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Financial Planning & Issues for Corporate Executives, Affiliates and Other Insiders

PRESENTED BY: FOURSTAR WEALTH ADVISORS



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Agenda

- The Issues | The Need
- Concentrated Stock Positions
- Employee Stock Options
- Stock Grants
- Net Unrealized Appreciation
- Employee Stock Purchase Plans
- Conclusion



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The Issues | The Need



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The Issues | The Need

- Corporate Execs face a daunting number of financial planning challenges
- Posses complicated investment portfolios
- Face time constraints
- Without proper guidance, mistakes may be made resulting in lost income, tax penalties, forgone gains
- Client may fail to consider or properly comprehend complex tax consequences
- May unsuccessfully plan or time properly



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Executive Compensation Trends

Stock Options

- In 2013, the share of companies granting performance equity awards rose to 68.9%, up from 64.0% the prior year
- Only 63.9% of companies granted options in 2013, down from 67.4 in 2012 and 77.2% in 2009

Restricted Stock

- Restricted Stock granted is at an all-time high
- Median number of restricted shares or restricted stock units has risen from 433,000 in 2012 to 440,000 in 2013

CEO Pay

- Among the 100 top-paid CEOs, overall pay declined 14% from 2019 to 2020 to a median of \$15.5 million. The combined compensation of the 100 top-paid CEOs totaled \$1.65 billion, greater than the GDP of Saint Lucia



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The Issues | The Need

The Number of Option Holders

- Estimates show there are over 11,000 employee stock ownership plans (ESOPs) and stock bonus plans covering over 11 million employees
- Approximately 28 million employees participate in an employee ownership plan



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Executive Decisions

Client Discovery Questions

- What is your view of your company stock – why?
- How do you see your role in your company changing?
- Which of these is most important? Second? Third?(tax minimization, appreciation, risk reduction).
- What will these assets be used for in your financial plan (retirement, business, charitable)?
- Do you have an exit strategy for these positions?
- What percentage of your company stock would you own if you had no restrictions



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Planning Questions

Possible Goals

- Wealth Maximization
- Wealth Preservation
- Improving Diversification
- Estate Planning / Wealth Transfer
- Fulfilling Charitable Intent
- Increasing Liquidity
- Tax Minimization Strategy
- Avoiding Public Disclosure
- Maintaining Voting Rights



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Concentrated Stock Positions

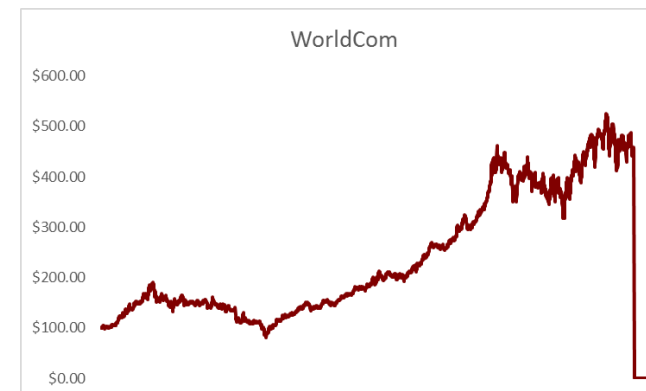
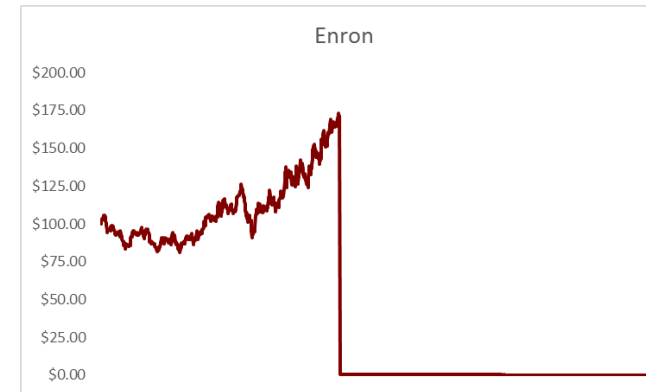
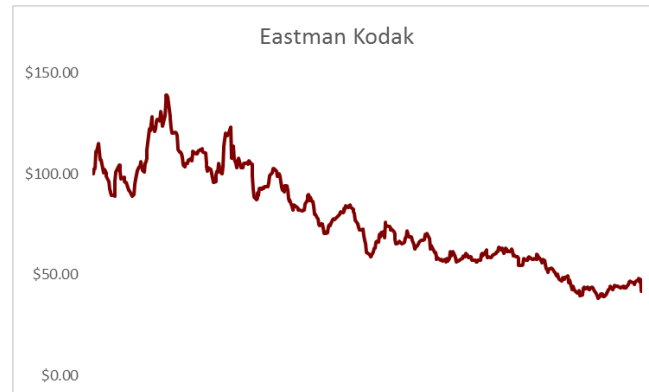


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Concentrated Stock Positions

Downside of Concentration Risk





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Concentration Risk

- Millions of investors are still significantly over-weighted in a single equity positions
- Causing undue volatility and risk to portfolio value
- Many investors are unaware that the volatility of a single stock position is often significantly greater than the volatility of the diversified market index
- Concentration risk generally results in an inefficient portfolio



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Concentrated Stock Positions

Compliance Considerations

- SEC rules may limit amount or manner of sale if
 - Securities are restricted pursuant to 1933 Act
 - Seller is an affiliate or control person
 - Shares acquired in a merger or acquisition

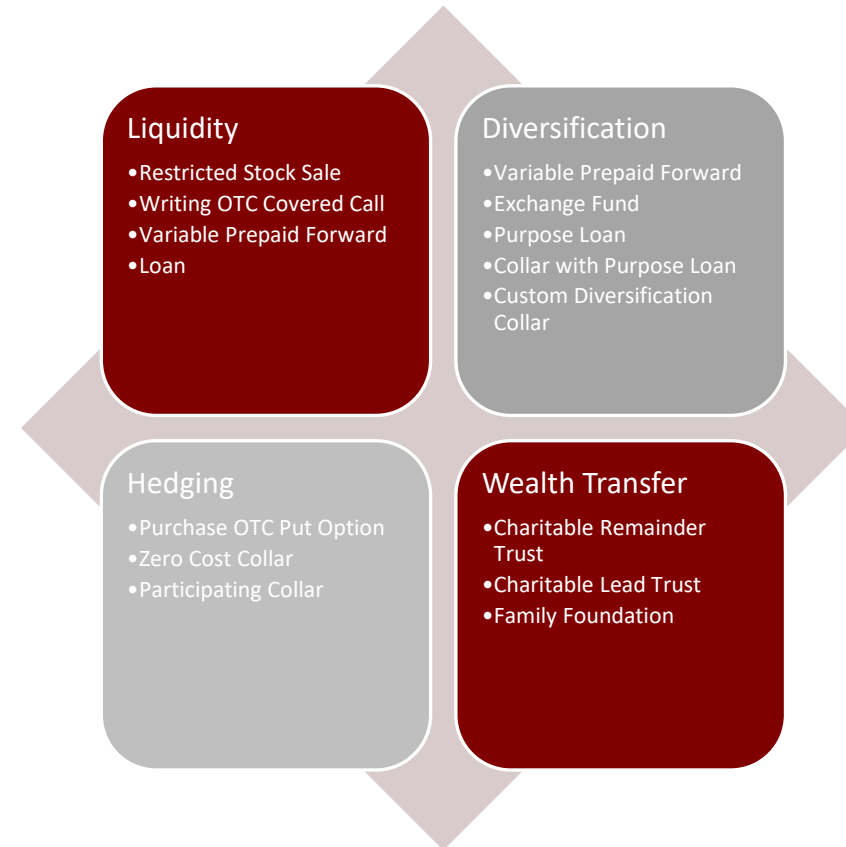
- Affiliate Issues
 - Section 16 (a) reporting requirements
 - Section 16(b) short-swing-profit rule



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Matching Strategies to Needs





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Liquidity: Restricted Stock Sales

