



GOING LONG

Detterbeck Wealth Management, Inc.



SEPTEMBER 2004

DETTERBECK WEALTH MANAGEMENT IS MOVING!

In the next few weeks, DWM will make the short journey (less than 1000 yards) across the train tracks to our new home at:

220 North Smith Street, Suite 410
Palatine, IL 60067



Our phone number stays the same (847-359-6262), but DWM's fax # has changed to 847-934-5495.

This brand new building is known as the Gateway Center. It houses a very nice exercise facility as well as a few restaurants and shops, not to mention, it is within steps of the new Durty Nellie's and Palatine train station. So the next time you're in the area, please feel free to stop by and check out our new digs.

Please note: Detterbeck, Johnson, & Monsen will be moving into the adjacent space at Suite 414. Both their phone and fax # stay the same.

WHAT TO DO WITH A CONCENTRATED STOCK POSITION

By Brett M. Detterbeck, CFA, CFP® Suppose you hold a large position in one stock with a very low cost basis, perhaps acquired in a tax-free exchange or an IPO. This concentrated position produces extreme investment risk due to lack of diversification. Often, immediate sale of the stock is not always advisable or even possible. Until recently, the only real solution to the common concentrated position problem was to counter it with derivatives such as collars, prepaid variable forwards, and exchange funds. But these programs sometimes prove to be costly and can cap not only your downside but your upside as well. Fortunately, there is now another choice.

Stock2Cash® is an advanced tax planning and investment diversification technique that locks in your current wealth without incurring capital gain tax. An added benefit is that you still enjoy the appreciation on the stock you own. This strategy does not involve the sale of your stock.

Stock2Cash® allows investors to take full advantage of stock market opportunities, fully participate in



other investment, insurance and planning opportunities, and eliminate as much as 90% of their downside portfolio risk, all at the same

time. Never before has there been such a unique and flexible way to tap into a stock portfolio, receive 90% of the value in cash which is then freed up to meet critical planning objectives, and do so without relinquishing ownership of the underlying shares. Best of all, the cash proceeds are not taxable and can be completely insulated from market conditions by reinvestment into guaranteed strategies. Therefore, even if the underlying portfolio collapses, the client will still have met his planning needs without any obligation to repay. On the other hand, if the underlying portfolio does well, the client can pay back the 90% along with the interest that has accrued and recover the entire portfolio without any upside caps or restrictions. Liquidity, market protection, unlimited growth potential, and tax savings all help you be in the market and still sleep at night.

Here's how it works: Let's say you work for Yahoo. You've exercised options and now hold \$1MM of Yahoo stock and have basically a zero cost basis. You've also incurred ulcers and lost nights from the up and downs of this stock. The stress and the anxiety of the daily volatility of this stock has become too much to handle. Unfortunately, if you outright sold it, you would pay capital gains of roughly \$180,000 (15% federal and 3% state). To add to your predicament, you are positive of the company's short-term business outlook. But you are very scared and know how the schizophrenic market can treat a schizophrenic Internet stock - like a mouse in a hurricane. If this position lost 50%, your financial plan and independence in retirement would be in jeopardy.

(Stock Continued from page 1)

By employing the Stock2Cash® program, you can enter into a contract in which a financial institution will give you a non-recourse loan of 90% of the current value of your Yahoo stock, so in this case, \$900,000 for a 2- to 25-year period. Let's say you decide upon a 4-year deal. Now, you can use this money to purchase a guaranteed income product like an immediate annuity contract, a diversified bond portfolio, or even use some of it to fund a college plan. Whatever the case, you now have two stacks of money working for you: the \$1MM Yahoo position and the \$900K portfolio.

A few things can happen at the end of your 4-year loan. Scenario 1: Stock Falls. If the stock goes down the tank, you simply give up the stock and keep your new portfolio as well as its growth. Remember that this loan is non-callable and non-recourse; you don't have to pay the loan back. Also, if you give up the stock, you do not have to pay interest on the loan. You've ultimately protected almost all of your downside.

	Collar Loans	Variable Pre-Paid Forwards	Stock to Cash
90% cash <i>immediately</i> ?	Sometimes	No	Yes
Full downside protection?	Principal Only	Principal Only	Principal and Interest
Full upside potential (no cap)?	No	No	Yes
Considered taxable by IRS?	No	Maybe	No
When is interest <i>paid</i> ?	Ongoing	Ongoing	Accrues
Must interest be collateralized?	Yes	Yes	No

ENCORE ALTERNATIVE INVESTMENT SEMINAR IN THE WORKS

Our first alternative investment seminar was a great success, but if you weren't able to attend, don't fret. A second seminar featuring REITs (Real Estate Investment Trusts) and Oil & Gas products is currently being planned for the first week in November. More details to follow soon.

Scenario 2: If the stock goes up, you can pay back the 90% along with the interest that has accrued and recover the entire portfolio without any upside caps or restrictions. You can use outside funds to pay back the loan or you can raise cash by selling off items within your other portfolio.

You may ask how the lender is willing to provide this. This is not magic. The lender is able to provide those terms by using the 10% it keeps to purchase certain option contracts from its counter party banks to avoid all risk to lender. Investment grade counter-parties protect the lender and guarantee return of shares. It should also be noted that the applicable interest rate is a few percentage points higher than a collar loan or other derivative loan, yet often well worth it.

As you can see, there is no longer reason to have sleepless nights due to great company specific risk inherent in a concentrated stock portfolio. Stock2Cash® can provide insurance to one of your most valuable possessions: your stock portfolio. Then, factor in the many potential tax advantages such as converting ordinary income to capital gains, deferring or eliminating (if held to death) the payment of capital gain taxes, and providing instant investment diversification, and you're well on your way to maintaining your wealth and well-being.

Detterbeck Wealth Management, Inc.
 100 W. Palatine Road, Suite 200, Palatine, IL 60067
Phone: 847-359-6262
Fax: 847-991-6511