

— TAX SYSTEMS / REALIZED LOSSES

# Tax-Loss Harvesting: *Disciplined* Realization

Harvesting is not cheering for red. It is moving tax character across time while keeping risk policy honest.

SYSTEM ARCHETYPE 029

## TLH / *Tax Alpha* /

Tax-loss harvesting exchanges paper losses for realized losses that can offset gains—then replaces exposure with a disciplined substitute. Pair it with second-order effects (basis resets), boundary critique (which

account owns the trade), and asset location so benefits land where law can recognize them.

## 1. Losses as *Tax* Inventory

**Tax-loss harvesting** is the disciplined sale of losers to realize capital losses, offset gains (and often a modest amount of ordinary income), then redeploy into a similar—but not identical—exposure so you stay invested. It is not "celebrating red screens"; it is recognizing that tax character is part of return.

Pair with second-order effects: harvesting resets basis lower, raising future gains if the asset rebounds. The second order is the tax timing swap, not free money.

*"Harvesting without a map is trading one regret for another."*

## 2. Wash-Sale *Physics*

The wash-sale rule punishes trivial round-trips: repurchasing the same or substantially identical security too soon can disallow the loss for current-year benefit. The boundary is legal and operational—document what you sold, what you bought, and why exposures remain appropriate. This is boundary critique with receipts.

## 3. Where Losses *Live*

Not all accounts swallow losses the same way. Asset location determines whether a realized loss is strategically useful or merely painful. Harvesting inside the wrong wrapper can be like catching rainwater with a sieve.

TLH OPERATING LOOP

01

### Inventory lots with cost basis

Spec ID where available; know short vs. long character.

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02

## Define replacement pairs in advance

Pre-commit substitutes that preserve risk exposure without tripping wash rules.

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03

## Calendar the harvest

Quarterly discipline beats December panic; fewer errors, less narrative.

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04

## Log net tax alpha

Compare estimated tax savings to trading costs and drift—if you cannot measure it, you are hobbying.

# 4. Behavioral *Risk*

Harvesting tempts market timing dressed as prudence. The system goal is tax alpha with stable exposure, not adrenaline. [Balancing loops](#) in your policy (rebalance bands) beat hero trades.

## 5. Entropy in *Execution*

Sloppy records turn tax alpha into [entropy](#): amended returns, penalties, marital stress. Treat the harvest log like a ledger module—versioned, auditable, boring.

Build the *lattice*, not the legend.

Return to the Reading hub for essays, tools, and the rest of the 100-topic map.

