

What Should I Do With Inherited Investments?

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A loved one's passing is often a stressful and emotional onslaught. Dealing with end-of-life arrangements, as well as the grieving process can be a massive burden. Receiving an inheritance only complicates the situation, intertwining grief with massive financial decisions. Separating your emotions from investing is critical to long-term success; however, this is easier said than done in the best of times and nearly impossible when an investment comes from a loved one who has recently passed.

The primary decision you'll need to make is to sell the assets or keep them. Try your best to remove emotion from the decision and analyze how the individual pieces of the inheritance fit into your portfolio.

Selling vs. Keeping

It's common to feel attached to an inheritance because it represents a tangible connection to your loved one. The idea of selling off the pieces can feel like you're giving up a part of them. However, sometimes it's just not in your best interest to keep the assets.

To make an informed decision, ask yourself these essential questions:

- **How will inherited investments affect my overall asset allocation?** Ensure that the inherited assets don't disrupt the balance of your investments. If your portfolio currently maintains an 80% stock and 20% bonds asset allocation, inheriting more stock or bonds will upset that equilibrium. You or your advisor will probably need to rebalance your portfolio after inheriting new assets.

Your asset allocation is heavily dependent on your risk tolerance. Assess whether the investment aligns with your comfort level. Some investments and asset classes are more volatile than others and may not be a good fit if you're more risk-averse.

- **Am I holding too much of the same stock or a similar investment?** The key to a well-rounded portfolio is diversification. A heavy weighting in a single company or sector can make your portfolio more vulnerable. You're susceptible to significant losses if that company or sector experiences a downturn or faces unexpected challenges.

If you've inherited a sizable position in one company or several similar investments, it's likely best to sell and diversify.

These questions can help you understand how the inheritance fits with your financial goals. In most cases, it's recommended to sell and incorporate the proceeds into your own financial plan. However, if you've carefully considered these questions and believe that the investments suit your portfolio, then keeping it can be a reasonable choice. Remember that your decision doesn't have to be permanent; you can revisit your holdings in the future as your financial situation, objectives, and market conditions evolve.

How Are Inherited Investments Taxed?

When you sell investments, you typically face capital gains tax on profits exceeding the initial purchase price. However, inherited assets receive a "step-up in basis." This means that the cost basis (initial purchase price) is adjusted to the Fair Market Value (FMV) on the day the original owner passes away. This adjustment can help reduce your tax liability.

Another benefit is that inherited assets are treated as long-term capital gains, regardless of how long you owned the investment. This distinction is valuable because long-term gains are subject to more favorable tax rates compared to short-term gains, which are taxed at ordinary income rates and applied to investments held for less than a year.

The Bottom Line

Receiving an inheritance can be an emotionally charged experience and deciding what to do with it can be quite overwhelming. Often, you're torn between your emotions and what's right for your finances. When deciding whether to sell or keep the investment, ask yourself how it aligns with your portfolio and financial plan.