advisorXLS®

RESEARCH · 07 | TAX MANAGEMENT

Test the harvesting settings before you trust them

One small setting raised tax alpha by 74% and cut trading at the same time. Another, moved half a point the wrong way, turned a gain into a loss. Here is how we test settings, and the traps we found.

AUTHOR	CATEGORY	PUBLISHED	READ TIME
AdvisorXLS Research	Tax Management	November 27, 2026	4 min read

A harvest engine is only as good as its settings. We ran hundreds of tests on our own engine to learn which settings matter, how to find good ones, and how a test can mislead you. This is what we learned.

Change one thing at a time

Our optimizer starts from the standard settings and changes one setting at a time. It keeps the best value of each setting, then tries the best values together. It keeps the combination only if it wins. Each test runs over the last five, three and one years, so you can see whether a setting holds up in different markets.

Every candidate must also stay inside the tracking-error limit you set against your model. A setting that saves tax by moving far from the model does not qualify.

A small setting can matter most

One finding surprised us. A common harvesting rule acts on any loss larger than a set dollar amount, for example $25. In a book with 1,277 lines on a $1,000,000 account, the average line is about $783. At that size, a $25 loss is only about a 3% move, so the trigger fired on nearly every lot.

When we removed the dollar trigger and kept only the percentage trigger, four results improved together:

SIMULATED, HYPOTHETICAL	WITH $25 TRIGGER	WITHOUT
Tax alpha	Base	74% higher
Turnover a year	242%	179%
Trading costs	Higher	Lower

SIMULATED, HYPOTHETICAL	WITH $25 TRIGGER	WITHOUT
Tracking error and net result	Base	Better

It was the only change we found that improved tax alpha, the net result, tracking error and cost at the same time.

Some settings are a cliff, not a slope

A loss trigger of 5% passed all our limits, with a net result 0.49% ahead. At 4.5% the result fell to 3.09% behind. At 5.5% it was 0.23% behind. A half-point move down caused a large loss, and a half-point move up caused a small one.

> When a setting sits near a cliff, move it away from the edge, even if the number on paper is a little lower.

Tax alpha and investment return pull against each other

Across our tests, the limit that stopped us was almost always the net result, not the tracking-error limit. Tracking error landed between 1.8% and 2.9%, well inside a 5% ceiling. More harvesting saved more tax but cost more return. The best settings balance the two for your client.

Watch for results that look too good

Two tests looked excellent and were wrong:

- **A setting that never sold.** It scored a very large "tax saved" figure because the account stopped rebalancing. It ended with 80.7% in one fund and 78% drift from the model. Judge settings on drift and turnover, not on tax saved alone.
- **A drift band of 100%.** The account never bought back underweight names, and it held 50% to 70% in cash.

Method matters as well. The same run valued on a less frequent schedule ended $21,000 higher and banked $13,000 less in losses than when it was valued every trading day. Compare settings only when they are measured the same way.

Check the settings on another period and another model

Settings tuned on one model often gave a negative tax alpha on another model. A setting that wins over five years can lose over one year. Before you adopt a setting, look at all three periods and check that it wins in more than one.

How the AdvisorXLS optimizer works for you

- **Your client's inputs first.** Bracket, state, outside gains, carryforwards, withdrawals and costs.

- **Results over three periods.** Five, three and one year by default, or any period from 1 to 20 years.
- **Guards on every result.** Tracking error against your model, plus drift and turnover.
- **One click to adopt.** Select one result and the engine writes its settings sheet, with every setting printed for compliance.

Important information. This article is for financial professionals and is for information only. It is not tax, legal or investment advice, and it is not an offer of any security or service. The results above are simulated and hypothetical, produced by AdvisorXLS with the benefit of hindsight on model portfolios at top federal and state tax rates. They do not reflect any client account, actual trading, or advisory fees. Actual results will differ. Hypothetical performance has inherent limits, and advisors who use it in communications must meet the SEC Marketing Rule.

// topics: Tax-Loss Harvesting Optimization Backtesting