

## The DLOM Construct

(excerpted from the forthcoming book)

There are numerous definitions of discount for lack of marketability (DLOM), some described by valuation scholars and some by various courts. All of the many definitions of the DLOM have four components in common:

- a. the ability to convert the interest into cash;
- b. the time necessary to convert the interest into cash;
- c. the cost or expense to do so; and,
- d. the price at conversion.

The discount for lack of marketability is a percentage reduction in the value of an illiquid business ownership interest necessary to compensate for these four components as compared to the marketability of a publicly traded stock.....

.... I believe that thinking of the discount in terms of the four components described above adds clarity to the issues. Those components clearly are embodied in the well-known “Mandelbaum factors” described in that U.S. Tax Court case. In addition, considering the four components separately suggests a direction for future research on the discount for lack of marketability.