Green Harvest
ASSET MANAGEMENT

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Harvesting Strategy

Four Propitious Investment Questions

My favorite holiday as a child, Passover, ended on Sunday. At dinner on the first night of Passover, it's ritual for the youngest at the dinner table to recite four questions about the Passover tradition. As a nod to this ritual, here are four questions on efficient investing:[1]

1. Like Moses in the desert, why did it take 40 years for indexing to become mainstream?
The pandemic ushered in the adoption of innovations out of necessity, such as virtual conferencing. But historically, many innovations and even simple techniques (like washing hands) were initially rejected and took generations to reach mass adoption. With indexing, though it took some time, the benefits have finally become difficult to ignore.

2. Why do so few investors have a system in place to manage their #1 investment cost: taxes?
In addition to the answer to the previous question, could it be that the tax costs (or benefits) of an investment are not immediately visible in the investment process? As the famous invisible gorilla experiment showed, if something is not in our immediate focus, we have a tendency to miss it.

3. Why don't more investors short sell Exchange Traded Funds (ETFs) in order to hedge their portfolios' market risk?
The mechanics of shorting, as well as its potential benefits, may seem complex and unintuitive to many. Moreover, the short selling of ETFs may suffer from the association with the short selling of individual company stock. In addition, single-stock shorting may serve a different purpose (i.e., betting on a specific company's decline) and has specific risks that are less relevant to shorting broad ETFs. As we saw with the GameStop saga, the danger for short sellers is that individual company stocks can be (sometimes intentionally) restricted from being shorted, and additional buying can send the share price dramatically higher. ETFs, on the other hand, are not only diversified across different securities but also have the capacity to add or subtract additional shares as necessary, which limits the potential for market manipulation that was arguably exposed by the GameStop saga.

4. What is the stock market going to do this year?
The three hardest words for experts to say are: "I don't know." But, I don't know and no one knows the answer to this question. However, today's valuations for stocks (particularly in the U.S.) appear high, if not the highest, in history. Valuations of other asset classes such as bonds are also elevated. While the average portfolio's future pre-tax returns may not reach those of past decades, there are many reasons to be optimistic.

More efficient investing, with a focus on diversification, controlling fees and the often overlooked cost of taxes, may give investors an edge over prior generations. Moreover, in the real economy, innovation continues at a breakneck pace and holds the potential for incredible gains in productivity, health and wellbeing.

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[1] My responses are not necessarily representative of Green Harvest's views.

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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.