Strategies for concentrated stock management

Our team offers a variety of choices

Investors who hold 10% or more of their wealth in one stock face “single name” risk. This is an issue that comes up frequently, especially for executives who have received stock as part of a compensation package, and investors who have held single positions for years or even decades.

For investors in this position, it can be challenging to figure out what to do next.

Maybe you feel “stuck” because you’re worried about paying capital gains taxes or net investment income taxes. Or perhaps you are concerned about how your estate plan will be affected if you lose a potential step up in cost basis for your heirs.

At Wealth Enhancement, we have an array of integrated strategies that can help to improve portfolio diversification while you work toward the tax and estate goals of your financial plan.

Primary implementation method — Keep · Sell · Options strategy · Gift

Strategy	Description	Ideal investor risk profile	Tax efficient	Risk reduction through diversification
Retain concentration	Hold concentrated stock in anticipation of basis step up for heirs	Aggressive	Y	N
Unwind immediately	Sell all concentrated position holdings and pay taxes	Conservative	N	Y
Multi-year unwind	Systematically sell portions of concentrated stock to spread capital gains	Moderate	Y	Y
Direct indexing	Equity direct indexing strategy designed to mirror the performance of a specific stock market or index	Moderate	Y	Y
Exchange funds	Exchange shares of concentrated stock for a group of stocks	Moderate	N	Y
Long/short separately managed account	Employs leverage (borrowed cash), individual long stock positions, and individual short stock positions to replicate a stock index. Allows for customization and more effective realization of losses to diversify out of a concentrated stock position.	Moderate/ Aggressive	Y	Y
Prepaid variable forward contract	Combination of a forward contract with a collar option overlay. Receive an upfront cash payment, typically 75-90% of concentrated stock’s current value, in exchange for delivering a variable number of shares in the future.	Moderate	Y	Y

Advisory services offered through Wealth Enhancement Advisory Services, LLC, a registered investment advisor and affiliate of Wealth Enhancement Group®.

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Strategy	Description	Ideal investor risk profile	Tax efficient	Risk reduction through diversification
Covered call strategy	Sell calls on the concentrated position to create income	Aggressive	Y	N
Exchange fund replication using options	Full collar on stock combined with a reverse collar of index options	Moderate	Y	Y
Full collar	Buy and sell a mix of options to help limit downside risk and cap reference stock appreciation	Moderate	Y	N
Donor advised fund (DAF)	Donate shares of the concentrated stock to a public charity	Conservative	Y	Y
Charitable remainder trust (CRT)	Irrevocable trust that lets you donate assets to charity and draw annual income for life or for a specific period	Conservative	Y	N
Family gifting	Give cash or other assets—including concentrated securities—directly to a recipient	Conservative	Y	N

Options involve risk and are not suitable for all investors. Individuals should not enter into option transactions until they have read and understood the option disclosure document titled Characteristics and Risks of Standardized Options issued by the Options Clearing Corporation ("OCC") which outlines the purposes and risks of option transactions. The option disclosure document can be obtained from your broker, any of the options exchanges or OCC.

All investment strategies carry risk, and transactions in options may carry a high degree of risk. Options derive their value from underlying equities or indices, and the derivative value is directly related to the underlying security, thus they carry many, if not more, of the same risks as the underlying equity or index.

The writer of a covered call option forgoes, during the option's life, the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the strike price of the call but retains the risk of loss should the price of the underlying security decline.

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