

Staying Long the NASDAQ-100 with Tax-Loss Selling

The sell-off in the NASDAQ-100® and its related constituent stocks in 2022 has been severe. Year-to-date, as at September 30, 2022, the NASDAQ-100® is down more than -26% and much more from the lofty highs it achieved in late 2021.

The NASDAQ-100® is still comprised of some of the best-known, and arguably, most well-capitalized companies in the world, including Microsoft, Apple, Amazon, NVIDIA,

and Alphabet. The price-to-earnings (P/E) ratio on the NASDAQ-100® is almost back to pre-pandemic levels, which is creating some attractiveness for investors, (with Biryani and Associates putting a [forward P/E target of 20.79](#)) on the index, which would effectively put it well below its historical average.

Given the complexity of the current capital markets with rapidly rising inflation impacting the forward earnings growth of the technology-heavy NASDAQ-100®, it's hard to gauge if these stocks are attractive at current valuations. One easy way for investors to remain in a position in this universe of stocks, while still creating a potential net benefit for their overall portfolio performance, is to consider tax-loss selling.

Staying Long, Improving Tax Position

One actionable investment option during a severe market correction is known as tax-loss harvesting. Canadian ETFs provide ample selection to allow investors to exit a position in one ETF and buy a corresponding ETF with similar exposure. By doing so, investors can potentially "harvest" capital losses while also maintaining exposure to key long-term sectors.

For investors considering tax-loss harvesting, they could also consider the potential tax advantages offered by the [Horizons ETFs Total Return Index \("TRI"\) ETFs suite](#), which uses an innovative corporate class structure as a potential target for maintaining exposure to desired sectors after tax-loss harvesting. Our TRI ETFs offer the added benefit of expected tax deferral on future income and since they don't utilize a trust structure, they would likely not result in a superficial tax loss for CRA reporting purposes.

We will illustrate addressing this tax deferral strategy by using the [Horizons NASDAQ-100® Index ETF \(HXQ/HXQU\)](#) as an example.

TAX-LOSS SELLING 101

Simply put, tax-loss harvesting, or tax-loss selling, is a strategy that can help mitigate capital gains taxation. The practice of tax-loss selling involves deliberately selling a stock or fund at a capital loss, where the price at which it is sold is below the adjusted cost base or original purchase price. The aim is to use the loss realized from such a sale to offset any capital gains realized on other investments during the year.

While losing money on an investment is never ideal, a realized capital loss can be useful for those who invest outside of a registered account and are looking for a strategy that will help them reduce taxes to be paid on capital gains.

Generally, a realized capital loss can be used to offset realized capital gains in the current year, or it can be carried back as far as three years. It can also be carried forward indefinitely.

There is a caveat, however: Canadian tax law requires that a seller (or an affiliated person, such as a spouse) may not purchase the same security (or identical security) as the one on which they are claiming a loss within the 30 calendar days before or after the sale of the security to be able to claim the full amount of the capital loss on the position.

This is where ETFs may come in handy. You could sell a stock or fund to realize a capital loss and then, during the 30-day waiting period, invest the proceeds in an ETF that tracks that stock or fund's industry, sector, or asset class. After the 30-day waiting period, you could keep the ETF, or sell it and switch back to the security you originally sold to realize the capital loss.

Identical security is so similar to another in substance and structure that the Canada Revenue Agency (CRA) does not recognize a difference between the two, including, but not limited to, new and old securities issued by a corporation that has undergone reorganization.

Investors are rightfully hesitant to sell securities at a loss because many typically expect the valuations of a security or fund to turn around following a decline. However, investors don't have to meaningfully exit their exposure when using the tax-loss selling technique.

Consider that, at the time of this writing, the NASDAQ-100® is down more than 22% on a year-to-date basis. Many investors are likely sitting on some losses, either in a position on a NASDAQ-100® ETF or in some of the highly correlated underlying constituents. Some investors may be hesitant to exit long-term positions in the index or its underlying stocks.

