October 19, 2020

Harvesting Strategy

Opportunity and Risk Come in Pairs

As we digest the events of 2020, I am reminded of a story of someone near and dear to me who emigrated at the age of six from Hong Kong to the United States in the early 1980's. Hong Kong was a British colony at the time, but Margaret Thatcher had just confirmed that it would be ceded back to China. The girl's parents had been concerned about the eventual Chinese takeover and decided to start anew. They left behind a familiar language, family, and a posh urban lifestyle that included chauffeurs, nannies and cooks. They settled in small-town New Jersey, investing much of their savings into a new business venture. Whether it would have succeeded will never be known. Shortly after, the father was stricken with cancer. Without insurance, the family's resources were drained by medical costs and loss of income. He passed away leaving behind his widow, 3 daughters and little money. But the widow adapted and brought her young family to Canada and started yet again. Fast forward three decades and all of her daughters made lives - good lives, first in Canada and more recently back in the United States.

One of the stories of this pandemic is in its disparate impact. With U.S. stock indices near highs, some have earned or extended their fortunes. At the same time, the virus and economic fallout have been crippling to so many. If there are many stories like the above, they are a reminder of the potential for change and that "opportunity and risk come in pairs."[1] Here are three specifics for investors to consider:

1) Look outside of present circumstances. Don't assume the fortune of the past, bad or good, will continue. Meanwhile, when opportunities present themselves, don't throw away your shot.
2) Manage your risks as appropriate. Ask for help from a professional.
3) Don't be unwittingly wedded to a specific market, asset class, or ideology. For instance, investors' portfolios tend to overweight their home country when compared with global benchmarks.[2] While there are justifications for this, it's hard for U.S., Canadian, UK and Australian investors to all be correct in *significantly* favoring their domestic markets. This tendency has at least served U.S. investors well over the last 10 years during which U.S. stocks trounced most of the rest of the world - see chart. But what happens in the next ten years is the question.

Circumstances, both micro and macro, inevitably change. Neither life nor investing are static enterprises (and thankfully so or boring they would be). Assess risks and opportunities and manage as appropriate. Hope for the best but plan for otherwise.

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Download Our White Paper: Future Value of Tax Benefits

[1] Attributed to Bangambiki Habyarimana, The Great Pearl of Wisdom.
[2] See p.6 of https://personal.vanguard.com/pdf/ISGGAA.pdf.

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Market Data Heat Map Summary for week of October 12 – October 16, 2020:

Market Exposure	Sectors/Regions with GHAM Tax Benefit Capture	Total Return (%)	Weekly Max Drawdown (%)	Weekly Max Drawdown Day of Low
S&P500	**X**	**0.1%**	**-2.6%**	**Thursday**
Materials		-0.4%	-2.3%	Thursday
Energy		-1.9%	-3.8%	Thursday
Financials	X	-1.0%	-3.9%	Thursday
Industrials		1.1%	-1.8%	Thursday
Consumer Staples		0.7%	-1.4%	Thursday
Utilities		0.8%	-2.0%	Thursday
Health Care	X	-0.4%	-2.7%	Thursday
Real Estate	X	-2.2%	-3.5%	Thursday
Info Tech	X	0.7%	-3.1%	Thursday
Consumer Discretionary	X	-0.4%	-2.7%	Thursday
Communication Services	X	0.7%	-2.8%	Thursday
MSCI ACWI Ex-US		**-1.1%**	**-2.9%**	**Thursday**
Asia Ex-Japan		-0.9%	-1.8%	Thursday
Japan		-1.1%	-1.5%	Wednesday
Australia		-1.9%	-3.9%	Thursday
Switzerland		-2.7%	-4.9%	Thursday
EuroZone	X	-1.8%	-4.7%	Thursday
United Kingdom		-2.5%	-4.6%	Thursday
Lat America		-2.2%	-2.9%	Thursday
Canada		-1.1%	-3.2%	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.
Max Drawdown calculated as max decline from interim peak to Intra-Day Low.
Market statistics calculated using representative ETFs. Market Data Source: Bloomberg

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.

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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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<u>Hedged Strategies Risk</u>

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 gainmns. 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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