Objective/Strategy

- Owner of restricted or control securities wants to reduce or eliminate position
- Sells stock under provision of Rule 144
 - Holding Period
 - Trading Volume – Quarterly Limits
 - Filing Notice with SEC
 - Manner of Sale Provisions

Liquidity: Restricted Stock Sale

Rule 144 – Quantity Calculation

Hypothetical Restricted Stock Example

Rule 144 Volume Restriction: the greater of 1% outstanding shares or average weekly volume for previous 4 weeks

Shares Outstanding: 30,000,000

1% of Shares Outstanding: 300,000

Week	Trading Volume
June 30 – July 4	415,000
July 7 – 11	284,000
July 14 – 18	485,000
July 21 – 25	235,000
Average	354,750



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Liquidity: Restricted Stock Sale

Advantages / Disadvantages

Advantages

- Increased Liquidity
- Improved Diversification
- Reduced Price Exposure

Disadvantages

- Capital Gains Taxes
- Immediate Transaction Costs
- No Upside Price Participation
- Public Disclosure



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Liquidity: Restricted Stock Sale

10b5-1 Plans

- Pre-arranged trading plans for company insiders, affiliates and other restricted or with restricted stock
- Specifies amount, price and date at which securities should be traded
- Allows trading during “blackout periods”
- Caveat – High SEC Scrutiny



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Hedging: Zero Cost Collar

Objective / Strategy

- Investor wants to continue to own underlying equity but hedge price risk
- Purchase put option and sells call option against holding for net zero outlay
- Specifies option maturities and degree of downside protection and upside appreciation



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Hedging: Zero Cost Collar

Advantages / Disadvantages

Advantages

- Hedges Downside Risk Below Put Strike Price
- Retains Ownership Benefits of Dividend Income and Voting Rights

Disadvantages

- Limited Upside Price Participation
- Collateral Requirements for Payment Due at Maturity
- Potential for Capital Gains Taxes on Underlying Stock Positions Upon Exercise
- “Hard to Borrow” Risk



Hedging: Zero Cost Collar

Tax Consequences (assuming physical settlement)

Stock below Put Strike	Gain on stock = Put Strike – Put Premium – Cost Basis (Long-term Capital Gain)
	Gain on Call = Call Premium (Short-term Capital Gain)
Stock between Put and Call Strike	Gain on Call = Call Premium (Short-term Capital Gain)
	Loss on Put = Put Premium (Long-term Capital Loss – Deferred)
Stock above Call Strike	Gain on Stock = Call Strike + Call Premium – Cost Basis (Long-term Capital Gain)
	Loss on Put = Put Premium (Long-term Capital Loss)



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Hedging: Zero Cost Collar

Additional Considerations

Available Borrow

- Brokerage firm will borrow stock to hedge client's exposure, typically via lending institutions stock loan rules
- Amount borrowed depends on strategy size of client's hedged position and may limit size of transaction

Market Liquidity

- Brokerage firm may need to trade in underlying security to manage market risk
- Based on trading volume and underlying security



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Diversification: Exchange Fund

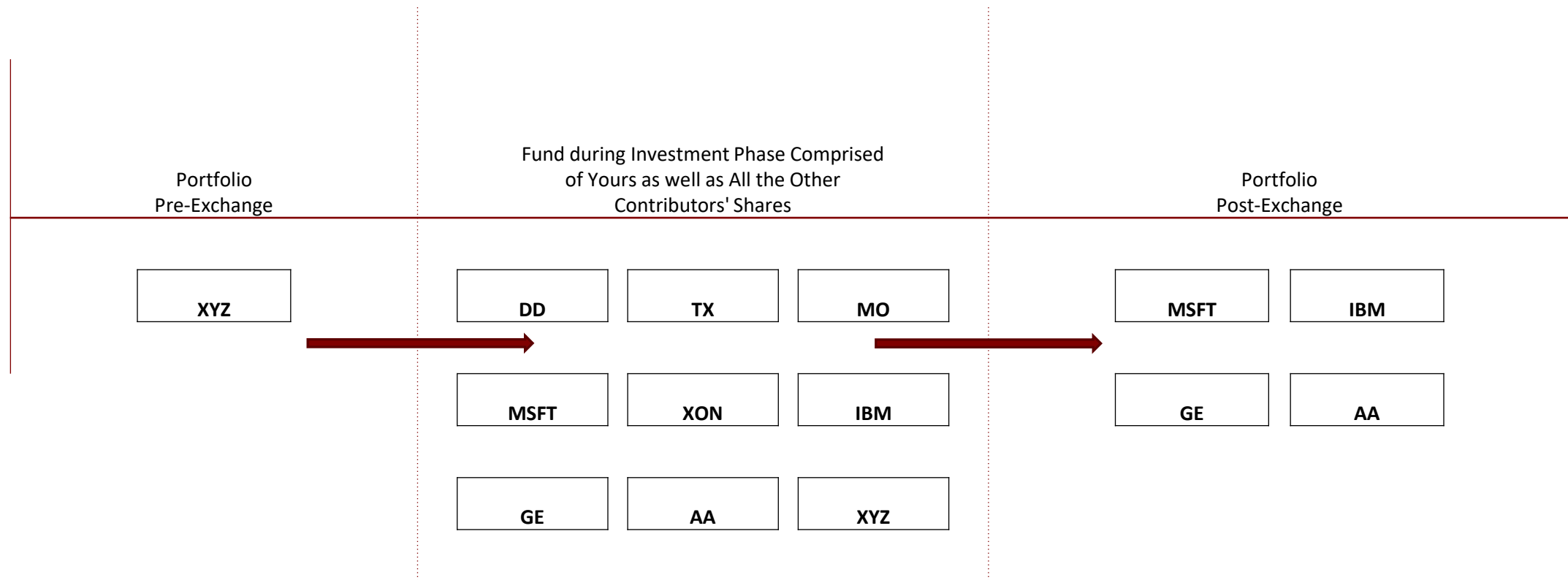
Objective / Strategy

- Avoids publicity since contribution is not public sale and does not require rule 144 filing
- Diversifies a large, appreciated equity position while deferring taxation
- Diversification occurs because many investors from different sectors contribute their shares
- Shares of a publicly traded company exchanged for an interest in the fund
- Preserves Wealth – Better possibility of doing so, more positions likely lead to less portfolio variance



