

DIVORCE FINANCIAL ADVISING UPDATE

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Characteristics of Assets...

Not All Assets Are Created Equally

In divorce settlement negotiations, spouses can propose a settlement whose division of assets work for well for their individual needs. The most important thing to look at is how the asset functions and “what is its purpose for you?” Assets have numerous characteristics and clients should be aware of them in their divorce asset divisions.

- **Liquidity.** How quickly can the asset be converted into cash? An emergency fund is always important and assets such as stocks, bonds or vested stock options are easily saleable. Of course, having ready cash never hurts either.
- **Marketability.** Is there a ready market? How quickly can the asset be sold and how costly is a sale? Again, stocks and bonds are readily marketable, while real estate or a closely held company takes much longer.
- **Income Generation.** Does the asset produce current income? A rental property may have positive cash flow, while a primary residence does not. Some stocks may produce current dividends while bonds and savings produce interest.
- **Tax Consequences.** Does it provide a current tax write-off such as rental or commercial property? Is it tax deferred? If it is sold or withdrawn, are there potential income or capital gains taxes?
- **Risk, Safety, Volatility.** Can the principal value go down? Cash is the safest bet while aggressive growth stocks can swing wildly. If the money will be needed soon, this should be a primary consideration.
- **Potential for Appreciation.** Can the value grow? Is there upside potential? We used to think real estate values could only increase and we saw what happened. The same with stocks.

As we know, to divide assets equally does not mean splitting every asset 50/50. Trading assets to accommodate the parties’ needs, if possible, is a goal that is worth pursuing. For example, if one spouse is the primary income earner, he or she might not need income producing assets, while more tax write-offs might be beneficial. Having to sell assets in order to reinvest in the needed manner could be unnecessarily costly from a tax and transaction perspective while transferring incident to a divorce avoids such tax consequences.

Have Questions? Need Help? Call or Email me!

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