

## TAX STRATEGIES FOR CONCENTRATED STOCKS

Have you spent most of your career with a single employer? Have you inherited a block of stock? Did you get in on a company early, and hold on for a long, profitable ride? (Warren Buffet makes headlines as the world's most successful investor—but his early Berkshire-Hathaway investors have joined him on the *Forbes* 400 list.)

If so, you may have accumulated a real boatload of a single company's stock. As long it wasn't Enron, Worldcom, or a "dot-bomb" failure, that stock may present a real tax trap. How do you unlock your equity to diversify your portfolio or boost your income without springing a tax leak?

"Tax-engineered products" let you cash in on your gains while deferring or eliminating taxes you'd pay if you sold your stock outright. Consider these sophisticated strategies six-figure and seven-figure gains:

- **Stock loan** programs use custom derivatives to let you borrow against your stock. These are similar to traditional margin loans, but generally let you borrow up to 90% of your equity (as opposed to the 50% for margin loans).
- **Collars** use special put and call options to hedge your stock position so that you can borrow more against it. First, sell a "call" requiring you to sell the stock at a certain price. Then use the proceeds from that call to buy a "put" protecting you from a fall in the price. With the stock collared, you can borrow up to 90% of the position's value. Your ultimate gain or loss at the collar's expiration depends on the stock's price at that time.

**Variable prepaid forwards** let you sell shares at a future date in exchange for a specified payment today. The investment bank writing the contract specifies a minimum "floor price" and maximum

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- “cap price,” writes options to hedge its risk, then pays you the purchase price on the trade date. When the position expires, you’ll deliver as much stock as it takes to fulfill your obligation, depending on its price at that time. If the price doubles, for example, you’ll deliver just half of your shares to satisfy your obligation. Alternatively, you can renew the forward to keep your stock.
- **Swap funds** let you and a group of investors contribute your stock into a partnership. There’s no tax due on the exchange, and you wind up owning shares in a more diversified portfolio consisting of all the partners’ contributions. (The partnership itself can sell those assets for further diversification.) Your main challenge is making sure the fund gives you true diversification. If you’re a dot-com millionaire, a fund full of dot-com stocks may not do the trick.

For more information, contact us to see how these strategies might work for you.

This is intended for general interest and not as specific legal or accounting advice for anyone. You should consult your tax advisor to get more information.