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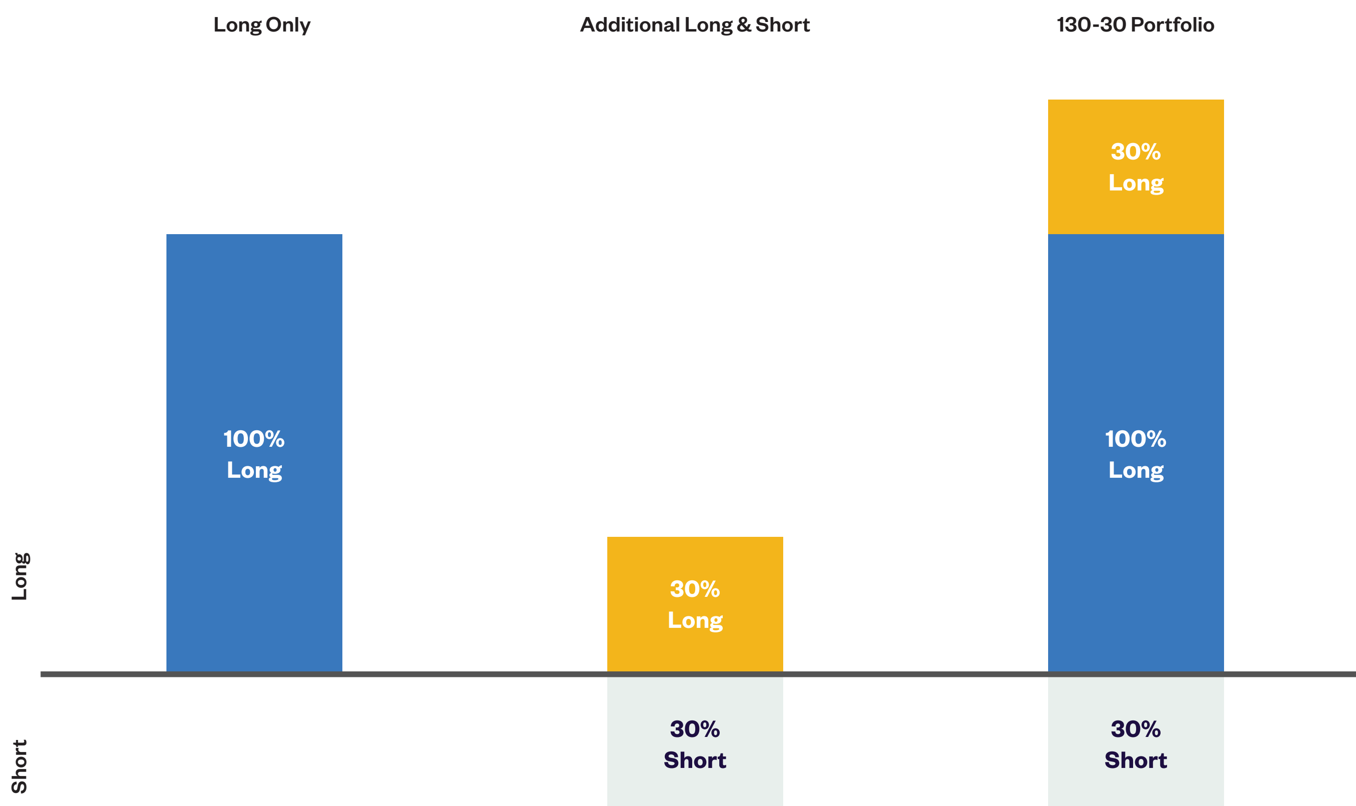
130-30 Long-Short Strategy

What is a 130-30 Long-Short Strategy?

Long-short investment strategies allow investors to more efficiently isolate their bullish and bearish views on individual stocks by shorting stocks they expect to underperform while simultaneously buying stocks they expect to outperform.

