July 27, 2020

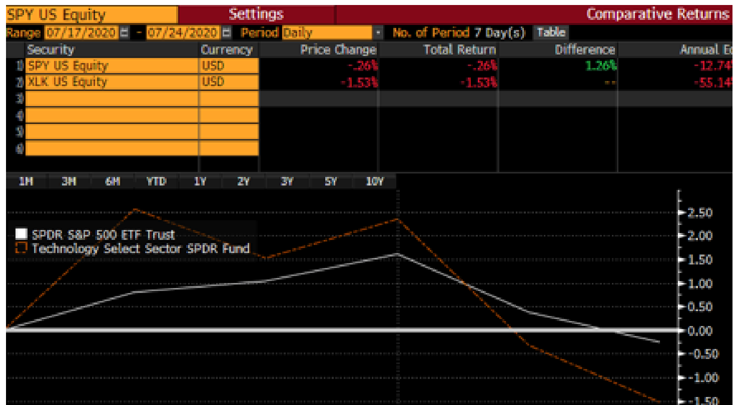
Harvesting Strategy

Tails First

"Sometimes you eat the bear and sometimes the bear eats you."
-The Big Lebowski (1998).

The dog days of summer are here. A few lucky folks had their nights lit up by the comet Neowise last week. As Neil deGrasse Tyson tweeted, it is "currently exiting the solar system at 100,000 mph - tail first." In outer space, just as there is no up or down, apparently the tail can lead.

After rising earlier in the week, broad U.S. and international indices fell Thursday and Friday, ending relatively flat. With respect to Green Harvest's activity, for the second week in a row, hedged positions were the primary source of Tax Benefit Capture (TBC) opportunities.[1] Sometimes (specifically Monday-Wednesday) the hedged position can reduce returns but is the TBC leader, and sometimes (like Thursday and Friday), it's a source of returns as the underlying index declines. Either way, for the overall portfolio it can be the ballast in the storm.



Stocks rose early in week then fell. Tech sector divergence also on the rise.

Read on for additional market and Green Harvest activity commentary:

- Looking at last week in another way, the lack of overall movement in broad indices reflected an averaging out of the divergence across different sectors and regions – see chart on next page. Divergence, as we described in more detail here, is one of the pillars of TBC opportunity.
- After hedged positions, the next biggest source of TBC was in the health care sector. Health care stocks have historically been less volatile, so Green Harvest's tax benefit capture discipline has typically been more aggressive for a given % decline when such opportunities have arisen.
- After correlating highly to broader indices over the past year, technology stocks have recently been decoupling. The 2-week correlation of Tech to the S&P500 is now the lowest since November 2019.[2] The technology sector had the largest drawdown of any sector for the week, enabling additional Tax Benefit Capture (TBC) opportunities.

Please reach out to us with any questions or topics you'd like covered. Thank you and be well.

Solomon G. Teller, CFA
Chief Investment Strategist
Green Harvest Asset Management

[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] Daily rolling 2-week correlation bottomed at 0.72 on 7/22/20. Not an extreme number but given the increasing dominance of technology in the S&P500, correlations might be expected to increase over time.

Green Harvest
ASSET MANAGEMENT

Tax Benefit Capture Heat Map for week of July 20 – July 24, 2020:

Market Exposure	Sectors/Regions with GHAM Tax Benefit Capture	Total Return (%)	Weekly Max Drawdown (%)	Weekly Max Drawdown Day of Low
Broad Market Index (e.g. S&P500)	X	**-0.3%**	**-2.3%**	**Friday**
Materials		0.5%	-1.3%	Wednesday
Energy	X	2.2%	-4.2%	Tuesday
Financials		1.3%	-1.4%	Tuesday
Industrials		-0.2%	-1.5%	Monday
Consumer Staples		0.9%	-1.5%	Wednesday
Utilities		0.1%	-2.9%	Wednesday
Health Care	X	-0.7%	-2.2%	Friday
Real Estate		-0.6%	-2.0%	Wednesday
Info Tech	X	-1.5%	-5.6%	Friday
Consumer Discretionary		1.3%	-2.5%	Friday
Communication Services		-1.0%	-3.2%	Friday
MSCI ACWI Ex-US		**0.0%**	**-1.7%**	**Friday**
Asia Ex-Japan		0.4%	-1.9%	Friday
Japan		-0.7%	-1.0%	Friday
Australia		0.0%	-2.2%	Friday
Switzerland		-1.2%	-1.9%	Friday
EuroZone		-0.3%	-2.1%	Friday
United Kingdom		-0.7%	-1.6%	Friday
Lat America		3.4%	-4.1%	Friday
Canada		0.0%	-1.3%	Friday

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.
Broad Market Index (e.g. S&P500) reflects TBC in hedged positions.

Max Drawdown calculated as max decline from interim peak to Intra-Day Low.

Market Data Source: Bloomberg
Market statistics calculated using representative ETFs.

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

Green Harvest
ASSET MANAGEMENT

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.

This material is not intended to be relied upon as legal, investment or tax advice in any form or for any specific client. The information provided does not take into account the specific objectives, financial situation or particular needs of any specific person. All investments carry a certain degree of risk, and there is no assurance that an investment will perform as expected over any period of time.

As a convenience to our readers, this document may contain links to information created and maintained by third party sites. Please note that we do not endorse any linked sites or their content, and we are not responsible for the accuracy, timeliness or even the continued availability or existence of this outside information. While we endeavor to provide links only to those sites that are reputable and safe, we cannot be held responsible for the information, products or services obtained from such other sites and will not be liable for any damages arising from your access to such sites.

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.

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

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.

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