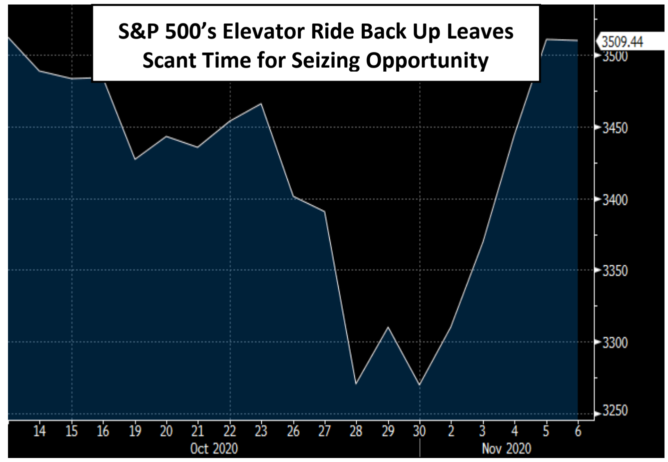
November 9, 2020

Harvesting Strategy

An Escalator Down and an Elevator Up



Astute readers will immediately recognize the title of this post as an upside-down rendition of the old Wall Street saying. In the last week, election week, the S&P 500 recovered nearly all of its recent 7.5% decline. As swift as the decline may have seemed, the recovery was three times faster.

A related sign of upside-down market behavior is that stocks are looking increasingly derivative of the options market. Notional options trading has increased rapidly, even recently exceeding that of stock trading. When options dealers hedge the options that they've sold, they may buy or sell the underlying stocks, which has an impact on the stocks' prices. These price changes can, in turn, require more hedging.[1] One implication is the potential for swifter declines and rallies.

What does all of this have to do with Tax Benefit Capture (TBC)?[2]

1. A tendency for swifter declines, and swifter rebounds, bolsters the case for continuous ongoing TBC strategies. Waiting until the end of year, when only a sliver of the market's opportunities may come to light, could mean missing even more benefits.

2. Swift declines and rebounds may further favor portfolios built with ETFs. As we recently discussed, ETFs, unlike individual equities, have the advantage of enabling investors to maintain exposure when capturing tax benefits. When rebounds are as swift as last week's, selling and then having to wait 31 days to buy back individual stocks can compromise exposure and returns.[3]

More generally, these market structure observations should remind us to be less presumptive in our assessments of what is "normal." The market doesn't care how investors think it should behave. What matters is what investors make of it. Are they managing risk, employing efficient portfolios and taking advantage of opportunities?

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[1] To provide more explanation, those options trades influence the stocks themselves as dealers trade the stocks to hedge the options that they've sold. The more the dealers trade to hedge the options, the more the dealers move the stocks. The more the stocks move, the more the dealers may then need to hedge further, thus exacerbating market direction in a short period of time.

[2] See our TBC White Paper. Tax Benefit Capture (TBC) in this context refers to the practice of purposely selling positions with unrealized losses to minimize taxes by offsetting realized gains. Green Harvest typically implements a simultaneous purchase in conjunction with each sale to maintain the desired investment exposure.

[3] Per the "wash sale rule," 31 days is the requisite period which substantially identical securities can not be repurchased after having been sold for a tax loss benefit. See https://www.investopedia.com/terms/w/washsalerule.asp

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Market Data Heat Map Summary for week of November 2 – November 6, 2020:

Market Exposure	Sectors/Regions with GHAM Tax Benefit Capture	Total Return (%)	Weekly Max Drawdown (%)	Weekly Max Drawdown Day of Low
S&P500	**X**	7.2%	**-1.7%**	**Tuesday**
Materials		7.6%	-2.6%	Wednesday
Energy	X	0.7%	-3.8%	Monday
Financials		4.6%	-2.7%	Wednesday
Industrials		7.2%	-1.9%	Monday
Consumer Staples	X	4.5%	-0.8%	Monday
Utilities	X	2.8%	-1.8%	Monday
Health Care	X	8.1%	-1.7%	Wednesday
Real Estate		4.3%	-2.0%	Monday
Info Tech	X	9.7%	-1.9%	Friday
Consumer Discretionary	X	6.8%	-1.6%	Tuesday
Communication Services	X	7.6%	-1.6%	Wednesday
MSCI ACWI Ex-US		**7.5%**	**-1.3%**	**Wednesday**
Asia Ex-Japan		6.6%	-0.6%	Friday
Japan		5.7%	-1.0%	Wednesday
Australia		9.2%	-1.1%	Wednesday
Switzerland		7.2%	-0.9%	Wednesday
EuroZone		10.0%	-1.3%	Wednesday
United Kingdom		7.5%	-0.8%	Monday
Lat America		12.2%	-2.5%	Friday
Canada		6.4%	-1.9%	Tuesday

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

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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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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

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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.

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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 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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