



David E. Zumbusch, CFP®

NEWS

Contact:

David E. Zumbusch, CFP®
107 Center Drive, Buffalo, MN 55313
Phone: 763-682-9000 • Fax: 763-682-3228
Email: dave@sportsmendream.com

Portfolio Diversification Can Minimize Stock Market Risk

*Local Financial Advisor Urges Investors to
Unwind Highly Concentrated Stock Positions*

BUFFALO, MN (March 18, 2008) – Most Americans who invest in stocks know that market volatility and stock price fluctuation are normal and to be expected. But according to financial professional David Zumbusch, they also need to understand that maintaining a diversified portfolio is important. “The old adage ‘don’t put all your eggs in one basket’ is still good advice,” Zumbusch says. “Anyone in doubt should ask an Enron employee.”

Most concentrated stock positions result from equity compensation given to corporate executives that can be in the form of restricted stock, stock appreciation rights and restricted stock units, to name a few. An employee’s concentration in a stock can also add up due employee stock purchase plans or because the company offers its stock as an investment option in their 401(k) plan (the company might even do their 401(k) match by providing company stock).

The problem is that investors can become attached to stocks, specifically their employer’s stocks, and feel that they are being disloyal to the company if they sell some of their shares. “It might be

-more-

that they worked for a large corporation such as IBM or Exxon Mobil and acquired a major portion of their wealth in the form of stock options,” explains Zumbusch. “Or maybe they just fell in love with their employer’s stock and bought a ton of shares over the years through the Employee Stock Purchase Plan. If, in her will, Aunt Bertha left a large block of Caterpillar stock – something she worked hard for and acquired over 30 years – there could also be a different type of emotional attachment.”

Still, Zumbusch says it may be necessary to sell some shares to maintain a healthy and properly diversified portfolio. Market losses can be exacerbated when a portfolio holds too much of a particular stock or is skewed heavily into any one market sector. The issue of concentrated positions is compounded if an investor is planning to retire within the next 10 years. “They just don’t have time to recover from large share value loss,” says Zumbusch.

To strategically unwind a concentrated portfolio, Zumbusch offers the following tips:

Use Share Selection

Share Selection involves liquidating a large portion of a concentrated stock position now and taking advantage of the low 15 percent long-term capital gains rate. “Savvy investors will sell the shares with the highest cost basis, thus minimizing overall capital gain,” says Zumbusch.

Roll Out into a Taxable Account

Taxpayers may benefit from an important break on income tax when they take a lump-sum distribution from a 401(k) plan. A lump-sum distribution means the entire balance of the account is withdrawn within a single calendar year following a triggering event – you leave your employer, suffer a disability, reach age 59½ or die. (Note that if you leave your employer before you turn 55 and you take a lump-sum distribution rather than rolling the funds into another qualified account, you may be subject to a penalty.)

If the distribution meets the definition of a lump-sum, you may be able to avoid income tax on the net unrealized appreciation (NUA) of the stock of your employer if that stock is placed into a taxable brokerage account and the remaining 401(k) assets are rolled into an IRA. The strategy involves an employee taking a lump-sum distribution of company stock from their retirement plan (upon

-more-

separation from service) and then paying ordinary income taxes on the stock's basis. But the difference between the basis and the fair market value—the net unrealized appreciation—is taxed at long-term capital gains rates only when the stock is sold, regardless of the holding period. This can be a better option than rolling the stock into an IRA where all of its value will eventually be taxed as ordinary income.

“This special consideration for employer stock held in 401(k) plans only applies to lump-sum distributions, but it could save significant income tax,” Zumbusch says.

Consider a Gifting Strategy

Another good strategy to consider is gifting the stock to children/grandchildren or a favorite charity. Under current laws, an individual can gift up to \$12,000 per year, to anyone they choose, without incurring gift taxes. A charitable gift should qualify as a tax deduction. Transferring highly appreciated stocks to a Charitable Remainder Trusts (CRT) allows an investor to receive both a charitable deduction and an annual income stream from the trust.

While in general it is wise to think long-term and give your investments time to perform, that message is sometimes taken to the extreme, warns Zumbusch. “Regardless of how it happened, any individual holding that makes up more than 25% of your overall investment holdings is considered a concentrated position. And that position needs to be rectified in order to maintain portfolio health.”

Because individual situations will vary, investors should contact their tax advisor about their specific situation.

About Dave Zumbusch and Sportsmen Dream Financial

Dave Zumbusch is an independent financial planner and investment advisor representative with Securities America Advisors. As founder of Sportsmen Dream Financial in Buffalo, MN, he concentrates on helping sportsmen and their families attain personal financial objectives by educating them on matters related to risk tolerance, market exposure, long range planning, and individual

-more-

circumstances that might affect their financial well-being. With so many pressures and choices today, Zumbusch believes an independent, objective approach is the way to manage money and improve the financial decision-making process.

Committed to a high standard of fiduciary excellence Zumbusch earned the CFP® mark of distinction from the CFP Board of Standards. Zumbusch is also a member of the Financial Planning Association, the largest organization of professionals dedicated to championing the financial planning process.

Visit www.sportsmendream.com for more information about Mr. Zumbusch and his company.

###

NOTE:

When you need an experienced professional to speak on complicated financial topics in an easy-to-understand and engaging manner, please call Dave Zumbusch at Sportsmen Dream Financial.

Securities offered through Securities America, Inc. Member FINRA/SIPC David E. Zumbusch Registered Representative. Advisory services offered through Securities America Advisors, Inc. David E. Zumbusch Investment Advisor Representative. Sportsmen Dream Financial and Securities America, Inc. are not affiliated.

CFP® and CERTIFIED FINANCIAL PLANNER™ are certification marks owned by the Certified Financial Planner Board of Standards, Inc. These marks are awarded to individuals who successfully complete the CFP Board's initial and ongoing certification requirements.