June 9, 2011 - When you inherit a sizable amount of stocks, your overall financial picture can change significantly. But to make the most of your inheritance, you need to decide what to do with your new stocks. Should you keep them or sell them?

Before you can answer this question, you need to review several factors, including the following:

Diversification - You'll need to determine if an inherited stock adds to your overall portfolio diversification. Do you already have other, similar stocks in your portfolio? If so, you might want to sell the stock and use the money for a new investment opportunity. Conversely, if you don't own anything similar to the inherited stock, and it can help your diversify, it may well be worth keeping. While diversification, by itself, cannot guarantee a profit or protect against loss, it can help reduce the effects of market volatility.

Fundamentals - It's a good idea to closely scrutinize any stocks you inherited. Do they represent companies with strong management teams, good track records and competitive products or services? Or, as is sometimes the case, did your benefactor simply keep these stocks because he or she had some type of attachment to them? You'll want to own quality stocks for the right reasons.

Risk tolerance - An inherited stock may be either too aggressive or too conservative for your preferences. If the stock doesn't fit within your risk tolerance, sell it and buy an investment that does.

Taxes - When you inherit stocks, they are generally valued at their market value on the day your benefactor died, not the date of the original purchase. For example, if you inherit stock that your father bought for $20 a share, and it's worth $75 a share on the day he dies, your "cost basis" would be $75 a share. If you sell the stock right away, you'll likely owe little or no income taxes. If the price of the inherited stock goes up before you sell it, you'll pay capital gains tax on the difference between $75 and the sale price, at a maximum rate of 15% (at least for 2011 and 2012), no matter how long you've held the stock. This is advantageous for you; typically, if you sell an appreciated stock that you've held less than a year, you'd have to pay capital gains taxes at your normal income tax rate.

If you inherit stocks as part of a traditional Individual Retirement Account (IRA), you'll probably have to pay taxes on withdrawals at your income tax rate. However, you may be able to spread withdrawals over your lifetime, which could result in more tax-deferred growth and a greater income stream. And if you inherit a Roth IRA, you won't have to pay income taxes on any withdrawals, provided the Roth IRA account has been open for at least five years.

If you need help in determining what to do with inherited stocks, consult with your financial advisor and tax professional. After all, you are acquiring an important asset - and you want to make this asset work for you.

This article was written by Edward Jones for use by your local Edward Jones Financial Advisor.