Diversification: Exchange Fund

A Hypothetical Example of How it Works





Diversification: Exchange Fund

Hypothetical Example for 7 year Holding Period

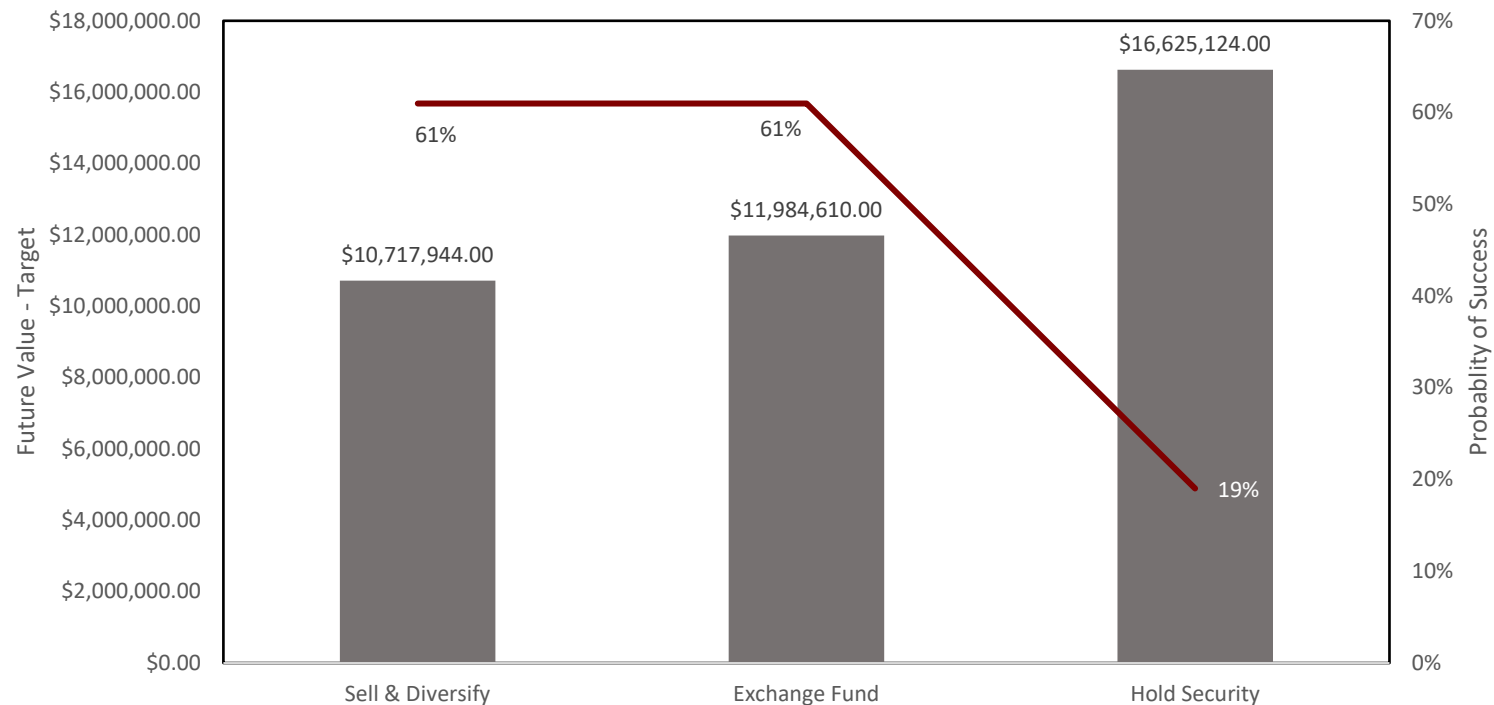
	Sell / Diversify	Exchange Fund	Hold Security
Initial Market Value	\$6,250,000	\$6,250,000	\$6,250,000
Cost Basis	1,000,000	1,000,000	1,000,000
Capital Gain	5,250,000	5,250,000	5,250,000
Placement Fee		(100,000)	
Capital Gains Tax @ 23.8%	(1,249,500)		
Net to Invest	\$5,500,000	\$6,150,000	\$6,250,000
Value in 7 years @ 15%			\$16,625,124
@ 10%	\$10,717,944	\$11,984,610	
Gross	\$10,717,944	\$11,984,610	\$16,625,124



Diversification: Exchange Fund

Benefit vs. Probability of Success

What is the chance of achieving this amount in 7 years?



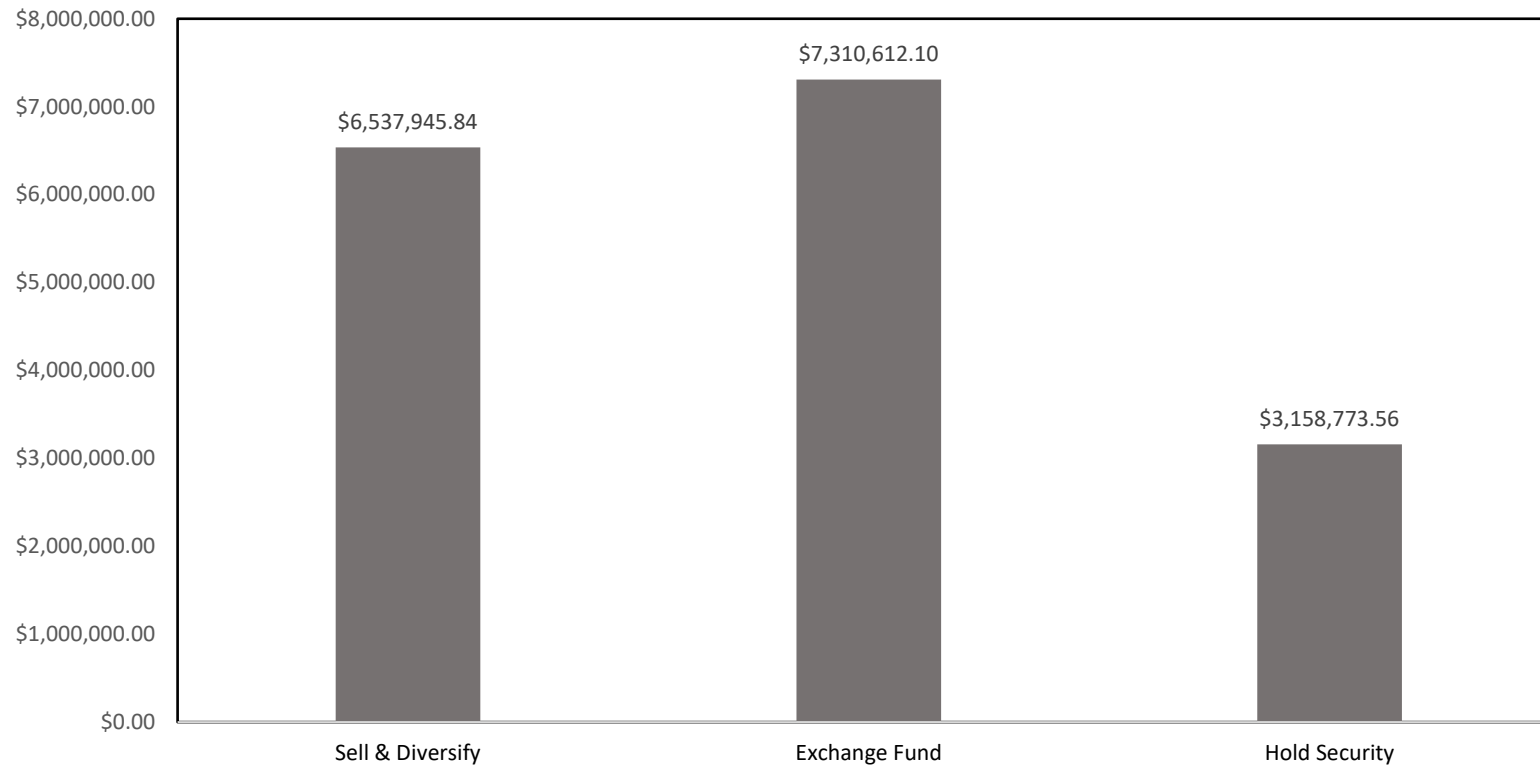


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Diversification: Exchange Fund

Expected Terminal Value





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Diversification: Exchange Fund

Advantages / Disadvantages

Advantages

- No potential to depress market price
- Tax saving compared to open market sale
- May accept contributions of restricted securities
- Units receive step up basis to death

Disadvantages

- Illiquid for first seven years
- May limit total amount of restricted securities
- FMV of restricted securities can be discounted
- Acceptance of shares determined by fund manager



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Wealth Transfer: Charitable Remainder Trust

Objective / Strategy

- Highly appreciated assets gifted to charitable remainder trust in return for ongoing income stream for life or trust term
- To donate to charity
- At end of trust, remainder goes to favorite charity or to family foundation
- Investor receives income tax deduction for charitable gift in year gift is made

