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## Harvesting Strategy

Hedges Harvested as Stocks Headed Higher

Last week, Green Harvest captured tax benefits primarily in hedged positions as stocks rose both in the U.S. and internationally. As we discussed in our [introduction to hedged strategy overlays](#), our hedged strategy entails direct shorting of liquid ETFs to mitigate risk when stocks are down, but also to be a potential enhancer of Tax Benefit Capture (TBC) when stocks are up.<sup>1</sup> This week, by request, we'll provide color on this activity and the mechanics involved.

First, some details about our Hedged TBC activity last week:

- **1.35%:** The average realized loss that we captured<sup>2</sup>.
- **42.2%:** The average size of the hedged position per account.

We've been asked what our swapping process entails with hedged positions so let's take a look at some of the mechanics with a hypothetical:

Say we had a \$1 million U.S. Equity 50% Hedged account that started the week by placing a 50% hedge or short position in SPY. In practical terms, that means the account had approximately \$500,000 of shares short of SPY. As SPY rose last week, the short position would have accrued an unrealized loss. When that unrealized loss reached a critical threshold, i.e., was deemed sufficiently significant given a variety of factors, we would have harvested the loss by covering (buying back) the short SPY position and simultaneously shorting a similar, but not identical, broad ETF position. In this way, the account is able to maintain its hedged exposure, and the realized loss that would have been harvested can be applied to offset any 2020 gains realized from other parts of the portfolio to potentially increase after-tax returns.

Our systems and portfolio managers monitor positions and market dynamics every day for opportunities such as these. To be sure, hedging entails specific risks and costs, but can also be a valuable tool to manage risk and capture tax benefits. Contact your financial professional or Green Harvest Asset Management to learn more.

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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> As a percentage of the average short position size

**Tax Benefit Capture Heat Map for week of July 13 – July 17, 2020:**

Market Exposure	Sectors/Regions with GHAM Tax Benefit Capture	Total Return (%)	Weekly Max Drawdown	
			(%)	Day of Low
<b>S&amp;P500</b>		<b>2.2%</b>	<b>-2.2%</b>	<b>Tuesday</b>
Materials		5.5%	-2.8%	Tuesday
Energy	X	3.8%	-4.3%	Tuesday
Financials		1.7%	-1.8%	Tuesday
Industrials		5.4%	-2.9%	Tuesday
Consumer Staples		2.3%	-1.9%	Tuesday
Utilities		4.1%	-1.8%	Friday
Health Care		4.6%	-2.4%	Tuesday
Real Estate		1.7%	-1.5%	Friday
Info Tech		0.9%	-3.0%	Tuesday
Consumer Discretionary		1.7%	-2.6%	Tuesday
Communication Services		1.5%	-2.4%	Tuesday
<b>MSCI ACWI Ex-US</b>		<b>1.7%</b>	<b>-1.4%</b>	<b>Tuesday</b>
Asia Ex-Japan		-1.1%	-1.8%	Thursday
Japan		1.0%	-1.3%	Friday
Australia		2.6%	-1.2%	Tuesday
Switzerland		3.3%	-1.7%	Tuesday
EuroZone		3.0%	-1.8%	Tuesday
United Kingdom		2.9%	-1.4%	Tuesday
Lat America		2.5%	-3.5%	Tuesday
Canada		2.8%	-0.5%	Thursday

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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