



TUCKER & MELTZER

VALUATION ADVISORS

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BUSINESS VALUATION ADVISOR

*Commentary on the business of business valuation
for estate planning professionals and business owners*

This newsletter is for the information of attorneys, financial planners and business owners who deal with business valuation issues and are interested in the current thinking in business appraisal. It is not a "how to" publication, but more of an explanation of a complex professional service.



COMMENTARY

CATCHING THE WAVE OF WEALTH TRANSFER.



It's a great time to be in the wealth transfer business. Over the next two decades an estimated \$12-18 Trillion will be shifted to the next generation. Something on the order of 8,000 people per day are turning age 60. The concept of intergenerational

wealth transfer involves professionals from many disciplines, but predominantly they are estate planning attorneys, financial advisors, tax experts, and investment companies of all stripes. High net worth individuals will seek advice from all of these professionals – so what advice are they seeking? We know that they have a deep concern for preserving their wealth and a strong desire to grow their wealth. We also know that our clients are becoming more sophisticated in thinking about and managing their money. Given the client's focus, desires and hands on approach to managing wealth – we believe they will demand several things from their advisors. First, a higher level of information along with appropriate recommendations, both in face to face meetings and through the use of technology. They will want to know how wealth is created, allocated, circulated, spent, saved and invested. Secondly, they will want to have portfolio performance reporting, not just of their individual assets, but also in contrast to other benchmark portfolios. "We beat the S&P 500 this quarter" will not be enough- they will want to know that their portfolios are performing at least equal to

THE TUCKER & MELTZER DIFFERENCE

Tucker & Meltzer Valuation Advisors are independent business valuation advisors. We provide no other services (accounting, legal, financial planning or investment). Tucker & Meltzer represents an economic alternative to more expensive accounting and large valuation firms. We offer accurate well documented, up to date, and market based value comparisons and promise an exceptional turn-around time. We have the experience and knowledge to handle the tough jobs and we look forward to having the opportunity to work with you.

**"WE BEAT THE S&P 500 THIS
QUARTER" WILL NOT BE
ENOUGH --**

their peers. Thirdly, we believe they will want customized investment products – we have seen it already in the advent of certain hedge funds. How are wealth management professionals going to catch and ride this wave? We postulate that high net worth individuals would be highly responsive to the team approach, in which professionals work together to achieve strategic client goals. Not one stop shopping, but professionals from different shops working in tandem to satisfy the needs of the client. - *Editor.* □

VALUATION PERSPECTIVES

DISCOUNTS FOR LACK OF MARKETABILITY.



The largest single money issue in appraisals is often the Discount for Lack of Marketability (DLOM). If predictable and observable returns can be obtained from two investments - one in a marketable stock and the other in a non-marketable stock - other things being equal - a rational investor will pay somewhat less for the non-marketable shares than for the freely tradable shares.^[1]

This is a simple, straightforward explanation as to why the DLOM is so pervasive in estate planning. For the public stock, the market is simply 1-800-Sell-It, and for the non-marketable stock there is simply no discernible market in which to find a buyer. Valuation analysts rely on market studies to determine discounts. The best discount evidence is current and comparable information on sales of stock that were either restricted from sale or were sold prior to an IPO from companies in the same line of business. These are comparable transaction or marketability discounts. Absent this market evidence (usually very hard to find), the valuation analyst relies on the Restricted Stock and IPO Discount Studies (*see table*).

The key determinants for the Discount for Lack of Marketability are: 1) degree of risk in the investment, 2) distributions or lack thereof, and 3) perhaps the most important - the holding period. Limited partnerships in which the holding period may be a decade or more frequently have a calculated DLOM above 40%. The highest DLOM accepted by the tax courts to date has been 45%. The courts have not been persuaded to believe that there would be a willing seller above this discount. □

Study	Discount
SEC	25.8%
Gelman	33.0%
Trout	33.5%
Moroney	35.6%
Maher	35.4%
SRC	45.0%
Silber	33.8%
FMV	23.0%
MPI	27.1%
Johnson	20.0%
CFA	21.0%
CFA	13.0%
Median Discount	30.1%

Announcing . . .

The 2006 Uniform Standards of Professional Appraisal Practice ([USPAP](#)) has been published by The Appraisal Foundation.



ON THE SUBJECT OF DISCOUNTS

“The impact on value of the difference between liquid and illiquid securities has been exhaustively documented by over a dozen independent studies covering many thousands of transactions spanning almost four decades.”

– Shannon P. Pratt, CFA, FASA, MC

"FOR THE PUBLIC STOCK, THE MARKET IS SIMPLY 1.800.SELL.IT AND FOR THE NON-MARKETABLE STOCK THERE IS SIMPLY NO DISCERNIBLE MARKET IN WHICH TO FIND A BUYER."

[1] Mercer, *Valuing Financial Institutions- 1990 – Excerpt.*

CASES IN BRIEF

ESTATE OF LILLIE ROSEN V. COMMISSIONER

This case, filed on June 1, 2006, dealt with the legality of a family limited partnership (“FLP”) that was formed to hold the marketable securities and cash of the decedent. Throughout the case and in the Court’s findings, as written by Judge Laro, the focus was on whether or not the partnership was established for a legitimate business purpose and not just to shelter the decedent’s assets from estate taxes. Judge Laro found that, indeed, the partnership was formed solely to transfer the decedent’s assets to her descendants in such a way as to avoid paying estate taxes. He supports his results with the following facts:

1. The FLP conducted no business activity.
2. No books or records were maintained recording any activity within the FLP.
3. No formal or documented meetings were held by the general partners; and
4. Withdrawals were made to pay the decedent’s living expenses.

Therefore, the court found that the assets that the decedent transferred to the FLP were, in fact, includable in her estate under Section 2036 (a) (1) and therefore subject to estate taxes.



Tucker & Meltzer – Valuation Advisors is a business valuation firm focused on the needs of family limited partnerships and closely-held companies. The firm’s founding partners have extensive experience and credentials in valuing closely-held and asset holding companies. We have performed over 300 valuations for companies in a large number of industries, reflecting our broad experience in accounting, finance, litigation services, valuation theory and capital transactions.

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RECENT ASSIGNMENTS

Auto Dealer - Trust
 Defense Contractor - ESOP
 Retail Tire Chain - Estate
 FLP - Real Estate (4) - Gifts
 Packaging Mfr. - Sale
 Sprinkler Contractor - Sale
 Tool Distribution - Sale
 Paving Contractor - Sale

BUSINESS VALUATION ALERT

Tucker & Meltzer will be sending out email Alerts when an issue arises that needs to be addressed quickly. Whether there are settled court cases, changes in business valuation standards or other timely newsworthy issues, please keep an eye out for our Alert newsletter.

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