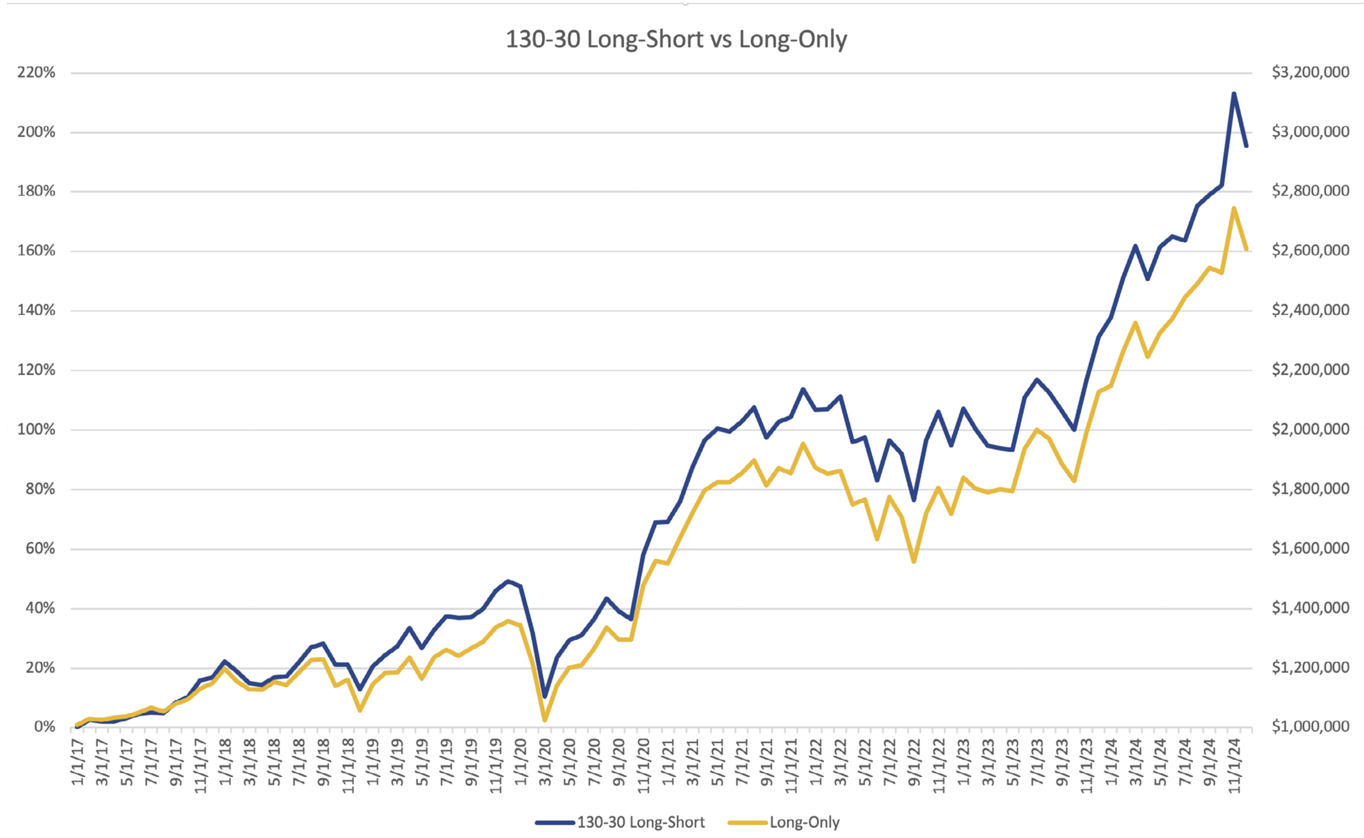
One of the most common executions of this investment approach is a 130-30 long-short strategy where margin is used to buy stocks with 130% of a portfolio's value while also shorting 30% of a different basket of stocks within the portfolio.

This execution maintains a 100% net exposure to the stock market while more aggressively expressing bullish and bearish opinions on individual stocks.



Why do it?

Performance Alpha: Burney's proprietary stock selection model generates both bullish and bearish ratings on individual stocks. By allowing for short selling, we have the chance to more efficiently capture the differences between our bullish and bearish views on top of stock market returns.



The inception date of the 130-30 composite is 1/1/2017. The left axis measures performance and the right axis measures growth of $1M invested in the strategy. The 130-30 long-short is represented by the composite of all accounts invested in the 130-30 strategy since inception. The long-only is represented by Burney's Size and Style Responsive US Equity composite. Performance is net-of-fees and margin costs. Past performance is not a guarantee of future performance.

Tax Benefit: The long portion of our 130-30 strategy is invested in our ETF that benefits from the tax-efficiency of the ETF wrapper. We generally don't expect to distribute capital gains from the ETF. The short positions are expected to generate realized losses over time as the stocks sold short are expected to see positive absolute returns. They can still be additive to performance, however, as long as they underperform the stocks invested long. In a rising market, gains are expected to be deferred in the ETF on the long side and losses realized on the short side, creating a tax benefit that can be used to offset gains elsewhere or carried forward to a future year.

Hypothetical Tax Alpha Starting with $1M Portfolio

Years in Strategy	Value	Expected Unrealized Gains	Expected Cumulative Realized Losses
Start	$ 1,000,000	$ -	$ -
1	$ 1,109,000	$ 109,000	$ (21,000)
5	$ 1,677,481	$ 677,481	$ (130,524)
10	$ 2,813,944	$ 1,813,944	$ (349,475)
20	$ 7,918,281	$ 6,813,944	$ (1,332,880)
30	$ 22,281,601	$ 21,281,601	$ (4,100,125)

The tax alpha calculations are hypothetical assuming 10% growth for the long investments and 7% growth for the short investments. There is no assurance that these returns can be achieved. Stocks sold short have the potential for unlimited losses. There can be no guarantee that the ETF will never distribute a capital gains distribution. It is possible for the stocks sold short to deliver realized gains, especially in the event of a market drop. These gains could be short-term gains and could counteract the expected tax alpha. The scenario assumes a starting portfolio of $1,000,000 that is held for 30 years with 100% turnover in the short portfolio.

Use Case: Legacy Planning

Another benefit of the 130-30 strategy is that it can be used as a legacy planning tool due to its goal of growth and tax-efficiency. If you have a large taxable account earmarked for your heirs, you can explore the tax benefits from realizing losses on the short side of the strategy while deferring taxable gains in the ETF.

When it is time for your account to be inherited, your heirs can potentially benefit from a step-up in the cost basis of the ETF, avoiding taxes on unrealized capital gains over the lifetime of your investment in the strategy.

Performance

Net Returns Through 12/31/2024	YTD	1-Year	3-Year	5-Year	Inception
Burney 130-30 Long-Short Strategy	27.9%	27.9%	11.6%	14.9%	14.6%

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Other Considerations:

- We execute this strategy at Interactive Brokers due to their more competitive margin rates vs other custodians.
- The strategy can only be run in taxable accounts with a minimum investment of $250k.
- While overall portfolio risk is expected to be the same as our long-only strategy, there is potential for increased tracking error based on the performance of our stock selection model.
- The strategy is intended for sophisticated investors with aggressive or moderately-aggressive risk tolerances who understand the complexity of the strategy and unlimited loss potential of short selling. Steps are taken to mitigate this risk, but any stock sold short has the potential for unlimited losses.
- There are also additional costs associated with the use of margin.
- While we do not take a management fee directly from accounts invested in this strategy, our ETF carries a 0.79% management fee that is paid to us. This fee is magnified by the 130% allocation on the long side.

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