



HOLDING A LARGE POSITION IN ONE STOCK? KNOW YOUR OPTIONS: EXCHANGE FUNDS

BY LOU GUERRERO, CPA, MBT

Do you have a large position
in a publicly held company?

Are you concerned about having a **concentration risk** in your portfolio? If the answer is yes, then you should consider using an **Exchange Fund**, also known as a **swap fund**. An Exchange Fund provides the opportunity to **diversify your stock holdings without triggering capital gains on the transaction**.

An Exchange Fund allows investors with a large investment in one publicly traded stock to swap their interest for a share of a pool of diversified companies. Because a swap is not treated as a sale for tax purposes, the investor does not realize a capital gain at the time of the exchange.

KROST SERVICES

- Tax
- Accounting
- Client Accounting Services (CAS)
- Assurance & Advisory
- Mergers & Acquisitions
- KROST Business Intelligence (KBI)
- Tax Specialty Services
- Wealth Management

Full listing: krostopas.com/services

What is the catch? *You need to be a long-term investor.* These funds require a *seven-year (or more) investment period.* The funds are often designed to track the broader market (e.g. S&P 500) and you will participate in any appreciation or depreciation during the investment period. Once you receive your distribution from the fund, *you can hold or sell any of the shares in your diversified portfolio at your discretion.*

All of this happens without triggering capital gains until you sell some or all of the diversified group of stocks you receive as your distribution at the end of the investment period. You not only get to **defer the tax** on your original investment, but you get the benefit of **compound growth on your equity** going into the Exchange Fund.

Exchange funds do not come without risk and costs, but the opportunity to diversify your portfolio and defer tax presents a very valuable opportunity. Please [contact us](#) if you have any questions.

For more information about KROST's Tax services, visit KROSTCPAs.com

About the Experts



Brad Pauley, CPA, Principal

[Tax](#), [Sports & Entertainment](#)

Brad Pauley is a Tax Principal at KROST. Brad has nearly 25 years of experience providing tax advice, projection, and compliance services to clients in a variety of different businesses and industries. His areas of focus include high net worth individuals and their closely held businesses, including athletes, entertainers, service professionals, and owners/operators of real estate. [» Full Bio](#)



Matthew Weber, CPA, MAcc, Director

[Tax](#), [Financial Services](#), [Hospitality](#)

Matthew Weber is a Director at KROST. He has been with the firm's tax practice since July 2015 and has worked in public accounting since 2010. Before joining the firm, Matthew was a Tax Manager at PricewaterhouseCoopers in Los Angeles. Matthew's areas of expertise include federal and multi-state tax compliance and consulting for individuals, corporations, and partnerships. [» Full Bio](#)



Philip Clark, CPWA®, CFP®, CLU®, Director

[Wealth Management](#)

Phil joined KROST as the Director of Wealth Management in KROST's newly formed practice, KROST Wealth. In his new role, Phil focuses on Financial Planning for business owners, Hollywood professionals, executives, and affluent families with a mission to create opportunity and add value to his clients' lives.

[» Full Bio](#)



Lou Guerrero, CPA, MBT, Tax Practice Leader

[Tax](#), [Tax Specialty Services](#), [Financial Services](#)

Luis (Lou) A. Guerrero, CPA, MBT is Vice President of KROST CPAs and Consultants. Lou is responsible for the overall tax function of the firm and specializes in clients in the Financial Services sector, family office and high net worth individuals, Real Estate, Food Service, Technology, and professional service firms. [» Full Bio](#)