OUTRIGHT SALE OF A CONCENTRATED STOCK POSITION

Most owners of concentrated positions understand the risks inherent in continuing to hold their shares. A significant drop in the price of the issue has the potential to inflict irreparable harm on a portfolio. One guaranteed solution to the problem is to sell the stock, but many owners are wary of the tax implications of implementing this simple strategy and are therefore hesitant to take action. But sometimes the simplest option produces the best result. To determine whether an outright sale is an appropriate solution for reducing risk, let's review the benefits and downside considerations associated with such action.

Benefits of outright sale

- The risk associated with the position is immediately removed from the owner's portfolio.
- The owner now has available cash to allocate among a diversified portfolio—one that is more suitable for his or her risk tolerance and financial goals.
- Selling the position during a year when federal long-term capital gain taxes are low (e.g., 15 percent in 2011–2012) can make the tax bill more manageable than it would be in the future if rates were to rise.

Downside considerations associated with outright sale

- Although long-term tax rates may be at a historic low, the sale of low basis shares can significantly increase the owner's taxable income.
- A large capital gain may subject the owner to the alternative minimum tax (AMT).
- The owner will no longer participate in the appreciation of the sold shares.
- If the owner were to hold the shares until his or her death, the heirs would inherit the position with a step-up in tax basis to the fair market value on the date of the owner's death.
- The sale of a significant number of shares on a public exchange could lead to a decrease in the price of the security.

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1275 Ben Sawyer Boulevard | Mt. Pleasant, SC 29464 | Phone: 843.884.9898 | Fax: 843.884.8798 | www.cummingswealth.com

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