CALDWELL TRUST COMPANY

PERSONAL • TRADITIONAL • INDEPENDENT

QUARTERLY NEWSLETTER | 2024 | VOLUME LXXVIII

Building Wealth | Preserving Legacy

The Way It's Meant To Be

You had a successful career with a Fortune 500 company and were regularly rewarded with shares of your employer's stock. You were focused on your job and family and never sold the shares. Now, they represent a significant percentage of your net worth. Isn't that a good thing?

Your late grandparents saved diligently over the years, consistently buying three of the "best" Blue Chip stocks to leave as their legacy. Their estate has been settled and you received a substantial inheritance of large positions in those three companies. Isn't that a good thing?

You added the shares of a promising tech company to your otherwise diversified stock portfolio. It has become the darling of Wall Street, and its value dwarfs the rest of your holdings. Isn't that a good thing?

No one is arguing that these are enviable scenarios for most investors. However, it can sometimes be too much of a good thing when an individual stock – or three – becomes dominant in an investor's portfolio. While a concentrated stock position can potentially yield hefty returns if the stock performs well, it also carries several risks.

Let's look at the specific risks of concentrated stock positions, how to manage the tax consequences when selling a highly appreciated asset, and how to overcome our emotional/behavioral reluctance to reduce our holdings.

SPECIFIC RISKS

LACK OF DIVERSIFICATION - Diversification is a key principle of risk management in investing. By holding a concentrated position, an investor is exposed to the performance of a single company or industry. If that company or industry experiences difficulties, the entire portfolio may suffer.

SINGLE STOCK VOLATILITY - Individual stocks can be volatile, and their prices can fluctuate dramatically in response to company-specific news, market conditions, or broader economic factors. A concentrated position magnifies the impact of these fluctuations on the overall portfolio.

COMPANY-SPECIFIC RISKS - Every company faces its own unique set of risks, such as competition, regulatory changes, management issues, or technological disruptions. Concentrating investments in a single stock increases exposure to these specific risks.

LIQUIDITY RISK - Selling a large block of shares in a single stock can be challenging, particularly if the stock is thinly traded. In times of market stress or if the stock experiences a sudden decline, liquidity may dry up, making it difficult to exit the position without greatly impacting the stock price.

EVENT RISK - Events such as earnings disappointments, lawsuits, management changes, or mergers and acquisitions can have a profound impact on a company's stock price. Investors with concentrated positions may be more vulnerable to these events, which can result in extensive losses.

OPPORTUNITY COST - By allocating a large portion of their portfolio to a single stock, investors may miss out on opportunities to invest in other asset classes or securities that could provide better risk-adjusted returns.

TAX IMPLICATIONS - Selling a concentrated stock position that has appreciated extensively over time may trigger sizable capital gains taxes. Investors may hesitate to sell due to tax considerations, even if it's prudent from an investment standpoint. We explore various solutions to the capital gains tax dilemma in the next section.

EMOTIONAL BIAS - Investors may develop emotional attachments to the company whose stock they own, leading them to hold onto the position longer than they should, even in the face of deteriorating fundamentals or adverse market conditions. Several of the most common emotional/behavioral biases are detailed in the final section of this article.

CAPITAL GAINS TAX MITIGATION

There are recognized strategies investors can employ to mitigate capital gains taxes associated with selling concentrated stock positions. At Caldwell Trust Company, we consider each client's specific financial situation and investment objective. If necessary, we include clients' tax and legal advisors to help navigate the complexities of tax law and estate plans.

HOLD FOR LONG-TERM CAPITAL GAINS - Capital gains tax rates are typically lower for assets held for longer periods. If you've held the stock for over a year, selling it may qualify for long-term capital gains tax rates, which are generally lower than short-term rates.

OFFSET GAINS WITH LOSSES - Consider selling other investments in your portfolio that have experienced losses. These capital losses can be used to offset capital gains, reducing the overall tax liability. This strategy is known as tax-loss harvesting.

GIFT SECURITIES - Gifting appreciated securities to family members can be a tax-efficient way to divest a concentrated position. Depending on the recipient's tax situation, they may be able to sell the securities at a lower tax rate or even avoid capital gains taxes altogether.

DONATE TO CHARITY - Donating appreciated securities directly to a charitable organization allows you to claim a tax deduction for the fair market value of the securities while avoiding capital gains taxes on the appreciation.

IMPLEMENT TAX-EFFICIENT STRATEGIES - Consider employing tax-efficient investment strategies by owning concentrated positions in tax-deferred retirement accounts (e.g., IRAs, 401(k)s) or tax-exempt accounts (e.g., Roth IRAs) to shelter gains from taxation.

GRADUALLY SELL OVER TIME - Instead of selling the entire concentrated position at once, consider selling shares gradually over multiple tax years to spread out the tax liability.

DETERMINE A "CAPITAL GAINS BUDGET" - This flexible solution can be designed to stay under the threshold for the next capital gains tax bracket.