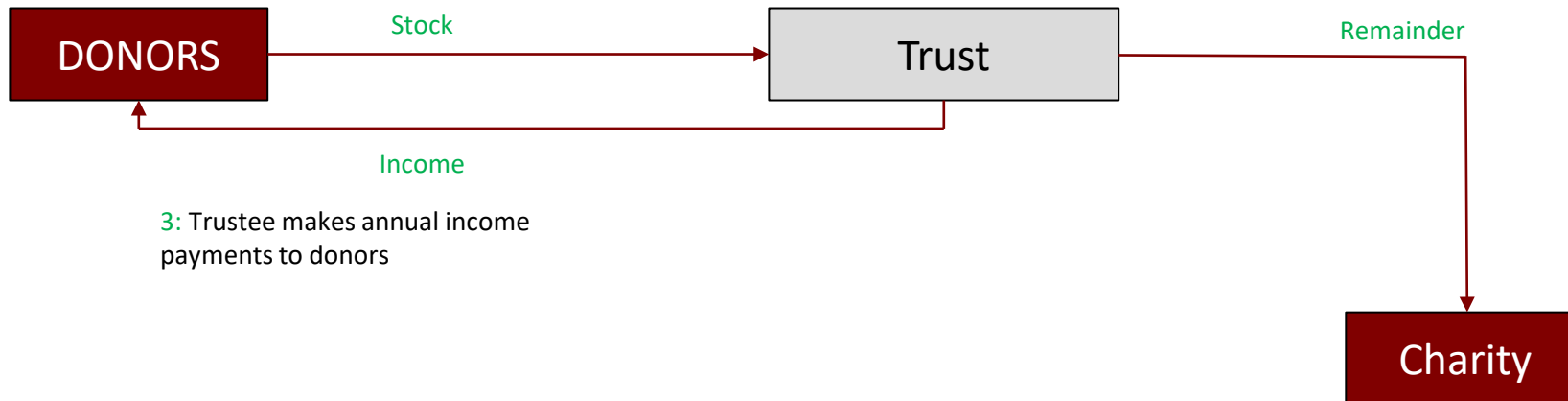


Wealth Transfer: Charitable Remainder Trust

Hypothetical Illustration

1: Donors transfer appreciated stock to trust, receive income tax deduction

2: Trustee sells stock, invests proceeds



3: Trustee makes annual income payments to donors

4: Upon death of second donor, remainder passes to charity



Wealth Transfer: Charitable Remainder Trust

Advantages / Disadvantages

Advantages

- Beneficial capital gains treatment
- Increase after-tax, net spendable income
- Reduction of grantor's taxable estate
- Diversifies investment portfolio
- Potential income tax deduction

Disadvantages

- Irrevocable Trust – unable to change
- Principal passes to charity not heirs
- Minimal tax deduction reduces benefits for younger investors



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Concentrated Positions: Matching Strategies to Needs

Concentrated Stock	
Tax Efficiency	<ul style="list-style-type: none">▪ Proper Distributions to Avoid Penalties▪ Stock Protection Fund
Wealth Accumulation	<ul style="list-style-type: none">▪ Reinvest Stock
Diversification / Hedging	<ul style="list-style-type: none">▪ Variable Prepaid Forward▪ Exchange Fund▪ Purpose Loan▪ Custom Diversification Collar▪ Purchase OTC Put Option▪ Zero Cost Collar▪ Participating Collar▪ Stock Protection Fund
Liquidity	<ul style="list-style-type: none">▪ Restricted Stock Sale▪ Writing OTC Covered Call▪ Variable Prepaid Forward▪ Loan
Wealth Transfer / Charitable Intent	<ul style="list-style-type: none">▪ Charitable Remainder Trust▪ Charitable Lead Trust▪ Family Foundation



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Company Stock Plans and AMT Planning



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Company Stock Plans

- For many, stock options can represent significant portion of compensation and wealth along with stock grants and employee stock purchases / share
- Making the most effective use of company stock plans requires education and long-term planning
- 71% of employee stock plan participants cannot fully explain their company stock plan to others
- 46% ranked their investment knowledge as a 5 or less on a scale of 0 to 10

Options

- Each year more than 10% of in-the-money options expire without being exercised



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Company Stock Plans

Changing Regulations: Registered “Restricted Stock” as alternative to stock options

- Grant tied to contingency
- Not the same as unregistered shares
- Vesting period restriction
- Recipient receives dividends prior to vesting
- Taxes due when shares are “substantially vested”
- 83(b) election



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Stock Options

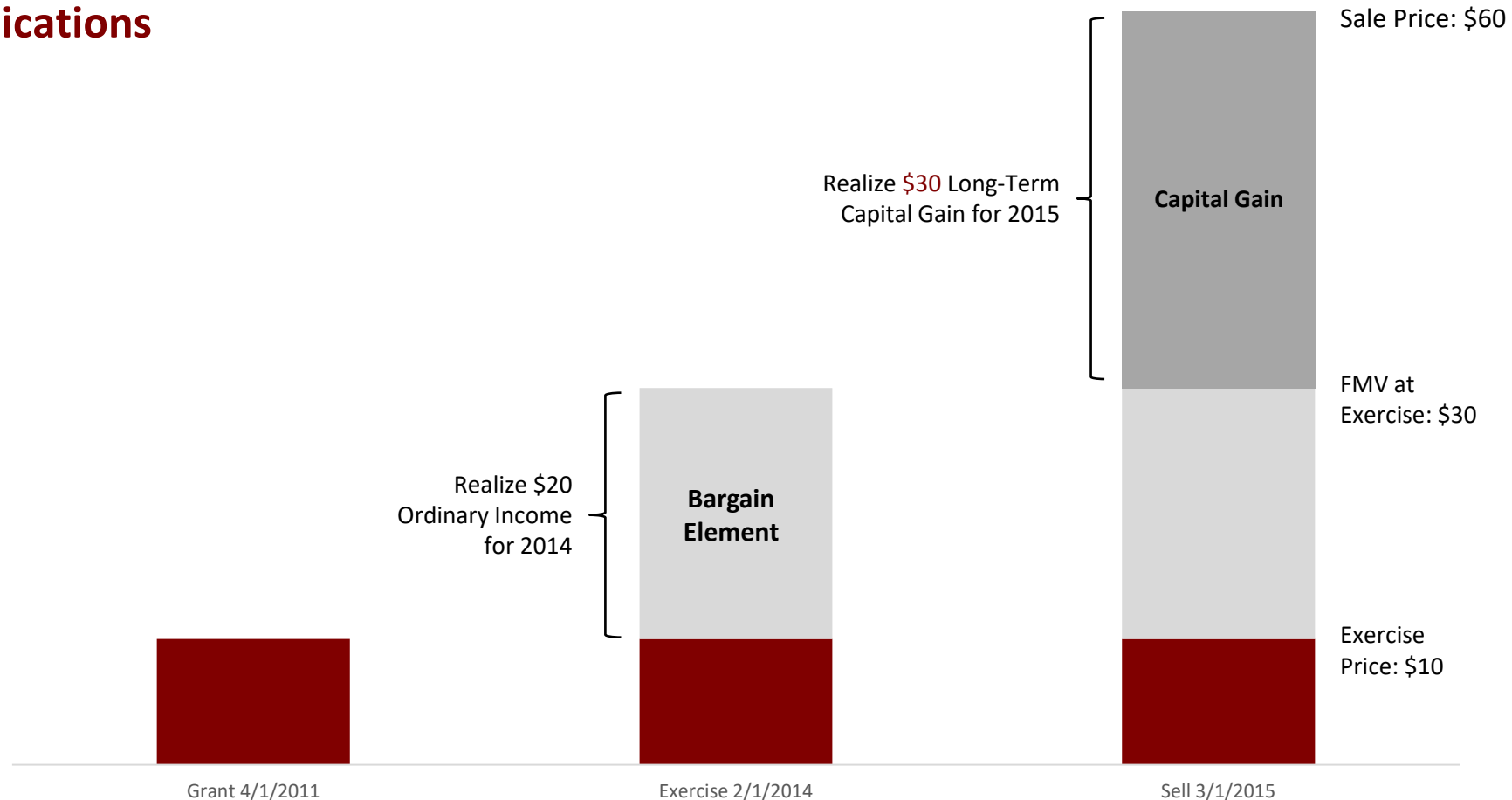
Non-Qualified Stock Options (NSOs)

- Do not qualify for income tax deferral on exercise
- Income tax due on spread between exercise price and FMV
- Can be granted to employees or non-employees
- No holding period requirement for stock
- Limited advantage in holding after exercise
- Can be transferred



Non-Qualified Stock Option (NSOs)

