

SINGLE STOCK RISK

We see many situations where a concentrated position in a single stock presents unique planning issues. Maybe you have recently sold your company in a transaction which resulted in such a large position. Or perhaps your employer has rewarded you with stock options, suddenly giving you over 80% of your wealth in your employer's stock. Many others have acquired large single stock positions through inheritance or gift.

In each of these situations, you face similar problems. How do you best develop a plan to reach your goals with this large holding? You realize that your investments are not diversified, but you really believe in this stock. You would consider a sale, but with a cost basis of next to nothing, over 20% of your capital will be lost in a taxable sale. How will you meet your cash flow goals?

Most people understand that diversification is the best way to reduce risk. The volatility of a single stock and the business risks a company faces are much greater than a diversified portfolio! You also may be watching the value of the stock much more than you would like.

While there are many strategies and "products" to help you deal with these objectives, it is critical to first focus on your overall goals. Once you have done this you

can then consider some of these strategies:

1. Outright Sale - With federal capital gains tax rates at 20%, it might be worth considering an outright sale of some of the stock.
2. Hedging the Downside - A variety of hedging strategies are available. Zero Cost Collars can protect the downside but still give you a bit of the upside.
3. Exchange Funds - Swapping your stock for a partnership interest in a diversified portfolio, without the tax hit, is another strategy to consider. While these funds have been attacked by congress they still survive.
4. Charitable Remainder Trust - Combining charitable giving objectives with the transfer of a block of appreciated stock can be a win-win for clients.

The development of a systematic plan to diversify away from a single stock position is the best way to meet your goals. Using some of these tools may also help you accomplish these goals while minimizing the tax impact.