



## Equities

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### Taxes, Shorting, and Active Management

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We examine the consequences of short selling in the context of quantitative investment strategies held by individual investors in taxable accounts. Short positions not only allow investors to benefit from the anticipated underperformance of securities but also create tax benefits because they enhance opportunities to time capital gains realizations. Relaxing short-selling constraints results in tax benefits because a portfolio's long positions tend to realize net long-term capital gains taxed at relatively low rates, whereas short positions tend to realize net short-term capital losses, which can offset short-term capital gains from other strategies in the investor's portfolio. Our results show that investment strategies that take advantage of short selling can generate superior after-tax performance by significantly reducing the tax burden.

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