Tax Implications





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Employee Stock Options

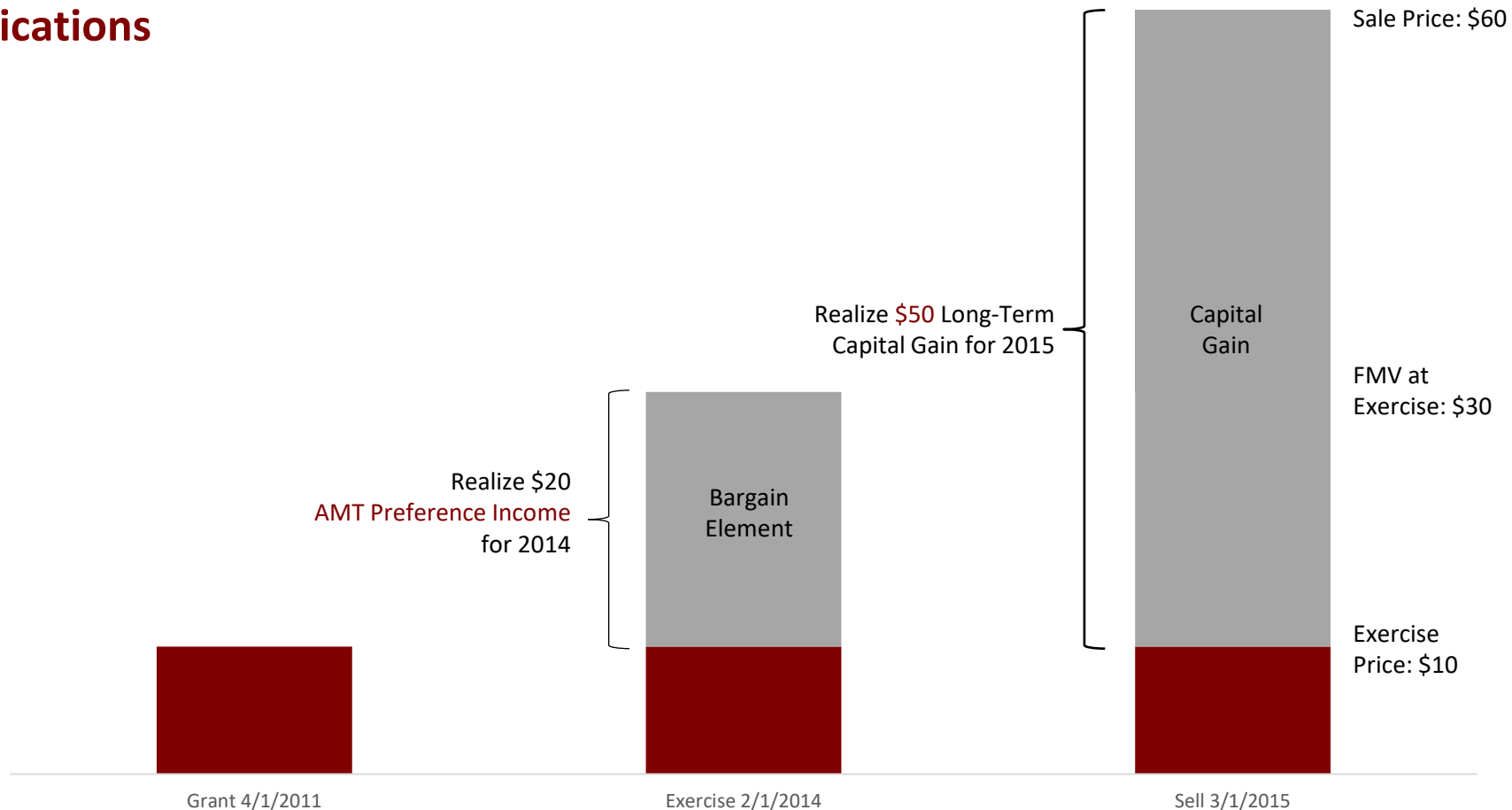
Qualified Stock Options (QSOs)

- More rules and restrictions than NSOs
- Can be given to employees only
- No ordinary income tax at exercise
- Spread between FMV and exercise price is AMT preference item
- Not transferable except in event of death
- Exercise limit of \$100,000
- Long-term capital gains treatment



Qualified Stock Options

Tax Implications





Stock Option Strategies

Consider Strategies Based on Primary Objectives

Diversification

- Exercise and Sell

Wealth Accumulation

- Stock Swap
- Early Exercise

Tax Minimization

- AMT Planning
- Option Gifting to Charities
- Grantor CLT



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Exercise and Sell - NSOs

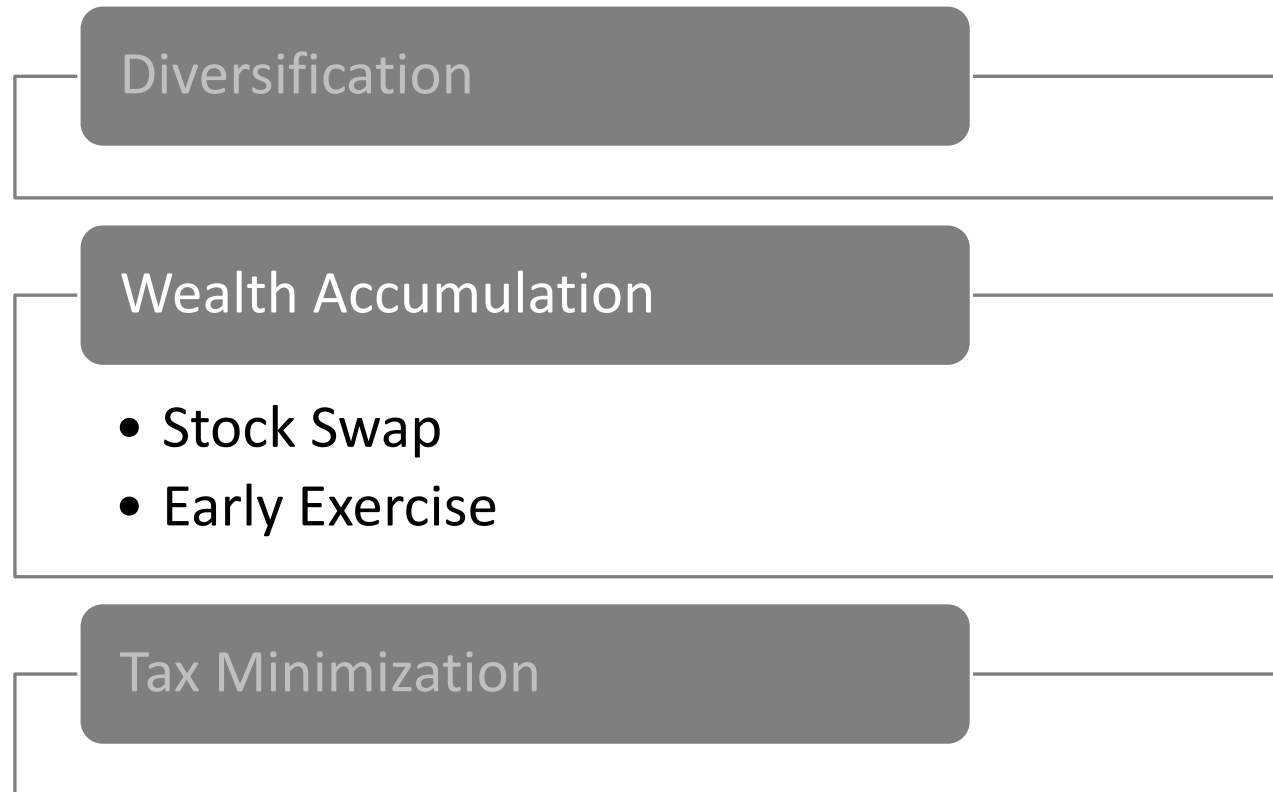
- Considerations:
 - Available cash to pay for stock and taxes
 - Risk of remaining invested in stock
 - Opportunity to “lock in” any potential gains vs. opportunity for further appreciation
 - Potential for higher marginal tax bracket

- Simultaneous Sale and Exercise
 - Simultaneous option exercise and stock sale
 - Used anytime after vesting and before expiration



