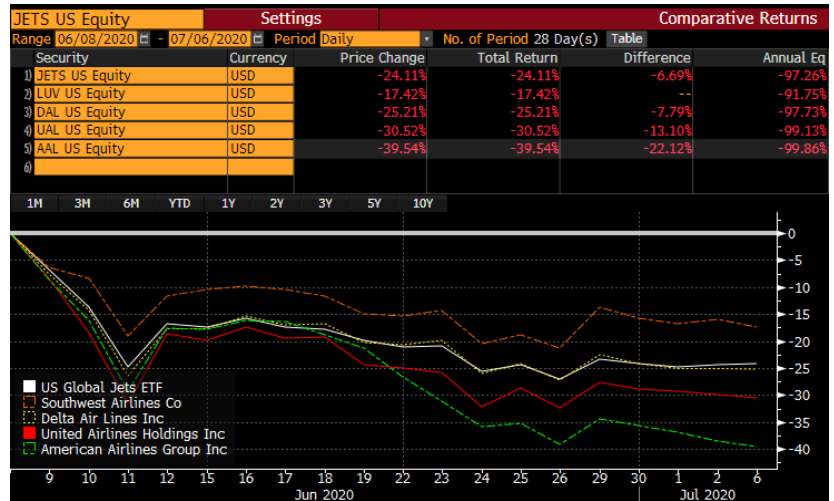


# Harvesting Strategy

Do What Buffett Says, Not What He Does

[Buffett bashing](#) seems to be on the rise this year. [Déjà vu the late 1990's?](#) Warren Buffett, CEO of Berkshire Hathaway and known for his folksy wisdom, was criticized for selling Berkshire's airline holdings in April just before they rallied during the recent recovery. Ditto for holding too much cash and for not buying stocks during the recent dip. Time may yet tell, however, whether he's "lost his touch."<sup>1</sup> Since June 8<sup>th</sup>, for instance, airline stocks have rolled over again – see chart.

Whether Mr. Buffett's latest investment maneuvers were missteps or not, the old adage of "do as I say, not as I do" seems to apply to him more than ever. Mr. Buffett has been picking stocks for nearly eight decades. Yet, he has [repeatedly](#) said that most people would be better off just buying an S&P 500 index fund. Many investors clearly agree. Index funds in the U.S. collectively have [surpassed actively managed funds](#) and this year ETFs alone gained assets in both declines and rallies – [nearly \\$200 billion in total](#).



After the incredible outperformance U.S. stocks have achieved vis-à-vis the rest of the world, maybe we needn't take Mr. Buffett's suggestion literally regarding the specific index to target. For instance, a more global equity or custom exposure may be more appropriate for many investors. We'd add two more considerations:

1. In transitioning to index exposure, investors should be mindful of the cost of realizing gains and seek to transition in a tax and benchmark sensitive way.
2. Many investors, particularly those in higher tax brackets with ongoing or expected realization of capital gains, might consider integrating a robust Tax Benefit Capture (TBC) program with smart index exposure to potentially increase overall after-tax returns.<sup>2</sup>

Warren Buffett, the self-made active investor, is an all-American icon. Yet U.S. investors also [lead the world](#) in indexing. Perhaps indexing and Mr. Buffett can coexist without contradiction like the red and blue colors of our flag. Hope you had a safe and wonderful 4<sup>th</sup> of July.

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<sup>1</sup> Mr. Buffett himself has [acknowledged](#) that Berkshire Hathaway's size is in itself a challenge for producing stellar returns. Some have gone further and argued he could still never repeat what he had done if he had started today. The success factors that propelled him in the past are better understood now and the competition is arguably tougher today.

<sup>2</sup> Tax Benefit Capture (TBC) in this context refers to the practice of purposely capturing realized losses to minimize taxes by offsetting realized gains

## Market Data Heat Map Summary for week of June 29 – July 2, 2020:

Market Exposure	Sectors/Regions with GHAM Tax Benefit Capture	Total Return (%)	Weekly Max Drawdown	
			(%)	Day of Low
<b>S&amp;P500</b>		<b>4.1%</b>	<b>-1.8%</b>	<b>Monday</b>
Materials		5.6%	-2.0%	Tuesday
Energy	X	2.3%	-4.1%	Tuesday
Financials		1.7%	-1.9%	Tuesday
Industrials	X	4.3%	-2.4%	Monday
Consumer Staples	X	3.3%	-1.3%	Monday
Utilities	X	4.9%	-2.4%	Wednesday
Health Care		4.2%	-1.9%	Tuesday
Real Estate	X	5.7%	-2.5%	Wednesday
Info Tech	X	3.7%	-2.3%	Monday
Consumer Discretionary	X	4.7%	-2.5%	Monday
Communication Services		5.2%	-2.8%	Monday
<b>MSCI ACWI Ex-US</b>		<b>2.7%</b>	<b>-0.9%</b>	<b>Monday</b>
Asia Ex-Japan		3.5%	0.0%	
Japan		-0.1%	-1.7%	Wednesday
Australia		2.0%	-0.7%	Wednesday
Switzerland		2.6%	-1.4%	Tuesday
EuroZone		3.6%	-1.3%	Tuesday
United Kingdom		2.3%	-1.1%	Tuesday
Lat America		4.9%	-2.2%	Monday
Canada		3.4%	-0.7%	Tuesday

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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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.

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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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