An investor, depending on when they originally bought a position in the NASDAQ-100® or one of its underlying holdings – and at what cost – may be able to sell that security to crystallize a capital loss and still maintain some highly correlated exposure to the original security, HXQ or its U.S. dollar equivalent, HXQ.U. HXQ and HXQ.U are slightly different from other Canadian-listed U.S. equity index ETFs in that they are held within a Canadian mutual fund corporation, which means investors would likely

not be subject to superficial tax losses if they sell an index ETF and purchase one of the corporate class ETFs with the same index exposure.

The Total Return Advantage to Consider for Non-Registered Accounts

HXQ and HXQ.U are part of the Horizons ETFs family of Total Return Index ETFs. Unlike a traditional physical replication ETF that typically purchases the securities found in the relevant index in the same proportions as the index, HXQ and HXQ.U receive the total return of the NASDAQ-100® index, and because they are in a mutual fund corporation structure, are not expected to pay out any distributions from the underlying stocks. The value of the distributions is reflected in the ETFs' share price and is not distributed to shareholders.

This can potentially reduce the tax liability of the shareholder of the ETF since they are not required to pay taxes on any dividends if none are received. Instead, the tax liability of the dividends is dealt with at the corporate level, typically using offsets available within the corporation from accrued losses and expenses

Another Option: Generate Monthly Income from the NASDAQ-100® Index

Horizons ETFs also offers another way to get exposure to the NASDAQ-100®: Horizons NASDAQ-100 Covered Call ETF (QQCC).

QQCC offers investors exposure to the largest domestic and international nonfinancial companies listed on the NASDAQ stock market. However, through the use of a covered call strategy, the ETF can generate additional income on the portfolio.

This can be an attractive option for investors interested in NASDAQ exposure, as historically, the NASDAQ-100® Index does not pay a very high dividend yield relative to other U.S. equity indices. A covered call strategy is a way to potentially increase that income stream through the use of covered calls that can help generate an income premium. A covered call ETF investor can expect to participate in some, but not all, of the prospective growth of the underlying stocks while potentially earning an attractive monthly distribution from call option premiums and dividends.

NASDAQ-100® Index ETFs: Standard Performance Data as at September 30, 2022

The table below includes standard performance data for certain ETFs with NASDAQ-100® Index exposure, as at September 30, 2022. As is evident from the table, the included ETFs listed have a negative return on both a 1-year and year-to-date basis. The tax-loss harvesting opportunity is even more straightforward as the correlation and exposure are almost identical:

Ticker	Name	1-month (%)	3-month (%)	6-month (%)	YTD (%)	1-year (%)	3-year (%)	5-year (%)	10-year (%)	Since Inception (%)	Inception Date	Correlation
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HXQ	Horizons NASDAQ-100® Index ETF	-5.92	2.47	-18.06	-26.30	-18.18	14.33	15.72	-	16.77	2016-04-19	0.999
QQCC	Horizons NASDAQ-100 Covered Call ETF	-4.12	2.43	-9.40	-9.29	-6.34	0.37	-0.65	0.41	0.84	2011-09-13	0.94
ZNQ	BMO NASDAQ 100 Equity Index ETF	-5.95	2.45	-18.16	-26.41	-18.32	14.19	-	-	14.64	2019-02-15	0.998
QQC	Invesco NASDAQ 100 Index ETF	-6.17	1.71	-18.67	-26.64	-18.57	-	-	-	-6.03	2021-05-27	0.999
XNDX INDEX	NASDAQ-100 Total Return Index	-5.83	2.36	-17.99	-26.28	-18.21	14.74	16.24	16.24	7.96	1999-03-04	1.000

