Green Harvest
ASSET MANAGEMENT

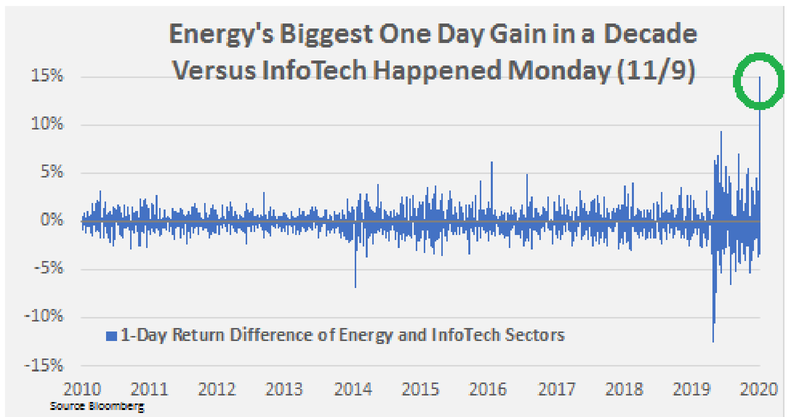
November 16, 2020

Harvesting Strategy

What's Beneath the Great Rotation?

Stocks rallied last Monday (11/9) following news of Pfizer's vaccine progress. However, last Monday's gains - just over 1% for the S&P 500 - paled in comparison to those of election week, and the rally mostly petered out through the week, leaving investors wondering if that was it. The big story lay underneath the surface where individual securities, sectors and factors (e.g., company size, momentum and value versus growth) diverged tremendously. Last Monday's trading action was remarkable both for its rotation away from what's been doing well to what hasn't, and critically for the sheer (record breaking) size of that rotation.

Take, for example, the Energy and InfoTech sectors. We recently discussed how Energy has underperformed InfoTech for years and by a record margin in 2020. We've shared concerns about the risks in the InfoTech sector, and particularly its dominance by the largest companies on the planet. Last Monday, however, Energy rose 14.3% and recorded its largest one day gain relative to InfoTech – see chart.



These trends of out- and under-performance tend to occur in multi-year cycles. While nobody knows when or by how much these trends will reverse, when they do, the changes can be significant. For instance, value stocks lagged growth stocks in the late 1990's, only to then outperform by nearly 100% from 2000 to 2006.[1] Last Monday's dramatic rotation should provide further catalyst for investors to think about what a sustained change could mean for their portfolios.

Green Harvest's ProActive Tax Management was designed to react and benefit from such market movements. Talk to us to learn more about tax sensitive portfolio transitions and how Green Harvest captures tax benefits as part of our clients' investment strategies.

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Download Our White Paper: Future Value of Tax Benefits

[1] The difference between Russell 1000 Value index and Russell 1000 Growth index was 99.24%.

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Market Data Heat Map Summary for week of November 9 – November 13, 2020:

Market Exposure	Sectors/Regions with GHAM Tax Benefit Capture	Total Return (%)	Weekly Max Drawdown (%)	Weekly Max Drawdown Day of Low
S&P 500	**X**	**2.3%**	**-1.5%**	**Thursday**
Materials	X	1.5%	-4.2%	Thursday
Energy	X	17.1%	-12.5%	Monday
Financials	X	8.3%	-2.9%	Thursday
Industrials	X	5.4%	-2.6%	Thursday
Consumer Staples	X	3.7%	-2.0%	Tuesday
Utilities	X	3.1%	-2.4%	Thursday
Health Care	X	2.0%	-1.2%	Thursday
Real Estate	X	5.3%	-1.7%	Friday
Info Tech	X	-0.3%	-3.4%	Tuesday
Consumer Discretionary	X	0.5%	-1.9%	Thursday
Communication Services	X	0.6%	-2.9%	Tuesday
MSCI ACWI Ex-US		**3.3%**	**-1.5%**	**Thursday**
Asia Ex-Japan		0.6%	-1.0%	Tuesday
Japan		2.9%	-1.6%	Thursday
Australia		0.7%	-1.4%	Tuesday
Switzerland		8.5%	-2.4%	Thursday
EuroZone	1	7.3%	-2.0%	Thursday
United Kingdom		8.0%	-2.0%	Thursday
Lat America		4.8%	-3.6%	Thursday
Canada		2.0%	-1.8%	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

<u>Disclaimers</u>:

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.

GHAM does not provide tax advice. Although GHAM does not employ a Certified Public Accountant on its staff, we have, and continue to work with outside accounting firms and outside tax counsel that provide ongoing guidance and updates on all relevant tax law. Federal, state and local tax laws are subject to change. GHAM is not responsible for providing clients updates on any changes in tax laws, rules or statutes.

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.

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 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.