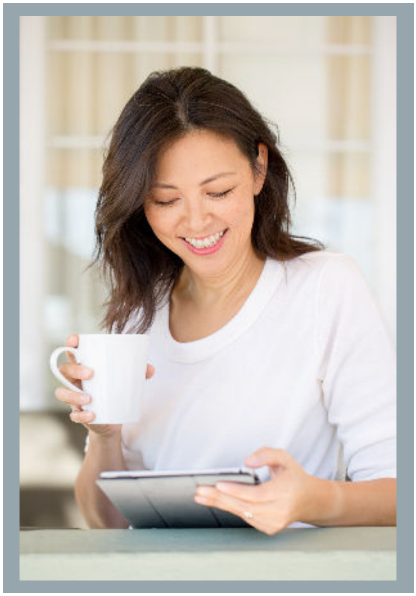
CWT CALIFORNIA WEALTH TRANSITIONS

What To Do If You Have Highly Appreciated Stock

- Do you work for a publicly traded company?
- Does your company compensate you with stock options?
- Does your ownership in a single company represent over 15% of your net worth?



Whether or not you decide to sell your shares should be determined by a combination of a holistic financial plan, your stage in life, your personal risk tolerance, how your other investments are allocated, how much income you need from your investments, and the future prospects of the company.

Wealth is built through concentration and protected through diversification.

If your shares have appreciated in price, you are going to pay 20% or more in capital gains taxes when you sell them.

There are intelligent ways of avoiding paying unnecessary tax. If you are in this position and are unsure if you should sell your shares or if you have a significant gain and would like to consult with one of our financial planners, click here.

If you would like to learn more about the strategy, keep reading below.

What Are Exchange Funds and How Do They Work?

If you own a large amount of stock in a single company, you can transfer those shares into an exchange fund. An exchange fund is also known as a swap fund and allows investors the ability to diversify their stock holdings while still deferring taxes. Exchange funds typically try to track a benchmark, such as the S&P-500.

Your ability to participate in an exchange fund depends on how closely the current fund holdings match the desired benchmark of the fund and how the shares you own fit with their overall portfolio.

- Does the fund already have too much Apple stock? If so, they may not take yours because they are already over committed with Apple shares.
- Is your stock in the S&P-500? They might not be interested if your shares are not part of the benchmark their fund tracks.

When an exchange fund accepts your shares, they are accepting any gain you have on the shares as well. You do not get a step-up in basis; the transfer of shares is not a ‘sale’ so you do not have to pay tax on the gain.

Going forward you can leave your money in the fund to grow in a diversified portfolio. Depending on the fund, you may have the option to sell shares of the fund. This would trigger a long-term capital gain on the portion you decide to sell.

Best Practices When You Need Income

Ideally, you would be putting money into an exchange fund that you do not plan to spend any time soon. Down the road, the fund could offer you an opportunity to take ownership of certain predetermined shares by transferring them out of the fund.

In other words, if you needed to take income from your investments down the road, you could transfer the highest dividend paying companies out of the fund and own them outright, in a personal account, using the income for living expenses.

The best news about this strategy? You still do not have to pay capital gains tax on those shares, because there still has not been a sale.

We are here to help provide you with the right financial tools. If you have a concentrated position in one company, especially if it is your employer, talk with one of our advisors here.

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