



## TAX AWARE

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# Levering Up to Do Good: Direct Long-Short Investing and Charitable Giving

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We use historical strategy simulations to evaluate the advantages of donating appreciated stock in the context of tax-aware long-short factor strategies. Our main findings are as follows.

First, long-short strategies have a higher donation capacity than long-only investments, and their donation capacity increases with leverage. Second, long-short strategies have a higher donation efficiency than long-only investments. Similar to donation capacity, donation efficiency increases with leverage.

Third, long-short strategies receive a larger loss-realization boost from donation of appreciated stocks than long-only investments, which also increases with leverage. Fourth, by removing appreciated positions from the strategy portfolio, higher donation targets reduce the tax costs of modifying the long-short strategy, for example, transitioning it to a long-only portfolio.

Finally, when stock donations are done without replenishment, long-short portfolios offer pre-tax and after-tax performance that is far superior to that of long-only investment. Here too, pre-tax and after-tax value achieved with long-short investments increases with leverage.

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