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Fairfield County, CT | **Leading Wealth Advisor**

LLBH Private Wealth Management LLC
Kevin Burns, Partner, Bill Loftus, Partner
Bill Lomas, CFP®, CIMA®, CRPC, Partner
Jim Pratt-Heaney, CIMA®, Partner

"How do I manage my concentrated stock positions?"

By Kevin Burns

A stunning driver of wealth creation has been the concentrated stock position. Entrepreneurs, corporate executives and investors have enjoyed tremendous appreciation of stock options and company stock due to incentive-based equity compensation plans. **These concentrated stock positions present planning challenges because volatility is significantly higher than with diversified portfolios.** We have witnessed company executives with single-stock holdings representing 80 percent or more of their net worth. Such individuals should consider the psychological, financial and regulatory factors associated with diversifying their positions.

The emotional attachment to the enterprise that has created significant wealth is undeniable and may present the greatest obstacle to creating a rational plan. Executives and retirees commonly feel distrustful of the general market, yet confident about the future of their stock, as they had a direct role in ensuring the company's success. This may wane as new management takes the company in different directions or the economic environment changes.

Executives should make rational diversification decisions by developing a family risk allocation plan. Each asset is defined by risk parameters (safety, market, aspirational). Concentrated positions are categorized as aspirational and characterized by a high risk/reward profile. By taking into account future cash-flow needs, taxes and life expectancy, advisors can guide clients to identify an optimal mix of diversification and the concentrated position.

Once an allocation decision is made, determine the best methodology to execute the plan. Some investors want to protect profits but do not wish to pay current tax. Some remain employed at the company and do not want to send a message to the investment community that they are sellers. Strategies such as zero premium collars or variable prepaid forward contracts may make sense. Both provide protective floors under a predetermined price. In return, the holder gets appreciation over a certain price. The term may be up to seven years and may be extended under certain circumstances, thus pushing the taxable event further. We often recommend exchange funds in which investors exchange shares of a concentrated position for shares in a diversified fund. The exchange of shares does not constitute a taxable event, so the desired results of diversification and of deferring taxes until the investment in the fund is terminated are achieved. There is a minimum holding period of seven years for the fund, although investors may maintain a position indefinitely, thereby delaying the taxable event.

In cases where taxes are not an issue or corporate optics are unimportant, an outright sale due to low current capital gain tax rates is an option. Stock options and restricted shares received as compensation are generally treated as ordinary income, so it may be advisable to exercise and sell shares in relatively low-income years when the tax rates may be lower.

When diversifying concentrated positions, regulatory restrictions that govern corporate insiders may apply. One must clear any anticipated stock sales with company counsel. Insiders are governed by volume and time restrictions when making transactions and must not be in possession of material, nonpublic information when selling or buying. A 10b5-1 selling plan, established during an open selling window, identifies the price, volume and time intervals at which the executive wishes to sell shares (including during blackout periods). It cannot be modified during blackout periods and is widely regarded by securities lawyers as providing an affirmative defense against concerns over insider trading.

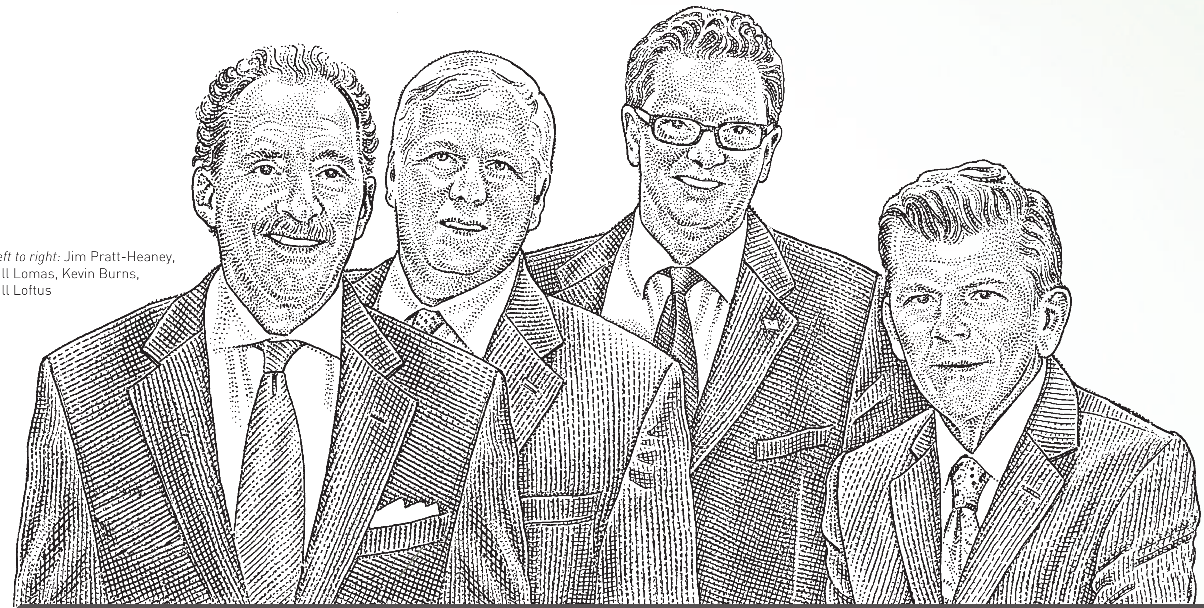
In summary, our 25 years of experience in counseling corporate executives confirms that a logical process must be followed to deal with emotional, financial and regulatory issues.

"The emotional attachment…may present the greatest obstacle to creating a rational plan."

– Kevin Burns

How to reach Kevin Burns

I look forward to discussing how I can help you reach your financial goals. I can be reached directly at 800.700.5524.



Left to right: Jim Pratt-Heaney, Bill Lomas, Kevin Burns, Bill Loftus

About LLBH Private Wealth Management

After 15 years teaching, Jim Pratt-Heaney joined EF Hutton in 1986. He became a vice president at Smith Barney before moving to Merrill Lynch in 1998. He is a Certified Investment Manager Analyst and leads LLBH's asset management. Bill Lomas started with PaineWebber in 1981, spent 18 years as a senior vice president at Prudential Securities and Smith Barney and joined Merrill Lynch in 1998. Mr. Lomas, a Certified Financial Planner™ and Chartered Retirement Planning Counselor SM, leads LLBH's holistic investment planning process. Kevin Burns, whose career began at PaineWebber in 1981, became a senior vice president at Oppenheimer & Co. and Smith Barney before joining Merrill Lynch in 2000. He leads LLBH's new client asset acquisition and client service and contact operation. In 1986, Bill Loftus joined Merrill Lynch and then spent 10 years as a senior vice president at Smith Barney before returning to Merrill Lynch in 1998. He leads LLBH's corporate executive advanced wealth planning, lending and alternative investments.

Assets Under Management
$600 million (team)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$10 million (for investment services)

Largest Client Net Worth
$100 million

Financial Services Experience
120 years (combined)

Compensation Method
Asset-based

Primary Custodian for Investor Assets Pershing

Professional Services Provided
Planning, investment advisory, money management, advanced wealth transfer planning and corporate services

Association Memberships
Investment Management Consultants Association

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