CONCENTRATED EQUITY MANAGEMENT

CHALLENGES YOU MIGHT HAVE:

- MANAGING STOCK HOLDING REQUIREMENTS
- REDUCING RISK THROUGH DIVERSIFICATION
- REDUCING ADVERSE INCOME TAXES AND/OR ESTATE TAXES

THE PARR MCKNIGHT WEALTH MANAGEMENT GROUP

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*Exchange Funds are not the same as 'Exchange Traded Funds' and are not appropriate for all investors with concentrated stock positions. They have minimum net worth requirements and are generally only open to Qualified Purchasers. There is no guarantee that, at the end of the fund's life cycle, the fund will have outperformed the investor's originally contributed stock position. Any situation requiring the fund to sell or distribute a contributed security prior to the end of the minimum lock-up period will trigger a taxable event. There is no secondary market for exchange funds and the funds often limit investors to monthly or quarterly redemptions. Also, the fund will be subject to the investment risks and techniques associated with the portfolio in which it invests. In addition, the possibility of a change in the tax code could adversely affect the tax treatment of the exchange fund's investments.

SOLUTIONS WE PROVIDE FOR CONCENTRATED EQUITY MANAGEMENT:

DONOR ADVISED FUND: This strategy is similar in concept to a private foundation. You establish your account by donating cash or long-term appreciated securities to the fund. The benefit to the donor is the ability to enjoy an income tax deduction in the year the contribution was made, while still having many years to actually decide when and to which charities those funds should ultimately be disbursed. In essence, you are pre-funding your charitable gifting program and the investments in the fund have the opportunity to grow tax free. In addition, you also avoid the potential capital gains tax on the assets contributed.

- Donor Advised Funds can assist in reducing concentration in company stock
- Giving flexibility of contributions and distributions
- May create an immediate tax deduction
- In addition, you also avoid the potential capital gains tax on the assets contributed

TARGETED OUTCOME: Tax Minimization and Effective Philanthropy

10b5-1 Trading Plans: The 10b5-1 trading plan allows for the exercise of options and the sale of shares without some of the trading restrictions imposed as a result of being a corporate insider. The 10b5-1 plan has specific requriements and must be implemented at a time when you do not have material nonpublic information. In addition, the program must be administered by an independent third party broker who places trades based upon a predetermined price range or formula.

- Pre Planned, Customized trading agreement to transact in company stock
- Provides affirmative defense against insider trading allegations
- May provide flexibility to trade through blackout periods

TARGETED OUTCOME: Provides Planned Path to Diversification

EXCHANGE FUNDS*: Exchange Funds are special-purpose funds that offer qualified holders of concentrated stock positions the potential ability to diversify their investments by exchanging stock for shares of a diversified fund. If accepted into the fund, contributions of appreciated stock to a properly structured exchange fund are not taxable under current federal tax law.

- May receive a diversified basket of securities upon distribution if IRA holding requirements are met
- No immediate capital gains tax consequences
- May provide some estate and gift tax planning benefits

TARGETED OUTCOME: Potential Diversification and Deferral of Gains

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CONCENTRATED EQUITY MANAGEMENT CONTINUED...

NET UNREALIZED APPRECIATION (NUA): NUA is defined as the difference between the value at distribution of the employer security in your qualified employer-sponsored retirement plan and the stock's cost basis. The cost basis is the original purchase price paid within the plan. Assuming the security has increased in value, the difference is NUA. If you take a distribution in the form of securities, you would have to pay ordinary income taxes in the year of distribution on the pre-tax dollars used to buy the securities in the plan. Taxation on the NUA portion would be taxed at long-term capital gains rates, but not until the stock is sold. Any appreciation above the NUA would be subject to short-term or long-term capital gains depending on the time it was held outside the qualified plan.

- Potential preferential taxation of net unrealized appreciation
- Potential long term estate planning benefits

▸ **TARGETED OUTCOME:** Potential Federal Tax Minimization

OUTRIGHT SALE: The term sell refers to the process of liquidating an asset in exchange for cash.

- Create a selling strategy of open market transaction (Limit order & good-until-cancelled orders)
- Manage timing with financial and tax advisor
- Block trade execution for large positions
- Manage Rule 144 filing requirements for affiliates/insiders

▸ **TARGETED OUTCOME:** Generation of Liquidity to Deploy for Diversification or Lifestyle Expenses

BORROW AGAINST THE POSITION:** Securities-based lending allows you to use your eligible marketable securities held with Wells Fargo Advisors as collateral. We can discuss the variety of securities-based lending alternatives that are appropriate for your situation.

The amount of cash you are able to raise may be limited by the characteristics of the underlying security. Such factors as share class, credit quality, trading volume and size of position may affect the amount you can borrow. While the loan is outstanding, you receive credit for all dividends and still maintain voting control over your stock. Of course, at any time, you may repay the loan by depositing additional cash or selling securities in your account.

- Allows for potential tax planning
- Avoids immediate capital gain tax liability
- Interest charges may be tax deductible
- Obtain cash without selling securities

▸ **TARGETED OUTCOME:** Access to Liquidity

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**Remember when you are pledging securities* the value may be affected by events outside your control. The risks of securities-based borrowing include:

- Market fluctuations that may cause the value of pledged assets to decline
- A decline in the value of your securities that could result in selling your securities to maintain equity. If the market value of pledged securities declines below required levels, you may be required to pay down your line of credit or pledge additional eligible securities in order to maintain it; otherwise the firm may require the sale of some or all of the pledged securities.
- Wells Fargo Advisors will attempt to notify you of maintenance calls but it is not required to do so. Clients are not entitled to choose which securities in their accounts are sold.
- Adverse tax consequences as a result of selling securities
- *Subject to minimum equity requirements