

Tax loss harvesting strategy in volatile markets

An effective strategy for investors amidst the recent market volatility is realizing losses on securities to offset capital gains in an investment portfolio. A tax loss harvesting strategy can be implemented without changing the long-term financial goals for an investor. These strategies apply only to **non-registered accounts**.

What is ‘tax loss harvesting’?

Tax loss harvesting is a method in which an investor incurs losses by choosing to sell securities that currently have a fair market value that is lower than its cost base. These losses will then allow the investor to offset capital gains realized on other investments in the portfolio, ultimately lowering the tax payable in the year.¹ Investors must be aware of superficial loss rules – when an investment is sold at a loss, and an identical investment is purchased either 30 days before or after the loss was realized, Canadian tax laws will deny the loss.

To ensure that the superficial loss rules don’t affect the long-term financial goals of the investor, the individual has the option to add a similar but not identical investment in their portfolio. For example, an ETF can be purchased with the same industry exposure as another ETF (tracking a different index), a mutual fund or other security that was sold to utilize its losses.

Trade Idea: Sell out of individual Canadian equities and invest in QCN or QCE

Canadian Stock Portfolio Example				Mackenzie ETF Alternatives
Ticker	Name	Price Change YTD	Price Change 1 YR	Mackenzie ETF
SHOP	Shopify Inc	-75.15%	-76.66%	QCN / QCE
BNS	Bank of Nova Scotia	-26.40%	-18.77%	
CM	Canadian Imperial Bank of Commerce	-22.17%	-17.60%	
BAM/A	Brookfield Asset Management Inc	-29.38%	-27.80%	

Source: Bloomberg; as of October 31, 2022

Trade Idea: Sell out of individual US equities and invest in QUU / QAH / QUU.U

US Stock Portfolio Example				Mackenzie ETF Alternatives
Ticker	Name	Price Change YTD	Price Change 1 YR	Mackenzie ETF
META	Meta Platforms Inc	-72.30%	-71.21%	QUU / QAH / QUU.U
NVDA	Nvidia Corp	-54.11%	-47.21%	
NFLX	Netflix Inc	-51.55%	-57.72%	
NKE	Nike Inc	-44.39%	-44.60%	
GOOGL	Alphabet Inc	-34.75%	-36.16%	
MSFT	Microsoft Corp	-30.98%	-30.01%	
JPM	JPMorgan Chase & Co	-20.51%	-25.91%	

Source: Bloomberg; as of October 31, 2022

Trade Idea: Sell out of US Large Cap Equity Index ETFs and invest in QUU

US Equity Index ETFs					
Ticker	ETF	Underlying Index	Management Fee	Price Change YTD	Price Change 1 YR
QUU	Mackenzie US Large Cap Equity Index ETF	Solactive US Large Cap CAD Index	0.06%	-13.86%	-9.73%
XUS	iShares Core S&P 500 Index ETF	S&P 500 Index	0.09%	-11.81%	-7.35%
VFV	Vanguard S&P 500 Index ETF	S&P 500 Index	0.08%	-12.40%	-7.43%
ZSP	BMO S&P 500 Index ETF	S&P 500 Index	0.08%	-12.50%	-7.53%

Source: Bloomberg and ETF providers' websites; as of October 31, 2022

Trade Idea: Sell out of Broad Market Canadian Equity Index ETFs and invest in QCN

Broad Market Canadian Equity Index ETFs					
Ticker	ETF	Underlying Index	Management Fee	Price Change YTD	Price Change 1 YR
QCN	Mackenzie Canadian Equity Index ETF	Solactive Canada Broad Market Index	0.04%	-8.35%	-7.78%
VCN	Vanguard FTSE Canada All Cap Index ETF	FTSE Canada All Cap Domestic Index	0.05%	-8.30%	-7.43%
XIC	iShares Core S&P/TSX Capped Composite Index ETF	S&P/TSX Capped Composite Index	0.05%	-8.35%	-7.66%
ZCN	BMO S&P/TSX Capped Composite Index ETF	S&P/TSX Capped Composite Index	0.05%	-8.39%	-7.80%

Source: Bloomberg and ETF providers' websites; as of October 31, 2022

Trade Idea: Sell out of International MSCI and FTSE Equity Index ETFs and invest in QDX

International Equity Index ETFs					
Ticker	ETF	Underlying Index	Management Fee	Price Change YTD	Price Change 1 YR
QDX	Mackenzie International Equity Index ETF	Solactive GBS Developed Markets ex North America Large & Mid Cap CAD Index	0.17%	-18.85%	-17.88%
ZEA	BMO MSCI EAFE Index ETF	MSCI EAFE Net Total Return EOD	0.20%	-19.13%	-17.88%
XEF	iShares Core MSCI EAFE IMI Index ETF	MSCI EAFE IMI Index	0.20%	-19.47%	-18.91%
VDU	Vanguard FTSE Developed All Cap Ex US Index ETF	FTSE Developed All Cap ex US Index	0.20%	-18.61%	-18.50%
VIU	Vanguard FTSE Developed All Cap ex-North America Index ETF	FTSE Developed All Cap ex NA Index	0.20%	-20.47%	-19.49%

