully take advantage of the many large and small bumps in the road that we’re almost certain to see.

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Market Data Heat Map Summary for week of June 1 – June 5, 2020:

Market Exposure	Sectors/Regions with GHAM Tax Benefit Capture	Total Return (%)	Weekly Max Drawdown	
			(%)	Day of Low
S&P500		4.9%	-1.0%	Thursday
Materials		7.9%	-1.6%	Tuesday
Energy	X	15.7%	-3.2%	Monday
Financials	X	12.1%	-3.1%	Thursday
Industrials	X	10.5%	-2.4%	Wednesday
Consumer Staples	X	2.0%	-1.0%	Thursday
Utilities		2.5%	-3.1%	Thursday
Health Care		0.2%	-2.0%	Thursday
Real Estate		6.9%	-2.6%	Thursday
Info Tech	X	3.5%	-2.0%	Friday
Consumer Discretionary		5.7%	-1.4%	Wednesday
Communication Services		2.8%	-1.6%	Monday
MSCI ACWI Ex-US		7.2%	-1.4%	Monday
Asia Ex-Japan	X	8.0%	-1.2%	Thursday
Japan		3.0%	-1.3%	Thursday
Australia		2.6%	-1.4%	Wednesday
Switzerland		8.4%	-1.9%	Monday
EuroZone	X	11.5%	-1.7%	Wednesday
United Kingdom		8.7%	-1.9%	Monday
Lat America		18.0%	-3.1%	Tuesday
Canada		7.1%	-1.7%	Friday
<p>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.</p> <p>Max Drawdown calculated as max decline from interim peak to Intra-Day Low.</p> <p>Market Data Source: Bloomberg</p> <p>Market statistics calculated using representative ETFs.</p>				



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