In Canadian Dollar

Ticker	Name	1-month (%)	3-month (%)	6-month (%)	YTD (%)	1-year (%)	3-year (%)	5-year (%)	10-year (%)	Since Inception (%)	Inception Date	Correlation
XQQ	iShares NASDAQ 100 Index ETF (CAD-Hedged)	-11.09	-5.22	-26.80	-33.49	-26.17	11.29	12.01	14.60	14.29	2011-05-02	1.000
QQC/F	Invesco NASDAQ 100 Index ETF (CAD-Hedged)	-11.06	-5.10	-26.83	-33.34	-25.93	11.50	12.20	14.72	15.24	2011-06-15	1.000
XNDX INDEX	NASDAQ-100 Total Return Index	-10.55	-4.42	-25.74	-32.35	-24.72	13.21	13.96	15.92	8.42	1999-03-04	1.000

In US Dollar

Ticker	Name	1-month (%)	3-month (%)	6-month (%)	YTD (%)	1-year (%)	3-year (%)	5-year (%)	10-year (%)	Since Inception (%)	Inception Date	Correlation
HXQ/U	Horizons NASDAQ-100® Index ETF	-10.55	-4.52	-25.84	-32.51	-24.98	12.75	13.39	-	15.20	2016-04-19	1.000
ZNQ/U	BMO NASDAQ 100 Equity Index ETF	-10.58	-4.54	-25.93	-32.62	-25.11	-	-	-	-12.64	2021-02-11	1.000
QQQ	Invesco QQQ Trust Series 1	-10.56	-4.46	-25.79	-32.43	-24.85	12.99	13.73	15.67	8.20	1999-03-05	1.000
XNDX INDEX	NASDAQ-100 Total Return Index	-10.55	-4.42	-25.74	-32.35	-24.72	13.21	13.96	15.92	8.42	1999-03-04	1.000

In US Dollar

Source: Bloomberg as at September 30, 2022.

LIMITED TIME OFFER:

Horizons Will Cover Trading Costs of Certain In-Kind Switches into HXQ, HXQ.U and QQCC

Investors who want to sell units of a Canadian-listed NASDAQ-100® ETF and move into one of the Horizons NASDAQ-100® ETFs can take advantage of our in-kind subscription process. If they switch to one of the NASDAQ-100®-focused ETFs Horizons ETFs offers, Horizons ETFs will pay for certain transaction costs associated with that in-kind switch (typically ½ a penny a share).

This means that ETF investors in certain eligible index ETFs will have a way to successfully harvest losses on the 2022 tax year, with virtually no cost associated with the transaction.

Horizons ETFs has developed a formal process to help our clients achieve pricing efficiencies in subscriptions and redemptions of our ETFs by working with market makers to facilitate 'End-of-Day' ETF trades, which would be executed at the ETF's end-of-day's net-asset-value (NAV), plus a small trading commission (Horizons ETFs will be paying this cost).

In this case, any investor who uses this 'End-of-Day' process to sell (switch) the approved ETF they currently hold between now and December 16, 2022, as part of an in-kind purchase of any eligible ETF, the ETF unit would receive NAV vs NAV on the switch and not have to pay transaction costs (typically the banks charge ½ penny per share). Horizons ETF will cover those costs directly with the market-maker that executes the trade. This process would typically only apply to in-kind switches of Canadian ETFs that meet the in-kind subscription criteria.

Please note that as part of this limited-time offer, Horizons ETFs will accept in-kind switches of HXQ into QQCC but will not be able to accept in-kind switches of QQCC into HXQ.

ETFs Eligible for Cost Coverage on In-Kind Switches

Ticker	ETF Name	Eligible for In-Kind Switch	Ticker
HXQ	Horizons NASDAQ-100® Index ETF	BMO NASDAQ 100 Equity Index ETF Invesco NASDAQ 100 Index ETF iShares NASDAQ 100 Index ETF CAD-Hedged Invesco QQQ Trust Series 1 BMO NASDAQ 100 Equity Index ETF Invesco NASDAQ 100 Index ETF	ZNQ QQC XQQ QQQ ZNQ/U QQC/F
QQCC	Horizons NASDAQ-100 Covered Call ETF	BMO NASDAQ 100 Equity Index ETF Invesco NASDAQ 100 Index ETF iShares NASDAQ 100 Index ETF CAD-Hedged Invesco QQQ Trust Series 1 BMO NASDAQ 100 Equity Index ETF Invesco NASDAQ 100 Index ETF Horizons NASDAQ-100® Index ETF	ZNQ QQC XQQ QQQ ZNQ/U QQC/F HXQ/HXQ.U



