November 2, 2020

# Harvesting Strategy

Volatility is Back; Seize the Opportunity

The S&P500 lost 5.6% last week, the largest decline since March. Bonds fell too, including Treasury notes and bonds, increasing concerns over fixed income's ability to reduce risk in today's low yield environment. But declines can be opportunities, whether to invest new money at lower prices, reduce hedged positions that have mitigated a decline, and/or engage in Tax Benefit Capture (TBC).[1]

Our prior post touched on the TBC opportunity from capitalizing on sector divergence. Energy was again a top area for capturing benefits even as we ultimately harvested across every sector – see chart on next page. The interesting divergence last week was in geographic regions, with European markets on average losing 9%, while China, Japan and Taiwan (the largest Asian markets) lost 1%, 2% and 3% respectively. And just as we profiled the energy sector as experiencing 20 years of volatility with little change, the whole of Europe has similarly fluctuated but gone essentially nowhere since 2000. With 2020 hindsight and tax costs aside, investors are surely wishing they had sold or hedged a bit more back in 2007 and in subsequent peaks.

20 Years of Return Free Risk for European Stocks
[iShares MSCI Eurozone ETF (EZU) price return from 11/2/2000 to 11/2/2020]

Whatever this week or the next has in store, at the very least investors can still look to mitigate risk and seize opportunities. Speaking of which, if you haven't already, get out and vote.

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

Download Our White Paper: Future Value of Tax Benefits

[1] 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.


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

**Market Data Heat Map Summary for week of October 26 – October 30, 2020:**

| Market Exposure | Sectors/Regions with GHAM Tax Benefit Capture | Total Return (%) | Weekly Max Drawdown (%) | Weekly Max Drawdown Day of Low |
|---|---|---|---|---|
| **S&P500** | X | **-5.6%** | **-6.7%** | **Friday** |
| Materials | X | -4.3% | -6.8% | Thursday |
| Energy | X | -5.5% | -11.2% | Thursday |
| Financials | X | -5.5% | -7.9% | Thursday |
| Industrials | X | -6.5% | -8.0% | Thursday |
| Consumer Staples | X | -4.8% | -6.0% | Friday |
| Utilities | X | -3.7% | -4.6% | Thursday |
| Health Care | X | -5.7% | -7.0% | Friday |
| Real Estate | X | -4.2% | -5.4% | Friday |
| Info Tech | X | -6.4% | -7.5% | Friday |
| Consumer Discretionary | X | -6.5% | -7.4% | Friday |
| Communication Services | X | -4.7% | -5.7% | Friday |
| **MSCI ACWI Ex-US** | | **-4.8%** | **-5.4%** | **Friday** |
| Asia Ex-Japan | | -2.6% | -2.6% | Friday |
| Japan | X | -1.7% | -2.4% | Friday |
| Australia | | -6.1% | -6.8% | Friday |
| Switzerland | X | -5.5% | -6.8% | Thursday |
| EuroZone | X | -9.0% | -10.0% | Thursday |
| United Kingdom | X | -5.6% | -6.3% | Friday |
| Lat America | | -8.0% | -9.3% | Thursday |
| Canada | X | -5.4% | -5.8% | 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.
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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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.

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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.

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.

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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.