Wealth Accumulation

Consider Strategies Based on Primary Objectives





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Stock Swap

- Using existing holding to “pay” for option exercise
- Plan must specifically allow
- Used with NSOs and ISOs
- Bargain element on options taxable at exercise (same as with cash exercise) – Either taxable at income rate in case of NSOs or possibly taxed at long term cap gains rates if held for year after exercise



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Stock Swap

Hypothetical Stock Swap Example

How it works:

- Own company shares with basis of \$10; Current market value of \$50
- Exercise 1,000 NSOs @ \$25
- Use 500 shares ($\$50 \times 500$) to pay \$25,000
- Result
 - Receive 500 “exchange” shares with \$10 basis; these are considered tax-free exchange
 - Receive 500 “new” shares with \$50 basis; fair market value at exercise of new shares is compensation income
 - Receive 500 new options with a \$50 strike price



Stock Swap – Comparing Taxes

Sell Owned Stock		Swap Stock	
<u>Sell Stock</u>			
600* x \$50	=	\$30,000	
Less basis		6,000	Taxable income on 500 exchange shares
LTCG		24,000	= \$0
@23.8%*	=	\$5,712	
<u>Exercise Option</u>			
Spread	=	\$50 - \$25	Taxable Income on 500 new shares
1,000 x \$25	=	\$25,000	500 x \$50 = \$25,000
@40.5%**	=	10,125	@40.5% = \$10,125
Total Tax	=	\$15,837	Total Tax = \$10,125
		Tax Savings	= \$5,712



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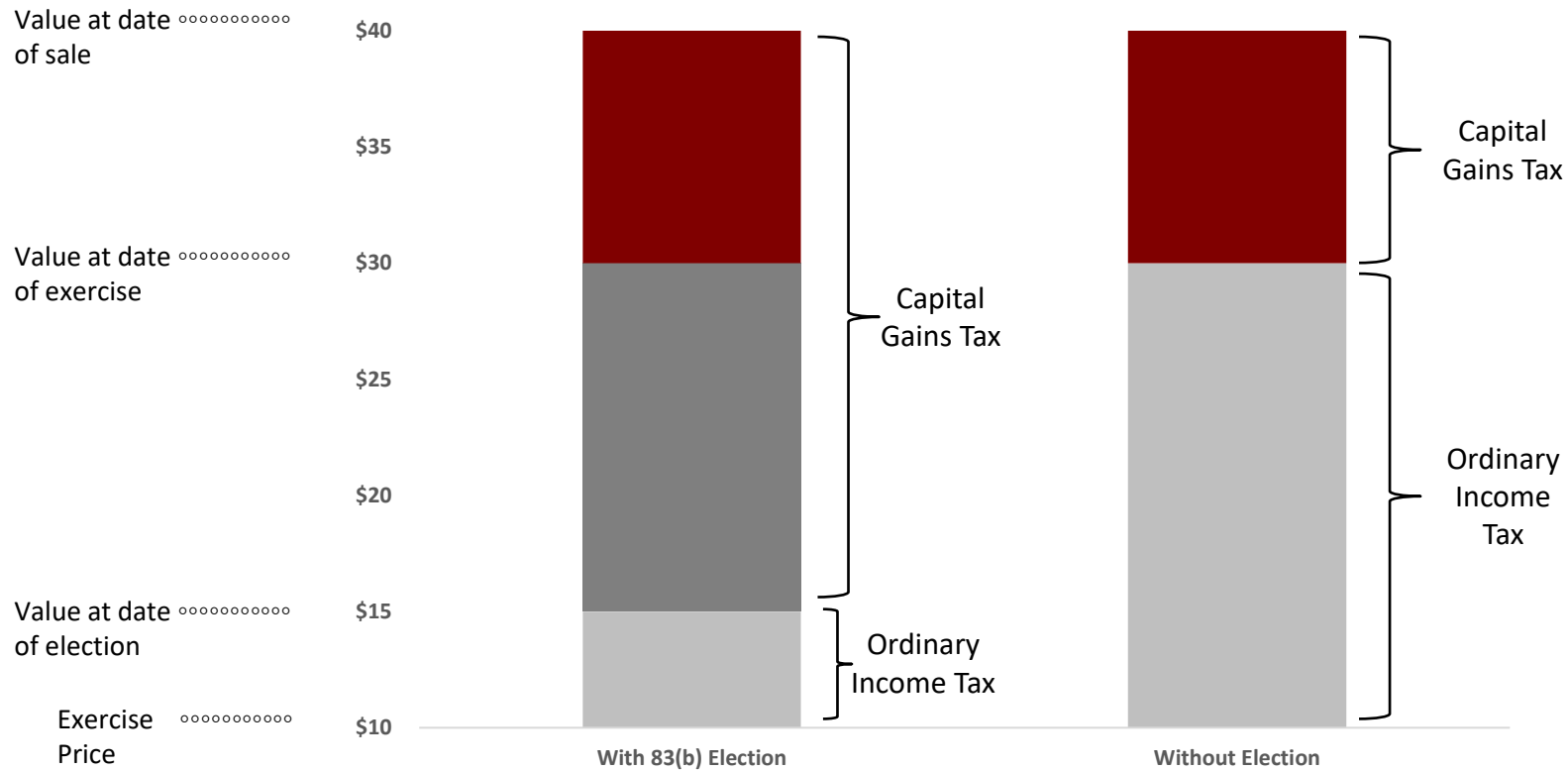
Early Exercise with 83(b) election

- Exercise stock options prior to vesting
- Must be elected within 30 days of grant
- Stock subject to control and resale restrictions until vesting
- Opportunity to reduce taxes on bargain element with 83(b) election
 - NSOs – tax on bargain element
 - ISOs – AMT liability
- Big risk if stock declines in value



Section 83(b) Election

Hypothetical Example – Impact of Making 83(b) Election at Time of Exercise





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Tax Minimization

Consider Strategies Based on Primary Objectives

Diversification

Wealth Accumulation

Tax Minimization

- AMT Planning
- Option Gifting to Charities
- Grantor CLT



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AMT Planning

AMT Basics

- Introduced in 1969 to ensure “fair” tax burden
- Second calculation of tax liability (Form 6251)
- Covers a greater range of income items
- Dividends and long-term capital gains taxed at reduced rates
- 2015 AMT Rates:
 - 26% up to \$185,400
 - 28% over \$185,400 +



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AMT Planning ISO Example

- ISO Sale to pay AMT
 - Exercise ISOs in first quarter of Year 1
 - Triggers potential AMT due April 15 of Year 2
 - Hold stock 1 year to meet ISO requirements
 - Sell stock before April 15 to pay tax
 - Downside risk is stock price declines in year

- Personal AMT Exclusion
 - Calculate potential regular income tax and AMT to determine upper limit
 - Exercise ISOs below trigger point



Alternative Minimum Tax Calculation

Assumptions for Hypothetical Illustration

Concentrated Stock	Married Filing Jointly – Family of Four
Adjusted Gross Income	\$150,000
Incentive Stock Option Bargain Element	\$60,000
Property Tax	\$8,000
State Income Tax	\$7,000
Allowable Personal Exemptions	\$15,700 (4 @ \$3,950)



Alternative Minimum Tax Calculation

Hypothetical Illustration without ISOs

	Regular	AMT
Adjusted Gross Income	\$150,000	
Total Itemized Deductions	(15,000)	
AGI minus Deductions	\$135,000	\$135,000
Personal Exemptions	(15,700)	
Deductions added back for AMT (state tax, property tax)		15,000
Alternative Minimum Tax Income		150,000
AMT Exemption	N/A	(82,100)
Taxable Income	119,300	67,900
Tax Due	\$23,293	\$17,654



Alternative Minimum Tax Calculation

Hypothetical Illustration with ISOs

	Regular	AMT
Adjusted Gross Income	\$150,000	
Total Itemized Deductions	(15,000)	
AGI minus Deductions	\$135,000	\$135,000
Personal Exemptions	(15,700)	
Incentive Stock Option Bargain Element		60,000
Deductions added back (state/property tax)		15,000
Alternative Minimum Tax Income		210,000
ATM Exemption	N/A	(68,725)
Taxable Income	119,300	141,275
Tax Due	\$23,293	\$36,732