Individual Securities: Correlations and Losses

In general, the correlation between the number of the larger constituent members of the NASDAQ-100® to the index itself is quite high. Here we have included 20 names with the highest correlation to the NASDAQ-100®. In all cases, these stocks are at a loss on both a YTD basis and a one-year basis, making them attractive targets for a tax-loss harvesting opportunity, where an investor can sell the position at a loss, harvest losses, and then buy HXQ, HXQ.U or QQCC to maintain their highly correlated exposure.

Ticker	Name	1-month (%)	3-month (%)	6-month (%)	YTD (%)	1-year (%)	3-year (%)	5-year (%)	Correlation	Weight
GOOGL US equity	Alphabet Inc	-11.62	-12.22	-31.22	-33.97	-28.45	16.14	14.46	0.90	3.53
GOOG US equity	Alphabet Inc	-11.91	-12.09	-31.15	-33.54	-27.85	16.41	14.93	0.90	3.71
MSFT US equity	Microsoft Corp	-10.93	-9.12	-24.11	-30.29	-16.69	19.91	27.19	0.89	10.50
SWKS US equity	Skyworks Solutions Inc	-13.48	-7.41	-35.29	-44.18	-47.26	4.08	-1.92	0.88	0.17
AMZN US equity	Amazon.com Inc	-10.86	6.39	-30.67	-32.22	-31.20	9.19	18.65	0.88	6.30
ANSS US equity	ANSYS Inc	-10.71	-7.35	-30.21	-44.73	-34.88	0.05	12.56	0.88	0.19
INTU US equity	Intuit Inc	-10.30	0.66	-19.20	-39.53	-27.81	14.08	23.10	0.87	1.22
ADI US equity	Analog Devices Inc	-8.04	-4.15	-14.85	-19.60	-15.29	9.68	12.25	0.87	0.75
NXPI US equity	NXP Semiconductors NV	-9.90	0.18	-19.47	-34.25	-23.34	12.13	6.66	0.87	0.36
MCHP US equity	Microchip Technology Inc	-6.47	5.51	-18.10	-29.07	-19.31	11.01	7.49	0.86	0.32
TXN US equity	Texas Instruments Inc	-6.31	1.38	-14.52	-16.24	-17.37	9.06	14.52	0.86	1.60
AAPL US equity	Apple Inc	-12.10	1.22	-20.63	-21.85	-1.79	36.12	30.47	0.86	12.52
AVGO US equity	Broadcom Inc	-10.28	-7.83	-28.31	-31.70	-5.68	21.42	16.84	0.86	1.77
CPRT US equity	Copart Inc	-11.07	-2.08	-15.20	-29.82	-23.30	9.82	25.36	0.85	0.22
ADSK US equity	Autodesk Inc	-7.41	8.63	-12.85	-33.57	-34.50	8.14	10.72	0.84	0.39
MRVL US equity	Marvell Technology Inc	-8.35	-1.30	-40.03	-50.81	-28.58	20.49	20.12	0.84	0.35
VRSN US equity	VeriSign Inc	-4.68	3.81	-21.92	-31.57	-15.27	-2.71	10.30	0.84	0.19
NVDA US equity	NVIDIA Corp	-19.55	-19.90	-55.49	-58.70	-41.36	40.94	22.38	0.83	3.39
AMAT US equity	Applied Materials Inc	-12.91	-9.72	-37.53	-47.58	-35.82	19.18	10.87	0.82	0.71
AMD US equity	Advanced Micro Devices Inc	-25.34	-17.14	-42.05	-55.97	-38.43	29.77	37.81	0.81	0.89

Source: Bloomberg as at September 30, 2022.