CONSIDER CHARITABLE TRUSTS - Charitable remainder trusts (CRTs) and charitable lead trusts (CLTs) are estate planning tools that can help reduce capital gains taxes while providing benefits to charitable organizations and potentially to beneficiaries.

OVERCOMING RELUCTANCE

Owning a stock with a very large gain can evoke various responses from investors due to the emotional and psychological impact of such a major financial windfall. Drawing from behavioral finance, here are some of the most common behavioral aspects associated with owning a highly appreciated stock.

OVERCONFIDENCE - Investors may become overconfident in their abilities to pick winning stocks or time the market, leading them to take on excessive risk or make hasty investment decisions.

ATTACHMENT BIAS - Investors may develop emotional attachments to the stock, especially if it has generated substantial profits. This attachment can cloud judgment and lead to reluctance to sell, even when it may be prudent to do so.

REGRET AVERSION - Investors may experience regret if they sell the stock and it continues to rise in value, leading to a fear of making the wrong decision and missing out on further gains.

LOSS AVERSION - Despite holding a significant gain, investors may become overly focused on potential losses if they were to sell the stock. This loss aversion can lead to holding onto the stock for longer than necessary, exposing them to greater risk.

CONFIRMATION BIAS - Investors may seek out information that confirms their belief in the stock's continued success while ignoring or discounting contradictory evidence. This bias can lead to a reluctance to reassess the investment thesis objectively.

HERD MENTALITY - Seeing others profiting from the same stock can create a herd mentality, where investors are influenced by the actions of others rather than conducting their own independent analysis. This can result in crowded trades and increased volatility.

WEALTH EFFECT - Experiencing a large gain can lead to a wealth effect, where investors feel wealthier and more inclined to spend or take on additional risk in other areas of their financial lives.

FRAMING EFFECTS - How gains are framed can influence investor behavior. For example, framing gains as "paper profits" may lead investors to take a more cautious approach, while framing them as "realized gains" may induce a sense of accomplishment and a desire to seek further gains.

At Caldwell Trust, we recognize and understand the unique risks, tax implications, and psychological challenges associated with significant investment gains. Stock positions that are responsible for substantial wealth creation are, of course, a desired outcome of the investment process; they can also be responsible for dramatic losses. We assist our clients in making rational and informed decisions when managing "too much of a good thing".

TIDEWELL FOUNDATION'S CRYSTAL ANNIVERSARY LUNCHEON
A Celebration of Compassion, Community, and Personal Gratitude


Board members, Melissa and R.G. "Kelly" Caldwell, Jr. thanking Tidewell Hospice for their services.

Nearly 600 compassionate individuals gathered at The Ritz-Carlton in Sarasota on Friday, March 1, 2024, to attend the Tidewell Foundation's Crystal Anniversary Signature Luncheon. This annual event, now in its 15th year, serves as the foundation's largest fundraiser, and this year it set a record by raising an impressive $434,558. These funds will directly benefit Tidewell Hospice and Empath Health services, which touch the lives of over 10,000 individuals each year across Charlotte, DeSoto, Manatee, and Sarasota counties.

The highlight of the luncheon was the presence of Marilu Henner, a renowned health advocate, acclaimed actress, and memory expert. Henner's keynote address resonated deeply with attendees as she spoke passionately about Alzheimer's disease awareness and the

Marilu Henner and Caldwell Trust Company team members and guest.

importance of hospice care. Her advocacy for hospice services, echoed in her role as a spokesperson for the National Hospice and Palliative Care Organization, inspired all those present.

Delesa Morris, MS, CFRE, President of the Tidewell Foundation, expressed her gratitude for the overwhelming support from donors and supporters, emphasizing how their generosity strengthens the foundation's mission of providing Full Life Care for all. The Tidewell Foundation channels these funds into vital programs such as charity care, grief support services, specialized veterans care, music therapy, telehealth, and more, ensuring that individuals across the region receive comprehensive and compassionate care.

In addition to the enlightening speeches and impactful testimonials, attendees were treated to a special performance of the Maroon 5 song "Memories" by music therapist Haley Verinder, MT-BC, showcasing the power of music therapy in healing and comforting individuals.

Marilyn Henner is pictured alongside Jan Miller, who holds the roles of Executive Vice President and Trust Officer with Caldwell Trust Company, as well as Vice Chair of the Empath board.

The luncheon also provided an opportunity for the Caldwell family to share their personal journey of how Tidewell's services made a profound impact when faced with the founder of Caldwell Trust Company, Kelly's father, passing. Kelly expressed heartfelt gratitude towards Tidewell Hospice for the exceptional care and services they all received. He emphasized how these services allowed for important quality time with his father and family, creating lasting memories and moments of connection during a challenging time.

R.G. "Kelly" and Melissa Caldwell expressed their pride in supporting such a meaningful cause and being part of an event that unites individuals for a greater purpose. Caldwell Trust Company's sponsorship of the Tidewell Signature Luncheon reflects their commitment to philanthropy and community engagement, aligning with the values of making a tangible difference in the lives of individuals and families.

