Green Harvest
ASSET MANAGEMENT

September 8, 2020

Harvesting Strategy

How to Benefit from Peaks and Declines

Stocks fell broadly Thursday and Friday, leaving nearly all sectors and regions in the red for the week. The InfoTech sector dropped 11% from its Wednesday peak, the largest drawdown of any sector. InfoTech is now up "just" 68% in less than 6 months. We recently talked about investors looking to diversify out of Tech with minimal tax impact. Now with Tech finally showing a crack in performance, we've been hearing from more folks looking to reduce exposure in concentrated positions, particularly in tech stocks. Whether the tech highfliers are good companies, and even good stocks at these prices, isn't the issue. They're just up so much that some owners would like to diversify, reduce risk and/or simply lock in the gains. But how?

Two strategies are Hedging and Tax Benefit Capture (TBC).[1] Here are some details of how Green Harvest implemented both last week:

A Wednesday (9/2): The S&P500 peaked (see chart) leading to losses in hedged positions.[2] Green Harvest swapped those positions that met our cost-benefit analysis threshold for eligibility, thus capturing tax benefits and maintaining broad market hedges on the accounts.[3]

B Thursday (9/3): In the early part of the trading day, Green Harvest swapped several additional hedged positions that were only eligible to return to their initial hedge position as of 9/3 due to expiration of the 30 day wash sale period.

C Friday (9/4): As stocks declined into the day, the TBC opportunities shifted to long positions, particularly in hard hit sectors such as Energy, InfoTech and Healthcare. Some of these long positions were in accounts with hedged positions that had just been swapped as well.

Hedged positions helped offset portfolio losses Thursday and Friday even as they enabled additional TBC Wednesday and Thursday. Captured tax benefits can be used to offset realized gains for investors looking to sell/transition their appreciated stock positions into new more diversified positions. Rinse and repeat: those new positions can then in turn be a source of additional TBC - furthering the transition process.

Not all positions were swapped at market tops or bottoms.[4] Nor is Green Harvest attempting to time market tops and bottoms. However, as last week's activity demonstrates, a rules-based process instituted intra-day, every day, has the potential to capture tax benefits as portfolio positions make new highs and lows.

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Download Our White Paper: Future Value of Tax Benefits

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[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] Hedged positions are short positions which are expected to lose money for the portfolio when the underlying is up but make money when the underlying is down.
[3] A swap refers to a simultaneous replacement of a position for a similar position thus maintaining exposure to a particular market segment
[4] The positioning on the chart is an estimate of the general timing of execution of swaps for illustrative purposes but does not represent exact timing of any particular execution

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Tax Benefit Capture Heat Map for period spanning August 31 – September 4, 2020:

Market Exposure	Sectors/Regions with GHAM Tax Benefit Capture	Total Return (%)	Weekly Max Drawdown (%)	Day of Low
Broad Market Index (e.g. S&P500)	X	**-2.3%**	**-6.4%**	**Friday**
Materials	X	0.7%	-4.2%	Friday
Energy	X	-4.3%	-5.5%	Friday
Financials	X	-0.3%	-2.4%	Friday
Industrials	X	-1.2%	-3.9%	Friday
Consumer Staples	X	-0.3%	-3.2%	Friday
Utilities	X	0.5%	-3.2%	Wednesday
Health Care	X	-2.1%	-4.6%	Friday
Real Estate	X	-0.9%	-3.7%	Friday
Info Tech	X	-4.1%	-11.0%	Friday
Consumer Discretionary	X	-2.2%	-6.6%	Friday
Communication Services	X	-2.8%	-7.6%	Friday
MSCI ACWI Ex-US		**-1.9%**	**-3.8%**	**Friday**
Asia Ex-Japan	X	-2.2%	-3.8%	Friday
Japan	X	0.3%	-2.5%	Friday
Australia		-0.7%	-4.1%	Friday
Switzerland		-2.8%	-4.5%	Friday
EuroZone		-1.5%	-4.2%	Friday
United Kingdom	X	-2.7%	-4.3%	Friday
Lat America		-0.1%	-3.7%	Monday
Canada		-2.6%	-2.7%	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.

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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.

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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