Green Harvest
ASSET MANAGEMENT

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Harvesting Strategy

Managing Risk: The same source that generated wealth can also cause its undoing

Many investors today have amassed significant wealth due to concentrated stock positions, whether from businesses they own (or work for), or from successful investments. Growing wealth and preserving wealth can sometimes be at odds. There are least two challenges in preserving that wealth:

First, the familiar phrase, "past results are not indicative of future performance" continues to apply. In 2009, for instance, the largest U.S. company was Exxon Mobil (which then went on to return just 15.0% over the next 10 years). Five years before that, the largest company was General Electric (which then lost nearly two thirds of its shareholders' value over the next 15 years).[1] By contrast, the S&P 500 returned 242.8% and 207.0% respectively, over these two periods. The takeaway is that the very source of investors' wealth can also be its undoing. The risks for any one company and even a single sector are often greater than for the market and economy as a whole.[2]

The second issue is that selling these concentrated positions could have significant tax consequence due to their low-cost basis. That tax cost could take a big bite from an investor's bottom line, especially should capital gains rates rise further. As mentioned often here at Green Harvest, taxes can be one of the greatest expenses to an investor.

The good news is that there are potential answers to these challenges. One way is to transition concentrated positions into more diversified portfolios, and critically, to do so in a tax sensitive manner. Talk to us or your wealth advisor to learn more.

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

[1] Sources: Bloomberg, https://www.visualcapitalist.com/a-visual-history-of-the-largest-companies-by-market-cap-1999-today/. All performance is total return for the 10 years beginning 1/1/2009 and 15 years beginning 1/1/2004.

[2] Studies show most companies actually underperform indexes over time and with significantly greater volatility. Individual stock risk can be higher due to key events affecting specific companies much more than diversified indexes.

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

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