The Tidewell Foundation's 15th Annual Signature Luncheon was not just a fundraising event but a testament to the compassion, community support, and personal gratitude that thrive within the community, reminding us all of the power of coming together for a noble cause.

FLOWCODE

PRIVACY.FLOWCODE.COM

R.G. "Kelly" and Melissa Caldwell Extend Gratitude to Tidewell Hospice for Exceptional Care During Roland Caldwell's Final Months.

PROFILE

Jennifer Niedzinski, JD: A Legal Expert and Trust Maestro

Jennifer Niedzinski, JD
Senior Vice President and Trust Officer

"Delivering exceptional client service is at the core of everything we do at Caldwell Trust Company. With my background in law, I bring a unique perspective to understanding our clients' needs and providing personalized solutions that exceed their expectations, building long-lasting relationships based on trust and integrity."

In the complex world of law, trust administration, wealth management, and investment advisory services, Jennifer Niedzinski, JD, is a name that shines brightly. As a Senior Vice President and Trust Officer at Caldwell Trust Company, she brings a wealth of knowledge and experience to her role, serving families, private trusts, businesses, and charitable organizations.

Jennifer's journey to becoming a respected figure in the fields of law and trust administration began in 2003 when she started working with clients on trust and estate matters. Over the years, she honed her skills, providing exceptional results to clients who relied on her keen understanding of the intricate legal and financial aspects of managing trusts.

In 2016, Jennifer brought her expertise to Florida and joined Caldwell Trust Company earlier this year. Her impressive legal background and extensive experience in trust administration didn't go unnoticed. R.G. "Kelly" Caldwell, Jr., President, CEO, and Chairman of Caldwell Trust Company expressed his delight at having Jennifer on board and highlighted the significant impact her skills would make in enhancing the service to clients.

Before her journey with Caldwell Trust Company, Jennifer was a Senior Trust Advisor and Senior Vice President at the Northern Trust Company. Her professional background also includes 13 years as a practicing attorney with Sjoberg & Votta Law Offices in Warwick, Rhode Island, where she was licensed in both Rhode Island and Massachusetts. During her time as an attorney, Jennifer's practice primarily focused on estate planning, trust administration of varying complexities, and estate litigation. Her contributions even extended to several published and precedent-setting cases.

Jennifer, originally from New Jersey, pursued her education at Northeastern University before transferring to Roger Williams University, where she earned her B.A. in Social Sciences and later her J.D. from Roger Williams University School of Law.

Beyond her professional accomplishments, Jennifer is also deeply involved in her community. She serves on the Senior Friendship Centers' Board of Governors and dedicates her time as a mentor for Riverview High School through Faces of Accomplishment.

Jennifer and her husband, Ken, have made their home in Nokomis, where they share their lives with three furry companions. Jennifer Niedzinski, JD, is not just an accomplished legal expert; she is also a valuable member of the community, contributing her skills and experience to both her professional work and her service to others.

CALDWELL TRUST COMPANY

PERSONAL • TRADITIONAL • INDEPENDENT

Building Wealth | Preserving Legacy

The Way It's Meant To Be

CHARTERED PRIVATE TRUSTEE
PROUDLY SERVING OUR COMMUNITY SINCE 1993

PROUD MEMBERS OF

Charlotte County Chamber of Commerce
Greater Sarasota Chamber of Commerce
Manatee Chamber of Commerce
Venice Area Chamber of Commerce

CONTACTS

Scott Antritt, scott@ctrust.com
Alan H. Blair, alan@ctrust.com
Tony Blasini, tblasini@ctrust.com
R. G. "Kelly" Caldwell Jr., kelly@ctrust.com
Alisa Craton, acraton@ctrust.com
Wendy Fishman, wendy@ctrust.com
Reppard Gordon, rgordon@ctrust.com
Gina B. Jordan, gjordan@ctrust.com
Sonya Kristie, sonya@ctrust.com
Jan Miller, jan@ctrust.com
Leonard Nagel, leonard@ctrust.com
Gail Neujahr, gneujahr@ctrust.com
Jennifer Niedzinski, JD, jniedzinski@ctrust.com
Kendall Peacock, kpeacock@ctrust.com
Sandra L. Pepper, sandy@ctrust.com
Donna Scaglione , donna@ctrust.com
H. Lee Thacker Jr., thacker@ctrust.com
Sheryl Vieira, sheryl@ctrust.com
Nolan Wiggs, nwiggs@ctrust.com

30 YEAR ANNIVERSARY

VENICE OFFICE

1400 Center Road, Venice, FL 34292
941.493.3600 • Toll Free: 800.338.9476 • Fax 941.496.4660

SARASOTA OFFICE

27 S. Orange Avenue, Sarasota, FL 34236
941.926.9336 • Toll Free: 877.926.9336 • Fax 941.926.9335

www.ctrust.com • info@ctrust.com