Source: Bloomberg and ETF providers' websites; as of October 31, 2022



Trade Idea: Sell out of Canadian Aggregate Bond Index ETFs and invest in QBB

Canadian Aggregate Fixed Income ETFs				
Ticker	Underlying Index	Management Fee	Price Change YTD	Price Change 1 YR
QBB	Solactive Canadian Float Adjusted Universe Bond Index	0.07%	-14.07%	-12.44%
XBB	FTSE Canada Universe Bond Index	0.09%	-14.80%	-13.00%
VAB	Bloomberg Global Aggregate Canadian Float Adjusted Bond Index	0.08%	-14.74%	-12.91%
ZAG	FTSE Canada Universe Bond Index	0.09%	-15.23%	-13.52%

Source: Bloomberg and ETF providers' websites; as of October 31, 2022

Trade Idea: Sell out of Canadian Corporate Bond Index ETFs and invest in QCB

Canadian Corporate Fixed Income ETFs				
Ticker	Underlying Index	Management Fee	Price Change YTD	Price Change 1 YR
QCB	Solactive Canadian Corporate Bond Index	0.14%	-13.59%	-12.46%
XCB	FTSE Canada All Corporate Bond Index	0.15%	-14.22%	-12.98%
VCB	Bloomberg Barclays Global Aggregate Canadian Credit Float Adjusted Bond Index	0.15%	-12.94%	-11.91%
ZCB	FTSE Canada All Corporate Bond Index	0.15%	-14.02%	-13.04%

Source: Bloomberg and ETF providers' websites; as of October 31, 2022

Trade Idea: Sell out of Canadian Short Term Bond Index ETFs and invest in QSB

Canadian Short Term Fixed Income ETFs				
Ticker	Underlying Index	Management Fee	Price Change YTD	Price Change 1 YR
QSB	Solactive Canadian Short Term Bond Index	0.08%	-6.22%	-6.19%
XSB	FTSE Canada Short Term Overall Bond Index	0.09%	-6.53%	-6.30%
VSB	Bloomberg Global Aggregate Canadian Government/Credit 1-5 year Float Adjusted Bond Index	0.10%	-6.46%	-6.22%
ZSB	FTSE Canada Short Term Overall Bond Index	0.09%	-6.70%	-6.71%

Source: Bloomberg and ETF providers' websites; as of October 31, 2022

Trade Idea: Sell out of US Investment Grade Corporate Bond Index ETFs and invest in QUIG

US Investment Grade Corporate Bond Index ETFs				
Ticker	Underlying Index	Management Fee	Price Change YTD	Price Change 1 YR
QUIG	Solactive Select USD Investment Grade Corporate Hedged to CAD TR Index	0.15%	-19.79%	-20.30%
XIG	Markit iBoxx USD Liquid Investment Grade Total Return Index hedged in CAD	0.30%	-24.14%	-24.55%
ZMU	Bloomberg Barclays US Investment Grade 5 to 10 Year Corporate Bond Capped Index CAD Hedged	0.25%	-20.56%	-21.04%
ZIC	Bloomberg Barclays US Investment Grade 5 to 10 Year Corporate Bond Capped Index (CAD)	0.25%	-13.88%	-12.42%

Source: Bloomberg and ETF providers' websites; as of October 31, 2022



The Mackenzie Index ETF value proposition

Not all index ETFs are built the same. Mackenzie's Index ETF suite tracks indexes from Solactive & CSI, providing investors with similar exposures, yet are structured differently. This means that investors do have the option to switch to Mackenzie's index ETFs in using a tax loss harvesting strategy.

It is not enough to compare one index ETF versus another by name alone; investors must also assess the indexes such ETFs track. Some key methodology differences that can exist between one index versus another include investment strategy differences that are not obvious in the index name; free-float adjustments; rebalancing timing; index turnover; optimization techniques; tax treatment; and FX rates.

Mackenzie's index ETFs which track Solactive indexes offer many differentiators as compared to other brand name indexes:

- Index returns are calculated net of withholding tax from a Canadian investor's perspective (contrary to other indices, which are typically Net of Lux / Net Tax or US RIC tax). This does not impact the ETF holdings or performance; however, it does impact the tracking error of an ETF versus its index.
- Off-cycle rebalancing schedule versus other mainstream indices, which typically lowers portfolio turnover/transaction costs (Solactive's indexes rebalance 5 weeks ahead of many other brand name index providers).
- Index rules that we believe better address tradability and portfolio management execution.

Diversify away single stock risk

Investing in individual stocks can come with a variety of risks for which investors are not often compensated. Investors should seek to diversify their portfolio to minimize the risk of a single stock going belly-up in a portfolio. Generally, increasing the number of stocks contributes to decreasing risk in a portfolio. Investors can also seek to diversify their portfolio by investing in a number of stocks, which are less correlated to one another.

ETFs offer diversified exposure and thus minimize single stock risk, but it is still important to assess an ETF's holdings and the index methodology.

We encourage you to stay the course and continue to be disciplined in your investment approach by avoiding impulsive trading based on fear and uncertainty. Stay focused on your clients' long-term goals and the plans you have in place to achieve them.

Mackenzie is dedicated to partnering with advisors and offering product support, portfolio construction expertise, industry perspective and market making facilitation. Connect with your Mackenzie representative to learn more about Mackenzie ETFs.

¹ If the full amount of capital losses cannot be applied against capital gains in the current year, the remaining value of the loss can be carried back for three years and forward indefinitely against capital gains incurred in future years.

Commissions, management fees, brokerage fees and expenses all may be associated with Exchange Traded Funds. Please read the prospectus before investing. Exchange Traded Funds are not guaranteed, their values change frequently and past performance may not be repeated. Index performance does not include the impact of fees, commissions, and expenses that would be payable by investors in the investment products that seek to track an index.

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