

Concentrated Equity Positions

Concentrated equity holdings usually come about due to a public offering or sale of a closely held business, or on account of employment related compensatory schemes. Many holders of these concentrated positions would like to reduce their investment risk through diversification.

Risk management is one of the most important services that we offer our clients. Most individuals with concentrated equity holdings need guidance in order to develop strategies to reduce the substantial exposure inherent in having a large portion of one's wealth tied to a single security.

The cost and complexity of diversifying a portfolio can be daunting. In addition to the tangible costs associated with the sale of securities: trading expenses and income taxes, there may be difficult emotional issues to deal with. The requirement for some to adhere to special trading rules (144A, Rule 4) represents an additional layer of complexity - often amplified by bankers rights and the negative public perception of insider trading.

As an independent advisor, RA Bench is able to provide objective guidance on the best options for effective and efficient risk reduction strategies. We can develop a comprehensive plan to deal with the exposure involved in concentrated equity holdings and help execute the strategy. A plan may involve one or more of the following trades - alone or in combination:

Sale of Position

An outright sale of the client's position can be executed. Trades can be structured to minimize the tax cost.

Equity Collar

The simultaneous sale of a call and purchase of a put to create a more bankable position. The client may borrow up to 50% of the "collared" value of the holdings for reinvestment; and up to 100% for other purposes.

Prepaid Variable Forward

The client receives immediate payment of a floor amount and participates in the subsequent appreciation up to a ceiling during the contract period. The downside has been protected and taxes have been deferred until the contract matures.

Charitable Trust

The client transfers stock to a charitable trust. The trust can diversify the holding without creating an income liability for the client. The trust makes payments to the clients in order to provide income. The client receives an immediate income tax deduction, income on favorable terms, and provides a philanthropic legacy. The residual value of the trust is paid to charity.

Exchange Fund

The client contributes stock to a pooled fund and receives a share of a diversified portfolio. A seven year commitment is typically required. At maturity, the client physically receives a diversified portfolio in a tax-free exchange.

RA Bench has helped facilitate these types of transactions by working alongside our clients' personal legal and tax advisors, the employer's legal counsel and finance officers, as well as banks and national wire houses. We are in a position to "shop the market" on behalf of our clients to assure the best pricing and execution.