Investment Objectives

HXQ seeks to replicate, to the extent possible, the performance of the NASDAQ-100® Index (Total Return), net of expenses. Net distributions from index constituents are reflected in HXQ's Net Asset Value ("NAV") on their ex-date (and are reinvested in the Index constituents on an ongoing basis) which can result in more efficient compounding compared to similar ETFs that pay out & re-invest distributions only quarterly or monthly. HXQ is not expected to make taxable distributions, making it advantageous for taxable accounts where U.S. dividends are taxed at the full marginal income tax rate of a Canadian resident.

QQCC seeks to provide, to the extent possible and net of expenses: (a) exposure to the performance of an index of the largest domestic and international, non-financial companies listed on the NASDAQ stock market (currently, the NASDAQ-100® Index); and (b) monthly U.S. dollar distributions of dividend and call option income. To mitigate downside risk and generate income, QQCC will employ a dynamic covered call option writing program. QQCC will not seek to hedge its exposure to the U.S. dollar back to the Canadian dollar.



Commissions, management fees and expenses all may be associated with an investment in the Horizons NASDAQ-100® Index ETF (the "ETF") managed by Horizons ETFs Management (Canada) Inc. The ETF is not guaranteed, its value(s) change(s) frequently and past performance may not be repeated. Certain Horizons Exchange Traded Products may have exposure to leveraged investment techniques that magnify gains and losses and which may result in greater volatility in value and could be subject to aggressive investment risk and price volatility risk. Such risks are described in the prospectus. The prospectus contains important detailed information about the Horizons Exchange Traded Products. **Please read the relevant prospectus before investing.**

Horizons Total Return Index ETFs ("Horizons TRI ETFs") are generally index-tracking ETFs that use an innovative investment structure known as a Total Return Swap to deliver index returns in a low-cost and tax-efficient manner. Unlike a physical replication ETF that typically purchases the securities found in the relevant index in the same proportions as the index, most Horizons TRI ETFs use a synthetic structure that never buys the securities of an index directly. Instead, the ETF receives the total return of the index through entering into a Total Return Swap agreement with one or more counterparties, typically large financial institutions, which will provide the ETF with the total return of the index in exchange for the interest earned on the cash held by the ETF. Any distributions which are paid by the index constituents are reflected automatically in the net asset value (NAV) of the ETF. As a result, the Horizons TRI ETF receives the total return of the index (before fees), which is reflected in the ETF's share price, and investors are not expected to receive any taxable distributions. Certain Horizons TRI ETFs (Horizons NASDAQ-100® Index ETF and Horizons US Large Cap Index ETF) use physical replication instead of a total return swap.

Horizons TRI ETFs include ETFs that use physical replication instead of a total return swap to gain exposure to their benchmark index. These ETFs are a class of shares in a corporate class structure that allows the ETF to deliver its returns in a tax-efficient manner. With this structure, the ETF will receive the total return of the Index (less any withholding tax payable on constituent distributions if applicable), which is reflected in the NAV of the ETF. However, investors are not expected to receive any taxable distributions from these ETFs.

The indicated rates of return are the historical annual compounded total returns, including changes in share value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. The rates of return above are not indicative of future returns. ETFs are not guaranteed, their values change frequently, and past performance may not be repeated. Only the returns for periods of one year or greater are annualized returns.

The Inception Date shown for Horizons NASDAQ-100® Index ETF ("HXQ" and "HXQ/U") is the inception date of the predecessor ETF of the same name which was structured as a trust. On November 27, 2019, after receiving unitholder approval, the predecessor ETF merged into a class of shares of a corporate fund structure. In accordance with exemptive relief, the data of the ETF presented here includes the historical data of the predecessor ETF in order to provide full disclosure of the ETF's data.

Effective January 4, 2020, HXQ changed its portfolio from a total-return swap to physical replication of the underlying index. This reduced the expenses applicable to the ETF by the 0.30% swap fee and is expected to increase the trading costs. Overall, the expenses are expected to decline to result in less tracking errors going forward.

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