Green Harvest
ASSET MANAGEMENT

May 17, 2021

Harvesting Strategy

Tax Day This Year

"To everything there is a season… A time to gain that which is to get, and a time to lose; a time to keep, and a time to cast away." – Pete Seeger

Yesterday, May 17th, was this year's deadline for filing personal income taxes. For the many high net worth investors consulting with their accountants, here are a few bigger picture items to consider:

- $367 billion: In 2020, mutual funds alone distributed $367 billion in realized capital gains.[1]
- U.S. investors have paid over one hundred billion dollars annually in capital gains taxes in the last 15 years, including years when stocks barely rose and even when stocks fell greatly, as they did in 2008.[2]

While the tax tail shouldn't wag the investment dog, it's not about what you make but what you keep. Thanks to indexing and its downward pull on fees, investors today are keeping billions more than before. Adoption of smart, after-tax oriented strategies could save investors even more. We've found that for many high tax rate investors, the potential benefits of an index strategy combined with a robust Tax Benefit Capture process can be measured, not in basis points but percentage points, as the amount investors save from offsetting realized capital gains. For a more in-depth discussion see our White Paper: Future Value of Tax Benefits.

With tax costs front and center, now is the time to transcend the Mental Accounting of viewing taxes in a separate bucket and think holistically about tax cost mitigation within your overall investment strategy. Even with the best of planning, many investors may still need to realize capital gains from other parts of their portfolios or from businesses, real estate, mutual funds, hedge funds and/or private equity investments. Talk to your financial professional or contact us to see what we can do to help you keep invested while keeping more.

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[1] 2021 Investment Company Fact Book. https://www.ici.org/system/files/2021-05/2021_factbook.pdf
[2] 15-year average capital gains tax paid based on available Treasury data (2004-2018) was $103.6 billion a year. https://taxfoundation.org/federal-capital-gains-tax-collections-historical-data/

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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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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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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 gainns. 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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