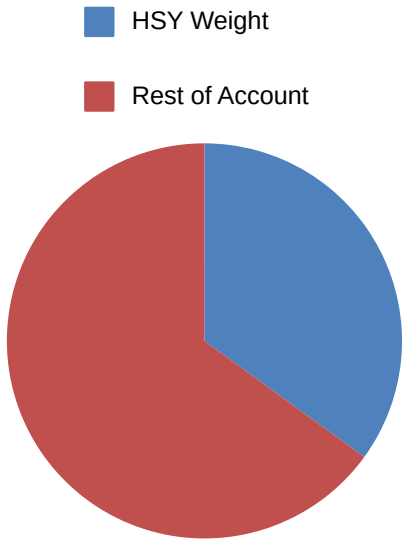
DAKOTA

THE PORTFOLIO CONSISTS OF *ONE* HIGHLY APPRECIATED STOCK

OPPORTUNITY/CLIENT BACKGROUND

The client has most of the portfolio's value tied up in one heavily appreciated position. The portfolio holds a large position in one stock, something the client has difficulty selling because of the gains associated with it. Position is also weighing on performance given the lackluster fundamentals on the company. Through the 351a conversion, with an appropriately diversified basket of positions, we can convert some of that stock deferring the tax impact on the position being contributed.



GOALS OF ETF EXCHANGE

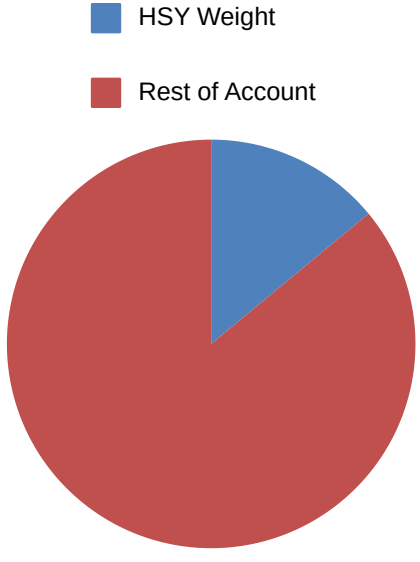
- Transferring securities that are “tax trapped” to the ETF
- Providing diversification benefits without triggering capital gain taxes
- Provides client with access to a liquid ETF

CHALLENGES OF ETF EXCHANGE

- No single asset that is being transferred can represent more than 25% of the portfolios total value
- Positions greater than 5% can’t collectively be more than 50% of portfolio’s NAV

SOLUTION

Client’s portfolio value is $1,620,249, of that $572,433 is tied up in Hershey stock, representing a 35% weight in the account. Client holds various other positions to help diversify the basket being contributed. Of that total value, the client can contribute ~$350,000 of HSY to be below the 25% threshold, with a total value being contributed of $1,400,000. $222,000 of HSY remains in the account but it went from a 35% weight to 14% of the account.



CLIENT BENEFITS AND CONSIDERATIONS

- Tax Efficiency: Defer capital gains taxes
- Securities that were previously being held due to gains rather than a bullish view on the company are no longer weighing on the portfolio (Diversification)
- Liquidity benefits of an ETF
- Transparency into the ETF’s holdings

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