

How Should Corporate Executives Manage Concentrated Stock Positions Without Losing What They Have Built?

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There is a widely recognized principle in wealth management that captures the reality facing corporate executives at every level of the organization: concentration has the potential to build significant wealth, but diversification is what may help preserve it over time. For executives who have spent years building equity through stock options, restricted stock, and performance shares, this principle carries real weight. A corporate executive, no matter where they fall in the organization, typically has some portion of their compensation in company stock through either non-qualified or incentive stock options, performance shares, or restricted stock. When those plans vest, executives receive company stock, and over time it can become a significant portion of their overall assets.

The question is not whether concentration risk exists. It does. The question is what to do about it, when to act, and which tools could best suit your situation. This article outlines the key considerations corporate executives should evaluate when managing concentrated stock positions, the most common reasons executives delay action, and the range of investment solutions available to potentially reduce risk in a tax-conscious way.

Why Corporate Executives Struggle to Diversify

Understanding why executives hold concentrated positions for too long is an important starting point. According to Wayne Moss, an HB Wealth senior wealth advisor who works extensively with corporate executives, there are a handful of common reasons.

First, capital gains create hesitation. Executives who have seen significant stock appreciation worry about selling because of the tax bill that comes with the gain.

Second, many executives develop an emotional attachment to the stock because they are close to it. They feel like they know it better than other investments. Sometimes it comes down to loyalty. A stock that has "always done well" creates familiarity, but that familiarity doesn't guarantee future results and can mask the level of concentration that has built up over time.

Third, trading restrictions create structural barriers. Some corporate officers can only trade during certain windows or have stock ownership requirements they must maintain.

These factors combined to keep many executives overallocated to a single position for longer than is prudent.

How Much Concentration is Too Much?

One of the most common questions executives ask is when a concentrated position becomes a concern. As Ford Donohue, an HB Wealth senior investment strategist, explains, the answer is a little bit more of an art than a science. It depends on the investor's overall net worth and liquidity, the current tax situation around the position, how large and diversified the company is, and how volatile the stock is. As a general rule of thumb, a single concentrated position worth more than 10% of a client's net worth is where closer attention is warranted. Once a position approaches and exceeds that threshold, concentrated stock solutions become more critical. The last thing you want is to have half your life savings in one stock and have it go bad.

The Mindset Shift: From Accumulation to Preservation

For executives who have built meaningful wealth through company stock, crossing the threshold into a fully unrestricted public asset fundamentally changes the rules of the game. The operational skill set that created the wealth is entirely different from the preservation strategy required to keep you rich.

A useful reframe: if you woke up tomorrow morning with the cash equivalent of your concentrated stock position sitting in your checking account, would you use most of that cash to buy shares of your employer at its current public valuation? If the answer is no, then holding the stock is structurally identical to making that purchase decision every single day. The fear of capital gains tax is the most

common reason investors let a concentrated position decline unchecked. But volatility is vastly more dangerous than tax exposure. A combined state and federal tax hit is a one-time transaction cost, while a significant drop in a volatile stock price could potentially permanently destroy wealth.

Potential Strategies for Managing Concentrated Stock

When executives are ready to act, several investment solutions can help manage a concentrated stock position. These solutions provide flexibility in planning around concentrated stocks. Some have been around for a long time, like collars and exchange funds, while others, like the tax-advantaged long/short strategy, are newer strategies that can be powerful from a tax management perspective. Solutions are frequently combined rather than chosen exclusively, and eligibility and terms vary by sponsor and custodian.

Here is a summary of some approaches:

- **Outright Sale:** Sell all or part of the position and reinvest in a diversified portfolio. Insiders and affiliates trade through a Rule 10b5-1 plan. This is generally the most straightforward path to significantly reducing single-stock risk. Ways to potentially soften the tax impact include staging sales across multiple tax years, gifting appreciated shares to a donor-advised fund or charitable trust, and pairing with realized losses elsewhere in the portfolio.
- **Tax-Advantaged Long/Short Overlay:** The concentrated position is pledged as collateral and stays invested. A manager runs a long/short overlay on top of the position, systematically realizing losses while seeking to generate investment alpha. Those losses are used to sell the concentrated stock in a tax-neutral manner, and the sale proceeds are reinvested in a broadly diversified portfolio. This approach typically takes three to five years and requires comfort with concepts like leverage and shorting.
- **Exchange Funds:** An executive contributes low-basis shares to a partnership alongside other holders and receives a pro-rata interest in the pooled, diversified portfolio. The contribution is not a taxable event, and the original basis carries over. After the holding period, typically seven years, the client receives a diversified basket of individual stocks with the same cost basis as the originally contributed position.

- **Options Hedging (Collars and Covered Calls):** A collar involves purchasing a put option on the concentrated stock as an insurance policy, protecting against declines below a specified level, with the cost paid for by selling a call option on the stock. The resulting position could allow you to continue holding the stock while setting a floor and a cap on future returns. Covered calls, by contrast, involve selling an out-of-the-money call option against the concentrated stock to generate income and decrease the beta of the portfolio relative to stock price movements.
- **Variable Prepaid Forward:** An executive agrees to deliver a variable number of shares at a future date. The dealer advances cash up front, typically 75% to 90% of value. Shares are pledged as collateral but not sold, and gain recognition is deferred until settlement. Advance rates, floors, caps, and tenors are negotiated with the dealer.

The Role of Charitable Planning

For charitably inclined executives, giving can also help manage concentration. As Wayne Moss noted, when you have an over-concentrated stock and are charitably inclined, you can donate appreciated shares in a way that reduces your exposure. Charity can be part of this strategy for those who are charitably inclined.

Matching the Solution to the Situation

A framework for diversification, hedging, and tax-efficient monetization strategies should account for the client's specific circumstances. The right approach may depend on several factors:

1. **Is the primary goal to reduce single-stock risk?** If yes, the focus moves to whether the executive wants immediate diversification or a staged transition.
2. **Is managing the tax impact on exit the priority?** Strategies like exchange funds and long/short overlays are designed to defer or offset taxes.
3. **Does the executive need liquidity now?** A variable prepaid forward can generate cash without an immediate sale.
4. **Is a short-term hedge sufficient?** Collars and protective puts can provide temporary downside protection for executives working toward a specific date or event.

- 5. Is the executive comfortable with complexity?** Some solutions require comfort with leverage, shorting, or multi-year commitments.

Portfolio strategy for executives must account for trading windows, blackout periods, corporate insider policies, and the tax consequences of concentrated position transitions. There is no single correct answer. The solution, or combination of solutions, depends on the executive's financial position, goals, and risk tolerance.

Take the Next Step

Managing a concentrated stock position is one of the most consequential financial decisions a corporate executive will face. The strategies outlined here are starting points, and the right path forward depends on your specific compensation structure, tax situation, and long-term goals. If you are a corporate executive evaluating how to manage concentrated stock, consider connecting with a wealth advisor who understands the complexities of executive compensation planning. [Connect with one of our wealth advisors who specializes in working with corporate executives.](#)

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