



## EXIT TRANSITION STRATEGIES LLC

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### A Gifting Opportunity In A Down Market

How in the world can the depressed market be an opportunity? Well, for some in the right circumstances, now is a great time to transfer wealth. Take a look at this example.

Larry and Sandy are in their late 60s and have a business they think is worth about \$10 million. They are the sole owners and have been thinking about transferring 10% of the stock to their son, who has been working in the business for 15 years. They also know that they would be able to take a discount by gifting a minority interest in the stock and think that might equate to about 25%. So, a 10% gift of \$10 million would be \$1 million less 25%, or \$750,000. Then, since this stock is not publicly traded, there would be a discount because it is not readily marketable. They think that might be another 25% discount. So, the gift might be discounted another 25% to \$562,500.

However, in this market, at this time, the marketability discount might be even higher and thus the opportunity. Why? Think about this. The stock markets are experiencing extreme volatility. That is an indication of extreme fear. In times of fear and distress, it is common for investors to seek a safe place for their investments. Thus, we have seen an exodus from equities to U.S. Treasury Bills, which are perceived to be safe. Treasury rates are at historic lows.

In addition to stock volatility, according to the Financial Times, the U.S. consumer confidence index has reached its lowest level on record this month, as the deepening of the financial crisis made Americans suddenly much more pessimistic about their current situation and prospects. Consumer confidence fell from a reading of 61.4 in September to 38 this month – the lowest level since the index was established 40 years ago.

So, what does all of this have to do with Larry and Sandy? Whenever there is a market with extreme volatility and unrest, low consumer confidence, and a shift to safer investments, studies show that marketability and liquidity go higher. It is simply more difficult to sell and realize top dollar. So, the discounts for lack of marketability can and should be placed at a higher level. In Larry and Sandy's situation, an increase of 10% in this discount would mean \$75,000 less value and less gift tax cost. And there is very strong evidence that an even higher marketability discount might be appropriate.

So, if you are thinking of gifting to the next generation, now may be the most favorable time in many years to gift. Think about it. Today's market presents a huge opportunity to transfer wealth.