Stock Options Strategies

Employee Stock Options	
Tax Efficiency	<ul style="list-style-type: none">▪ Exercise before vesting with 83(b) elections▪ AMT Planning▪ Option Gifting
Wealth Accumulation	<ul style="list-style-type: none">▪ Restricted Stock Sale▪ Writing OTC Covered Call▪ Variable Prepaid Forward▪ Loan
Diversification	<ul style="list-style-type: none">▪ Exercise and Sell
Wealth Transfer / Charitable Intent	<ul style="list-style-type: none">▪ Charitable Remainder Trust▪ Charitable Lead Trust▪ Family Foundation



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Net Unrealized Appreciation



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Net Unrealized Appreciation

- A beneficial strategy for retirement asset distribution under Internal Revenue Code 402(e)4
- Applies to employer securities held in a qualified retirement plan (ESOP, pension, 401K, etc.)
- Means to trade ordinary income taxation on retirement assets for long-term capital gains treatment



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Net Unrealized Appreciation

- Must elect lump sum, in-kind distribution from plan (total distribution of all assets in a single calendar year)
- Original basis (i.e. contributions to plan) immediately taxable as ordinary income
- Remaining Value (Net Unrealized Appreciation) taxed at long-term capital gain rates
- Subject to premature distribution penalty rules for qualified plans (applies only to original basis)
- No step-up of basis at death on NUA portion. Subject to income in Respect of Decedent (IRD)



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Net Unrealized Appreciation

Definition of a Lump-Sum Distribution

- Only available for distributions from a qualified plan
- All distributions within one calendar qualify as a “lump sum”
- Triggering events for NUA
 - Death of the plan participant
 - Total and permanent disability
 - Attainment of age 59 ½
 - Separation from service
 - If leave prior to age 55, will be subject to 10% premature distribution tax on the cost basis
- Could be more than one triggering event
 - At age 59 ½
 - At death
- Utilizing the NUA strategy for one plan does not inhibit its availability for use with a different plan



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Net Unrealized Appreciation

Implementing the NUA Strategy

- Client must notify plan administrator at time of distribution
- Plan trustee provides average cost basis
- Two Transactions:
 - Cash and other assets
 - In kind distribution of company stock
- Will receive a form on 1099-R for the distribution of company stock, NUA amount listed in Box 6
- Form 4972 and worksheet will need to be filled out when preparing taxes



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Hypothetical Scenario 1

Hold in Plan or Roll Over	
Current Value of Stock	\$1,300,000
Basis (Original Contribution)	\$117,780
Future Value in 10 Years @ 8%	\$2,806,602
Income Tax @ 39.6%	\$1,111,414
Net After Tax	\$1,695,188



Hypothetical Scenario 2

Elect NUA and Hold	
Current Value of Stock	\$1,300,000
Basis (Original Contribution)	\$117,780
Income tax on Basis @ 39.6%	\$46,641
Net to Hold in Brokerage Account	\$1,253,359
Future Value in 10 Years @ 8%	\$2,705,908
Taxable Amount (Future Value – Basis)	\$2,588,128
Capital Gains Tax @ 23.8%	\$615,975
Net After Tax	\$2,089,933

Incremental benefit of Scenario 2: \$394,745



Hypothetical Scenario 3

Elect NUA / Remove and Sell	
Current Value of Stock	\$1,300,000
Basis (Original Contribution)	\$117,780
Income tax on Basis @ 39.6%	\$46,641
Net Unrealized Appreciation	\$1,182,220
Capital Gains Tax @ 23.8%	\$281,368
Net to Reinvest (New Basis = Current Value – Income, Cap Gains Tax)	\$971,991
Future Value in 10 Years @ 6.4%	\$1,807,501
Taxable Amount (Future Value – Basis)	NA
Net After Tax	\$1,807,501

Incremental benefit of Scenario 3: \$112,313



Hypothetical Scenario 4

Elect NUA / Sell Half / Hold Half			
Current Value of Stock		\$1,300,000	
Basis (Original Contribution)		\$117,780	
Income tax on Basis @ 39.6%		\$46,641	
Net Unrealized Appreciation		\$1,182,220	
Stock Sold		Stock Held	
Current Value	\$650,000	Net to Reinvest (Current Value – ½ Tax)	\$626,680
NUA (Value – ½ Basis)	\$591,110	Future Value in 10 Years @ 8%	\$1,358,954
Capital Gains Tax @ 23.8%	\$140,684	Taxable Amount	\$1,294,064
Net to Reinvest (New Basis)	\$485,996	Capital Gains Tax @ 23.8%	\$307,987
Future Value in 10 Years @ 6.4%	\$903,750	Net After Tax	\$1,044,967
Net After Tax	\$903,750		
Combined Net (\$903,750 + \$1,044,967) = \$1,948,717			



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Recap of Strategies

Scenario	Strategy	Net After Tax	Incremental Benefit
1	Roll Stock Over Into IRA	\$1,695,188	
2	Use NUA; hold stock for 10 years	\$2,089,933	\$394,745
3	Use NUA; sell stock, reinvest proceeds	\$1,807,501	\$112,313
4	Use NUA; sell half / hold half for 10 years	\$1,948,717	\$253,529



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Required Minimum Distributions

- NUA strategy must be implemented prior to the onset of Required Minimum Distributions (RMD)
- Must be taken by April 1st of year following year owner / participant turns 70 1/2
- Simplified calculation using the Uniform Table
- Reporting requirements help the IRS track and assess penalties for distributions not taken



Hypothetical Scenario 5

Periodic Distribution from an IRA Rollover		
FMV of Stock at Age 60		\$1,300,000
FMV of Stock in IRA Rollover at Age 70 ½		\$2,806,603
	Pre Tax	After Tax
Required Minimum Distribution at Age 70 ½	\$102,431	66,580
Required Minimum Distribution at Age 89	\$353,856	\$212,667
Total Distributions at ages 70 ½ - 89	\$4,235,437	\$2,545,497
Account Value at age 89	\$4,203,805	\$2,526,487
Total After Tax Benefit (income plus account value)		\$5,071,984



Hypothetical Scenario 6

Periodic Distributions with NUA		
FMV of Stock at Age 60		\$1,300,000
FMV of Stock in IRA NUA Account at Age 70 ½		\$2,241,726
	Pre Tax	After Tax
Distribution at Age 70 ½	\$77,735	66,580
Distribution at Age 89	\$279,091	\$212,667
Total Distributions at ages 70 ½ - 89	\$3,337,494	\$2,543,171
Account Value at age 89	\$5,978,656	\$4,643,447
Total After Tax Benefit (income plus account value)		\$8,372,119

Incremental Benefit of Scenario 6: \$2,114,633



NUA: Matching Strategies to Needs

Net Unrealized Appreciation	
Tax Efficiency	<ul style="list-style-type: none">▪ Combining NUA with IRA▪ Sell / Hold▪ AMT
Diversification	<ul style="list-style-type: none">▪ Elect NUA and Sell Immediately
Liquidity	<ul style="list-style-type: none">▪ Periodic Distributions▪ Sell
Wealth Transfer / Charitable Intent	<ul style="list-style-type: none">▪ Estate Planning▪ Gifting▪ Charitable Remainder Trusts



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Stock Protection Fund



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Stock Protection Fund

The Stock protection fund allows clients to maintain control over their concentrated stock position but allows you to limit some of the downside. This downside control is achieved through an initial contribution of cash [not your shares].

