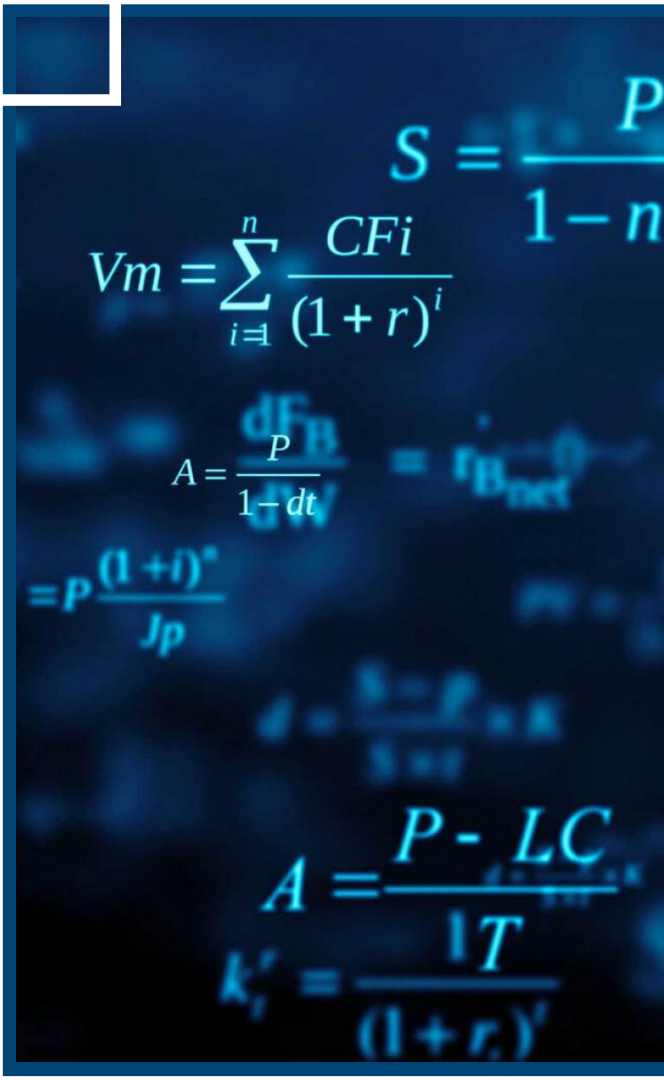
A SIMPLE PERSPECTIVE

BOOK VALUE & MARKET VALUE

By Shari Hall



You open up your year end statement and see "Book Value" as one figure and "Market Value" as another. What is the difference?

In the simplest terms book value is the original price you paid on an investment plus reinvested distributions. Distributions may be interest, dividends or capital gains and are taxable. In other words book value is your tax-paid balance. But for now, to keep it simple if you purchased 100 shares for $10 each, your book value is $1000, or $10 per share.

Over time, if you let that investment sit, your shares may grow or decline in value depending on what other people are willing to pay for them. Perhaps you hold onto those 100 shares for 8 years and then decided to sell them when the value is worth $50 each. You then sold 100 shares for $5000, also known as "market value".

Why is it important to understand the difference? Well unless your shares were purchased in a tax deferred or tax free account you will need to pay capital gains taxes on the growth. Capital gains is calculated as the difference between market value and book value. In this instance there is a capital gain of $4000; because the value grew. If you sold the shares 8 years later for $5 each ($500) you would have a capital loss of $500.

What if you were buying more shares at different prices throughout that 8 years? Then your book value becomes the average price you paid. Your first 100 shares were $10 ($1000BV), your next 100 shares were $15 ($1500BV) your new book value is $2500 or $12.50 per share.

It really isn't an exciting topic, but it's a question I get a lot. The good news is your Financial Advisor understands this and should be happy to explain it over and over.

Questions? Do you have something you'd like simplified and/or put into perspective? Contact our office today! Come and experience the Lewkowitz difference!

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