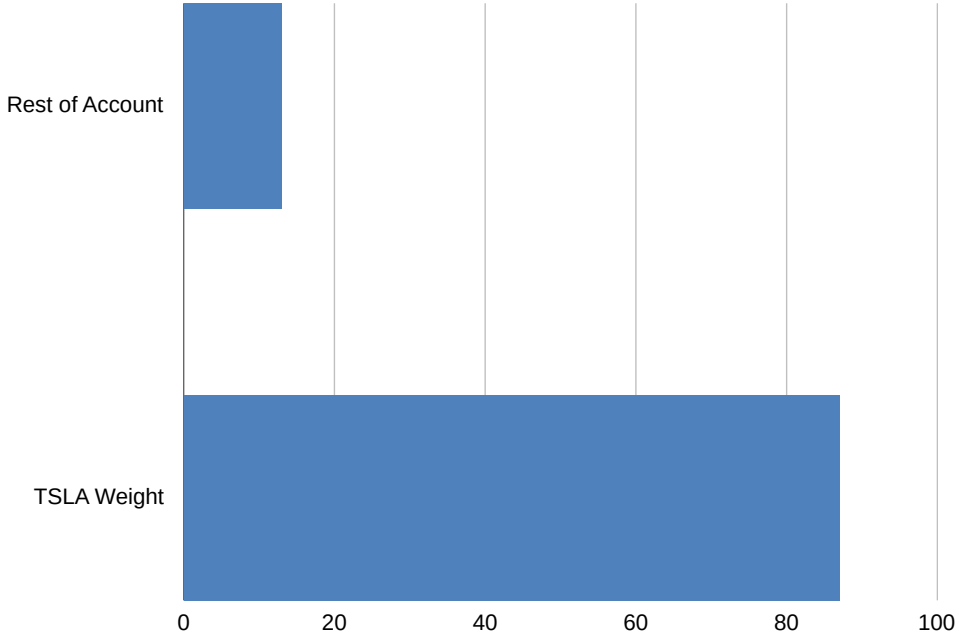
AN ILLUSTRATION OF A PORTFOLIO THAT DOES NOT QUALIFY FOR THE EXCHANGE

OPPORTUNITY/CLIENT BACKGROUND

The client holds a significant portion of the account in one highly appreciated position. The account is essentially just that one position with a few other small holdings. Given the entire account is tax trapped by one appreciated holding; the client thinks the 351 exchange is the perfect way to get out of the position and move toward more broad market exposure through the ETF.



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 clients account value is $1,220,625 with $1,000,000 in gains on its Tesla position, holding an 87% weight in the account. The rest of the account is in 5 other positions all less than a 5% weight. If you were to break off a portion of the Tesla position you still wouldn’t meet the diversification requirements to qualify. You’d either have a position greater than 25% or the positions will collectively be greater than 50% of the portfolios NAV.ins.

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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