

STUDY SESSION

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Private Wealth Management (2)

The wealth of many individuals and families is often concentrated in a limited number of securities, business holdings, or real estate properties. The sale of concentrated positions to facilitate desired diversification may not be feasible or may create a substantial tax liability.

This study session examines the considerations and risks associated with concentrated single asset positions. Strategies for managing concentrated positions in publicly traded common shares, privately held businesses, and real estate are presented. Coverage on the dynamics of human and financial capital and the challenge of meeting financial goals throughout an investor's lifetime follows. The discussion specifically addresses investment strategies and financial products structured to mitigate the risk of not achieving these goals.

READING ASSIGNMENTS

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| Reading 11 | Concentrated Single Asset Positions
by Thomas J. Boczar, Esq., LL.M., CFA, and Nischal R. Pai, CFA |
| Reading 12 | Risk Management for Individuals
by David M. Blanchett, PhD, CFP, CFA, David M. Cordell, PhD, CFP, CFA, Michael S. Finke, PhD, and Thomas Idzorek, CFA |

LEARNING OUTCOMES**READING 11. CONCENTRATED SINGLE-ASSET POSITIONS**

The candidate should be able to:

- a** explain investment risks associated with a concentrated position in a single asset and discuss the appropriateness of reducing such risks;
- b** describe typical objectives in managing concentrated positions;
- c** discuss tax consequences and illiquidity as considerations affecting the management of concentrated positions in publicly traded common shares, privately held businesses, and real estate;
- d** discuss capital market and institutional constraints on an investor's ability to reduce a concentrated position;
- e** discuss psychological considerations that may make an investor reluctant to reduce his or her exposure to a concentrated position;
- f** describe advisers' use of goal-based planning in managing concentrated positions;
- g** explain uses of asset location and wealth transfers in managing concentrated positions;
- h** describe strategies for managing concentrated positions in publicly traded common shares;
- i** discuss tax considerations in the choice of hedging strategy;
- j** describe strategies for managing concentrated positions in privately held businesses;
- k** describe strategies for managing concentrated positions in real estate;
- l** evaluate and recommend techniques for tax efficiently managing the risks of concentrated positions in publicly traded common stock, privately held businesses, and real estate.

READING 12. RISK MANAGEMENT FOR INDIVIDUALS

The candidate should be able to:

- a** compare the characteristics of human capital and financial capital as components of an individual's total wealth;
- b** discuss the relationships among human capital, financial capital, and net wealth;
- c** discuss the financial stages of life for an individual;
- d** describe an economic (holistic) balance sheet;
- e** discuss risks (earnings, premature death, longevity, property, liability, and health risks) in relation to human and financial capital;
- f** describe types of insurance relevant to personal financial planning;
- g** describe the basic elements of a life insurance policy and how insurers price a life insurance policy;
- h** discuss the use of annuities in personal financial planning;
- i** discuss the relative advantages and disadvantages of fixed and variable annuities;
- j** analyze and critique an insurance program;

- k** discuss how asset allocation policy may be influenced by the risk characteristics of human capital;
- l** recommend and justify appropriate strategies for asset allocation and risk reduction when given an investor profile of key inputs.