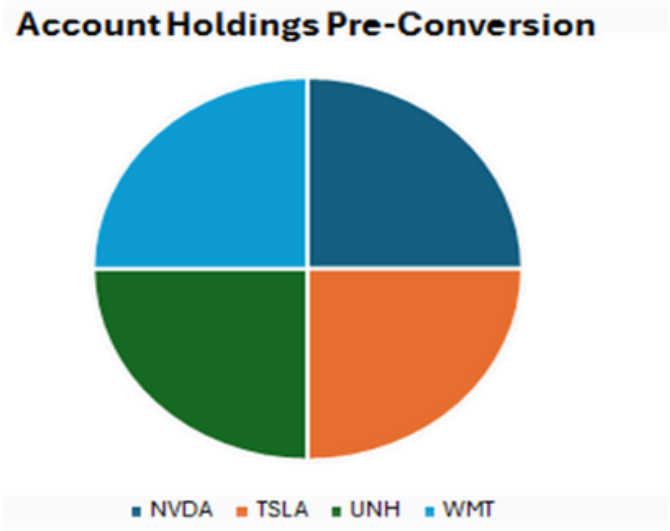
DAKOTA CONVERTING AN ACCOUNT WITH A SMALL NUMBER OF POSITIONS

OPPORTUNITY/CLIENT BACKGROUND

The client has a portfolio consisting of a small number of individual equity holdings. Initially it looks like the account has no possible way of being converted as each position holds a considerable weight in the portfolio. Through selling parts of each position, or selling a few positions entirely, you can then buy individuals equities or diversified ETF's to meet the diversification requirements. Thus, allowing for the conversion to take place.



GOALS OF ETF EXCHANGE

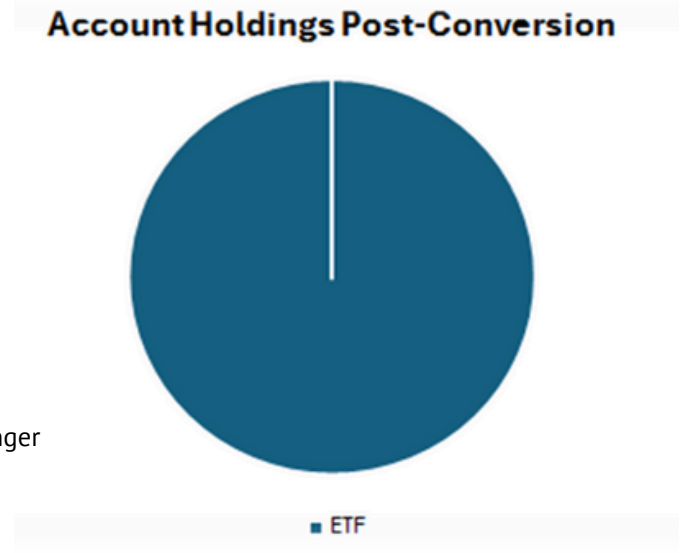
- Transferring securities that are "tax trapped" to the ETF
- Providing diversification benefits without triggering capital gain taxes
- Provides client with access to a liquid ETF

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

The client's portfolio value is $4,000,000 and they hold 4 equity positions each representing a ~25% weight in the account with considerable gains on each holding. To meet diversification requirements the advisor and client can instruct sales on two of the positions (securities with the lowest gain is most optimal), and then diversify into a several equity positions or an ETF/ETF's. Ultimately allowing for the conversion to take place.



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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