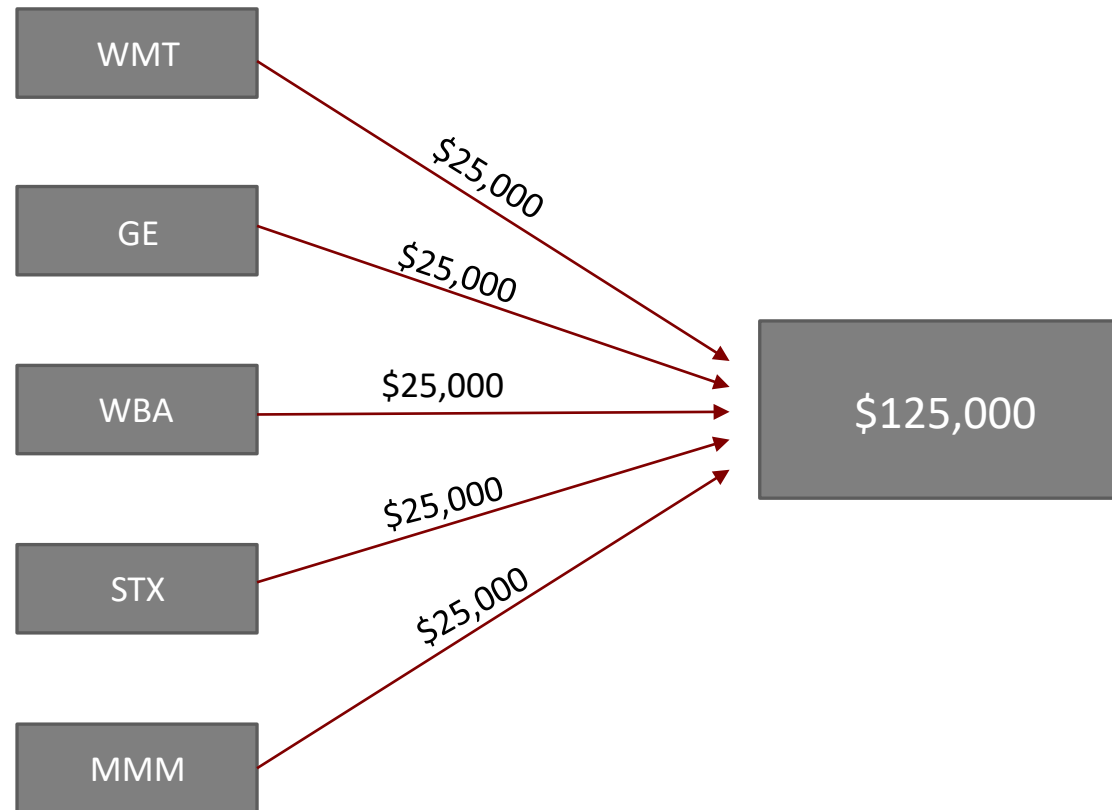
This cash is then invested in U.S. government bonds for the designated time period. At the end of the time period this cash is distributed to any investors whose stock has lost value. If any cash is left over after it is distributed back to the investors.



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Stock Protection Fund





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Stock Protection Fund

Simulated Stock Changes over 5 Year Period

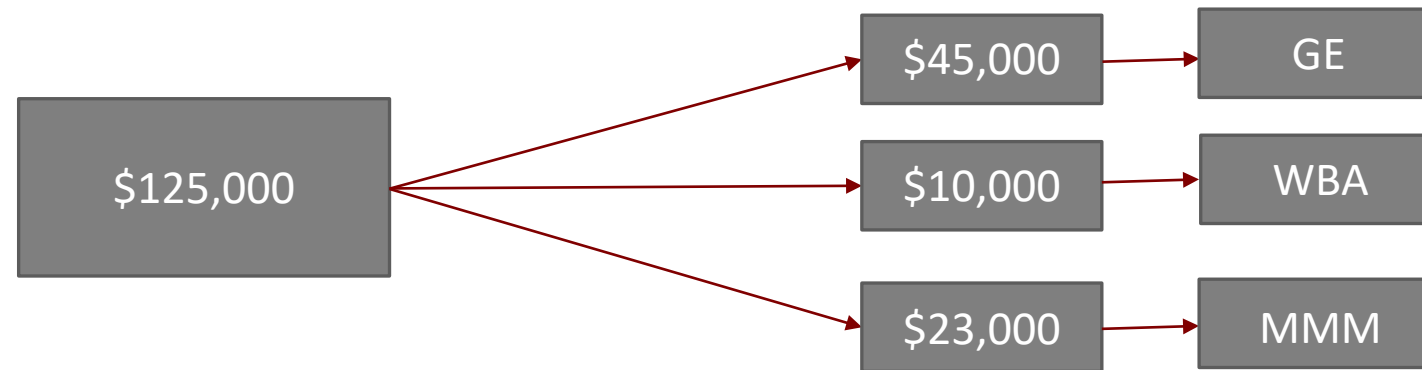
- WMT – Appreciates \$25,000
 - GE – Depreciates \$45,000
 - WBA – Depreciates \$10,000
 - STX – Appreciates \$15,000
 - MMM – Depreciates 23,000
- Total Depreciation of Stock = \$78,000



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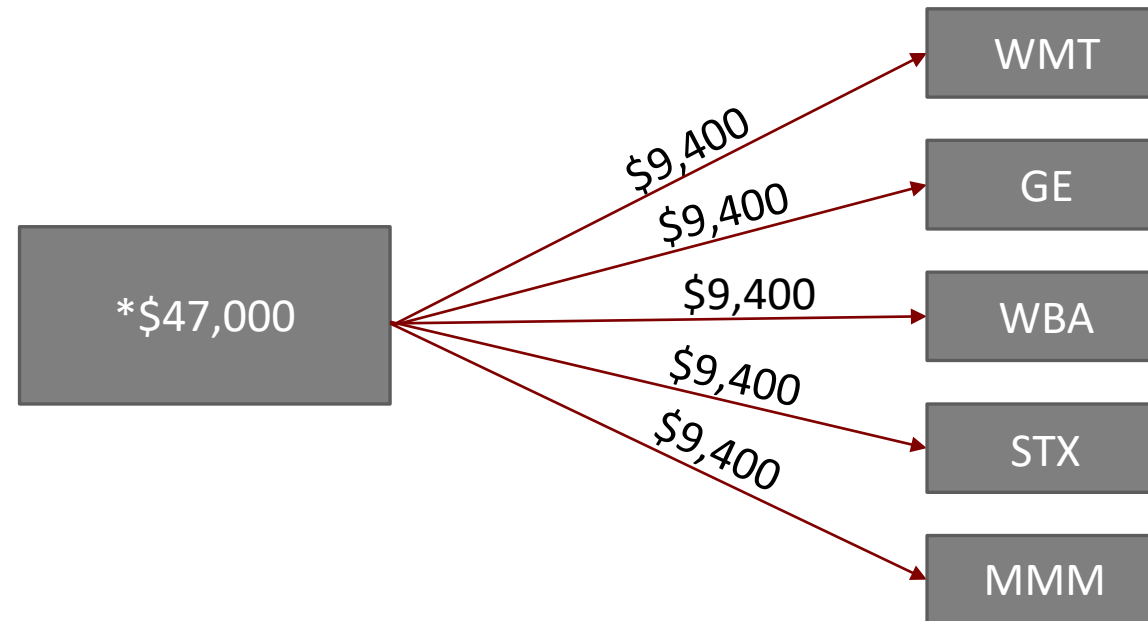
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Stock Protection Fund



* $\$125,000 - \$78,000 = \$47,000$



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Conclusion



Select Strategies Overview

Concentrated Stock	Employee Stock Options	Net Unrealized Appreciation
Restricted Stock Sale	Exercise and Sell	Roll stock over into IRA
Zero Cost Collar	Stock Swap	Elect NUA; hold stock for 10 years
Exchange Fund	Early Exercise with 83(b) election	Elect NUA; sell stock to reinvest proceeds for diversification
Charitable Remainder Trust	Grantor Charitable Lead Trust	Elect NUA; sell half of stock, hold half of stock for 10 years
Stock Protection Fund		Periodic Distributions from an IRA Rollover
		Periodic Distributions with NUA



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Employee Stock Purchase Plans

- Millions of investors are still significantly over-weighted in a single equity positions



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Concentration Risk

- Millions of investors are still significantly over-weighted in a single equity positions
- Causing undue volatility and risk to portfolio value
- Many investors are unaware that the volatility of a single stock position is often significantly greater than the volatility of the diversified market index
- Concentration risk generally results in an inefficient portfolio