August 31, 2020

Harvesting Strategy

The Other Side of Innovation

"The future is already here — it's just not very evenly distributed."
-William Gibson

Summer's over and the school year is underway. Two hundred years ago, many blind children didn't get to go to school at all. One child in France, however, defied the odds. Louis Braille, invented what is now called "Braille" in his early teens. Louis had been frustrated to discover his school library only possessed 14 books. At the time, books for the blind involved a form of raised font that was expensive and painfully slow to read. So, from the ages of 12 to 15, he was determined to develop a new system of raised dots. When he finally succeeded, he then made books by hand with an awl, the same implement that had blinded him as a toddler. His schoolmates quickly appreciated and benefited from this new approach.

Unfortunately, the rest of the world wasn't ready to accept it. One headmaster tried unsuccessfully to get help to build a Braille printer. The next headmaster rejected it outright, banning his method and even burning the books he had so painstakingly made. Ultimately a very public demonstration turned the tide, and nearly 30 years after its invention (and near the end of Louis' life), the world finally began to truly embrace Braille. It's now used almost anywhere print is found and in multiple languages throughout the world.

Today, it's almost an article of faith that new compelling ideas and technologies will be quickly and widely adopted. But some things still take years. Indexing, for instance, took more than 40 years to overtake active investing in the U.S, and only around 15% of stocks are indexed in Europe. ETFs assets are a third of U.S. mutual fund assets. But the ETF innovation adoption rate may soon accelerate as active managers have been rushing to migrate to ETFs this year. Some argue that the COVID-19 virus threat may be an accelerant to the overall pace of innovation and adoption.[1]

A prime example may be the much more widespread use of online learning tools this school year. The recent rally off the March lows in stocks of technology and innovation-oriented companies is certainly one of the narratives around this thesis. Whether the rally is overextended and if and how to react, are critical questions. Regardless, investors (and citizens too) buying into this thesis of accelerated change, may want to further reflect on how their portfolios and investment strategies are positioned for new disruptive innovations and, just as critically, by their adoption rates.

In each and every of the last 7 trading days, the S&P 500 set new all-time highs. Through this bullish streak, Green Harvest's hedged positions were a real source of Tax Benefit Capture (TBC) opportunities - see table on next page.[2] No matter the environment, Green Harvest strives to capture the most benefits for its clients.

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Download Our White Paper: Future Value of Tax Benefits

[1] Saturday, John Mauldin also highlighted several innovations with potential rapid implementation with respect to the COVID-19 virus itself.

[2] 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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Tax Benefit Capture Heat Map for period spanning August 24 – August 28, 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	**3.3%**	**-1.0%**	**Monday**
Materials		3.4%	-1.4%	Wednesday
Energy	X	1.1%	-4.5%	Thursday
Financials		4.3%	-2.0%	Monday
Industrials		3.1%	-1.6%	Monday
Consumer Staples		2.3%	-1.4%	Friday
Utilities	X	-0.6%	-2.5%	Friday
Health Care	X	1.1%	-1.3%	Thursday
Real Estate		1.9%	-1.6%	Friday
Info Tech		4.4%	-1.2%	Wednesday
Consumer Discretionary		3.0%	-1.1%	Wednesday
Communication Services		4.6%	-3.1%	Wednesday
MSCI ACWI Ex-US		**2.1%**	**-1.2%**	**Thursday**
Asia Ex-Japan		3.1%	-0.8%	Thursday
Japan		0.7%	-1.1%	Thursday
Australia		0.4%	-1.3%	Friday
Switzerland		1.5%	-1.3%	Thursday
EuroZone		2.7%	-1.8%	Thursday
United Kingdom		1.4%	-0.9%	Thursday
Lat America		3.1%	-2.9%	Thursday
Canada		1.9%	-1.1%	Wednesday

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.

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Some 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.

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.

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