Introducing a tax-efficient strategy enabling investors to retain their concentrated stock's unlimited upside potential – while substantially reducing its downside risk

INTRODUCTION

When an investor concentrates their wealth in a single stock, there is tremendous upside potential. One look no further than the Forbes 400 to grasp its potential, as nearly everyone on the list achieved their wealth through some form of stock concentration. However, concentration is a double-edged sword, requiring investors to bear substantial downside risk. Between 1980 and 2014, more than 300 of the stocks in the S&P 500 were removed from the index for reasons of "business distress" (JP Morgan). This type of loss can have devastating consequences, causing investors to lose both their sleep and lifestyle. **Given the above, there is a real need and desire to harness the unlimited upside potential of concentration while substantially reducing its downside risk.**

HOW IT WORKS

In forming a Stock Protection Trust, 20 participants – each invested in a different stock and each stock in a different industry – make a one-time Cash Contribution of 5% or 10% of the value of the stock to be protected (e.g. each participant contributes $50,000 or $100,000 in cash to protect $1 million of stock). This creates a Cash Pool that is placed in a trust and invested in 5-year U.S. Government bonds.

After 5 years, the Cash Pool is disbursed to investors whose stock lost value over the 5-year term – to eliminate or substantially reduce the decline in stock value. If cash remains after all losses have been covered, this cash is returned to the 20 investors. Investors whose stock appreciated during the 5-year period retain their stock's full upside gain. The gain or loss in a stock's value is calculated on a "total return" basis, including dividends, stock splits, and any other distributions.

TWO POTENTIAL SCENARIOS

One of two scenarios will govern the disbursement of the Cash Pool at maturity:

1) If the Cash Pool exceeds the total amount of stock losses incurred by the 20 investors, all stock losses are "covered" (i.e. reimbursed) by the Cash Pool and any Excess Cash remaining in the Cash Pool is returned to all pool participants on a pro-rata basis. It is possible all 20 protected stocks will gain in value, in which case the entire Cash Pool is returned to participants, resulting in "zero cost" for 5 years of protection.
2) If the total amount of stock losses exceeds the Cash Pool, all stock losses greater than the calculated "Maximum Stock Loss" (as defined below) are reduced to the "Maximum Stock Loss."

"MAXIMUM STOCK LOSS"

Calculation of the "Maximum Stock Loss" begins by identifying the largest loss incurred among the group of 20 investors' individual stocks. Using funds in the Cash Pool, this loss is reduced (i.e. reimbursed) to the level of the second-largest loss incurred among the other 19 stocks. Then, these two losses are reduced to the level of the third-largest loss among the other 18 stocks, and so on. This process continues until all losses have been reimbursed or the Cash Pool is depleted. The largest remaining loss at this point defines the "Maximum Stock Loss" (stated as a percentage of the initial value of the stock each participant was protecting).

For example, if the "Maximum Stock Loss" were calculated (as above) to be 10%, an investor whose stock lost 80% of its value during the 5-year term would receive payment (i.e. reimbursement) from the Cash Pool reducing his or her loss from 80% to 10%.

STOCK CAN BE SOLD AT ANY TIME

With the Stock Protection Trust, investors are designating a particular stock and pooling cash. They are not pooling, pledging, or otherwise encumbering their stocks. Investors are therefore free to sell their stock at any time – retaining their participation in the SPT and its economic value until maturity, when the Cash Pool is disbursed.

ELIGIBLE STOCKS

U.S. listed companies on the NYSE or NASDAQ with market capitalization greater than $5 billion and stock price greater than $10. An investor is permitted to withdraw from an SPT if, prior to closing, the investor is not satisfied with the other designated stocks.

LEGAL STRUCTURE

The SPT is structured as a Delaware statutory trust – in which the 20 participants have equal ownership interest – with U.S. Bank serving as Trustee.

StockShield, LLC, an SEC-registered broker-dealer, member of the Financial Industry Regulatory Authority (FINRA) and Securities Investor Protection Corporation (SIPC), serves as Sponsor – licensing StockShield's intellectual property to the SPT.

TAX TREATMENT

Dividends earned on stocks participating in the SPT qualify for dividend tax treatment – currently 0%, 15%, or 20% – unlike derivative products (i.e. puts, collars, and forwards) which cause dividend income to be treated as ordinary income. In addition, long-term capital gain (or loss) tax treatment – also currently 0%, 15%, or 20% – applies to the ultimate gain (or loss) on both the investor's designated stock and the upfront Cash Contribution to the SPT. Unlike derivative products, the SPT does not trigger tax straddle rules, nor does the SPT involve the complexities of constructive sale. Tax and/or legal opinions are available on request; as well, investors should review the SPT with their professional tax and/or legal advisor(s).