TAX-EFFICIENT DIVERSIFICATION

Diversifying a concentrated stock position can help you reduce your risk. While some diversification techniques may trigger immediate tax liabilities, there are some strategies that can be used to provide diversification in a tax-efficient manner.

EQUITY EXCHANGE FUNDS

An exchange fund can be a viable alternative for diversification without having to sell shares outright. With an exchange fund, you contribute shares of your concentrated stock into a broadly diversified fund and receive a pro rata share of ownership in the fund. A major benefit of exchange funds, in addition to increased diversification, is that contributions are not treated as a sale, and you do not incur capital gains taxes. However, you still face the risk of loss should the other stocks in the pool decline in value, so be aware that diversification does not ensure a profit or protect against a loss.

Also note that exchange funds are offered as private placements and are not registered under the Investment Company Act of 1940. Therefore, they have strict net-worth requirements that must be met. Your financial advisor must be aware of your investable net worth and other important information before this strategy can be evaluated or recommended. Other considerations you should discuss with your financial advisor include your investment time frame, the liquidity of exchange fund shares, the objectives and actual holdings within a particular fund and the eligibility of your particular stock.

MANAGED ACCOUNT SOLUTIONS

Another technique for diversifying a highly concentrated position is to engage a professional portfolio manager to manage a specific strategy tailored to your individual objectives. Your Raymond James financial advisor can help you develop a strategy aligned with your needs.

BORROWING ON MARGIN[2]

Another way to leverage your large stock position to purchase other securities for diversification purposes without having to sell the stock outright is to margin securities. In this scenario, you borrow cash from a broker to purchase other securities, using your concentrated stock as collateral. You are charged an interest rate on the loan based on the amount you borrow.

This strategy may be appropriate in some cases, but it involves a high degree of risk and may be more effective when used in combination with other techniques described in this brochure.

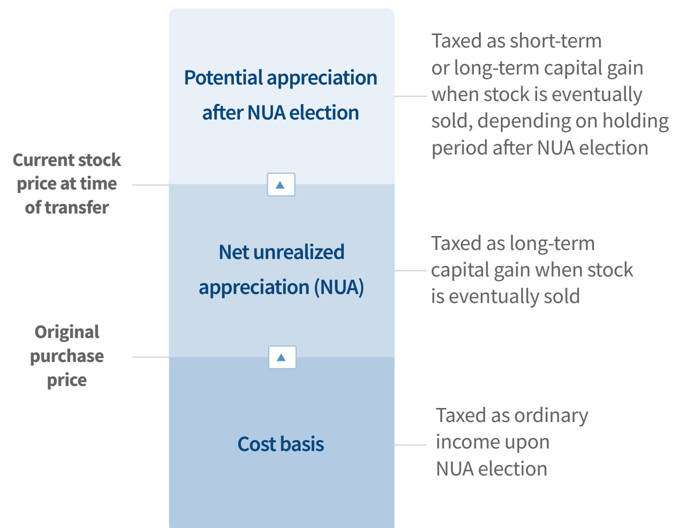
NET UNREALIZED APPRECIATION

Because employer savings plans have grown significantly over the last decade as a means to meet retirement goals, it is not uncommon for employees to have a substantial amount of employer stock in their qualified retirement plans. When employees leave the company, many are willing to conduct a direct rollover of all qualified plan assets into a traditional IRA.

However, there may be a greater tax advantage to not

including employer stock in your IRA rollover. In this scenario, you'll be required to pay income taxes on the stock, but the taxes due will be applied only to the cost basis of the stock. The remaining untaxed value, called net unrealized appreciation (NUA), is deferred until you sell the stock at a later time – and then taxed only at capital gains rates. NUA is a tax treatment available to a Lump Sum distribution event. The entire plan must be distributed out in a single tax year following a "triggering" event. If the cost basis of the employer stock is much lower than the current market value, exposing the stock to taxes now may be more advantageous in the long run than eventual distributions taxed at ordinary income tax rates. While this strategy does not result in immediate diversification, it can be used effectively in combination with other techniques to help diversify your holdings.[3]

Tax treatments of employer stock positions for which NUA treatment is selected



[2] A margin account may not be suitable for all investors. Borrowing on margin and using securities as collateral involves a high degree of risk, and an investor can lose more funds than he or she deposited in the account. Market conditions can magnify any potential for loss. If the market turns against the investor, he or she may be required to deposit additional securities and/or cash in the account. The securities in the account may be sold by the firm to meet the margin call, and the firm can sell the investor's securities without contacting them. An investor is not entitled to choose which securities or other assets in his or her account are liquidated or sold to meet a margin call. The firm can increase its maintenance margin requirements at any time and is not required to provide an investor advance written notice. An investor is not entitled to an extension of time on a margin call. The interest rates charged are determined by the amount borrowed. Please visit sec.gov/investor/pubs/margin.htm for additional information.

[3] Changes in tax laws may occur at any time and could have a substantial impact upon each person's situation. While we are familiar with the tax provisions of the issues presented herein, we are not qualified to render advice on tax or legal matters. Before making any investment decision please consult a tax professional to evaluate the tax consequences of any prospective investment.