



TAX EFFICIENT MANAGEMENT FOR LOW COST BASIS STOCK

This proposal is an example of how we help clients manage their low cost basis stock. Customization is our specialty; therefore, as each scenario differs, we can adjust our process to fit the needs of different tax situations, time horizons and financial goals. This process applies to both our Large Cap Growth portfolio as well as our Balanced portfolios.

We begin this example by making a few assumptions:

- 1) Client has 22,500 shares of Northern Telecom with varying cost basis:
 - a. 5,000 shares @ \$5 long-term gain
 - b. 5,000 shares @ \$10 long-term gain
 - c. 5,000 shares @ \$20 long-term gain
 - d. 5,000 shares @ \$30 short-term gain
 - e. 2,500 shares @ \$40 short-term gain
- 2) Client has \$5,000 worth of cap losses (long-term) from other investments
- 3) Client is willing to unwrap position over a 3-year period

With low cost basis stock, tax awareness and careful reinvestment is the key to continued success.



LOW COST BASIS STOCK

Capstone will work with you to structure a management plan to suit your goals. Our approach to tax-managed investing is based on constructing a broadly diversified portfolio of low-yielding, high-quality growth stocks acquired with the expectation of holding them for at least several years. The following rationale and strategies apply:

- ◆ Establish time horizon of plan
- ◆ Establish tax implications and tax tolerance
- ◆ Analyze stock environment / sector environment / market environment
- ◆ Low-yielding, growth stocks produce little, if any taxable investment income
- ◆ We seek to maintain relatively low turnover—generally less than 10% per year for stocks with accumulated gains (turnover in such stocks generally results in taxable gains)
- ◆ Net realized short-term gains are generally avoided (short-term gains are taxed as ordinary income at the investor's tax rate)
- ◆ When appreciated securities are sold, those share lots are held long enough to qualify for long-term capital gains treatment and having the highest cost basis are sold first.
- ◆ Securities may be sold to realize capital losses to offset realized gains when it is prudent to do so
- ◆ To help protect against price declines in holdings with large accumulated gains, where allowed, we may use hedging techniques as a tax-efficient alternative to selling appreciated securities
- ◆ Customize each step according to client situation

The value of a privately managed account is magnified in low cost basis stock situations. Experience, expertise and the highest level of service are the foundation of a properly managed portfolio. When variables such as tax situations as well as the ever-changing market environment become compounded, a professional money manager offers you the ability to achieve your financial goals via a variety of options created to meet your needs.

For more detailed information on Capstone and our investment services, please contact us at 800-262-6631 or visit us at www.capstonefinancial.com.