



Smart Strategies for Managing Concentrated Stock Risk

Overview

Concentrated stock positions can quietly grow into a significant source of risk, especially when income and career exposure are tied to the same company. This piece outlines practical strategies to manage, and diversify that risk over time, both during employment and after departure.

For many corporate executives and key employees, stock options and equity grants are core components of total compensation and can grow to represent a significant portion of investable assets. Confidence in the company may be justified, but concentrated exposure to a single stock can weaken overall portfolio diversification. The risk extends beyond direct holdings to include unvested equity, retirement plan allocations, deferred compensation, and even income and job security, all of which may be linked to the same company.

Mitigating this risk is rarely straightforward. Selling low-cost shares may trigger substantial tax liabilities, and certain holdings may be restricted or difficult to trade. As a result, positions are often left unchanged and continue to appreciate. Over time, a single stock can become a disproportionately large share of total wealth, with the underlying risk becoming most visible during periods of market stress.

Develop a Strategy for Reducing Risk

To evaluate strategies for mitigating the risks of a concentrated stock position, first assess any restrictions on selling company equity. Executives are often discouraged from selling their firm's stock, as it may signal a lack of confidence and create reputational concerns. For similar reasons, they may also be restricted from hedging shares or pledging them as collateral.

Additional constraints can include internal requirements for transaction preauthorization, limited trading windows, and mandatory public disclosure of trades. These factors should be incorporated into any diversification strategy.

When periodic sales are permitted, a structured trading plan can help execute transactions during open windows. If selling is not feasible, stock may be used in place of cash for other purposes, like charitable giving strategies.

Finding Suitable Ways to Diversify

There are multiple ways to reduce a concentrated stock position, and the right approach depends on individual circumstances. In most cases, an effective plan involves combining several diversification strategies rather than relying on a single solution.

Gradual share sales

Gradual sales during open trading windows and consistent with company policies can reduce concentration when no legal or company restrictions apply and no material non-public information is held. A structured selling program can help manage market impact and timing risk. Coordinated tax planning may reduce capital gains exposure through strategies such as tax-loss harvesting, which uses losses elsewhere in the portfolio to offset realized gains.

10b5-1 plans

These plans establish predetermined trading instructions, including when and at what price. Once in place, trades can proceed automatically, even during closed trading windows or after exposure to material non-public information. When properly designed and administered, 10b5-1 plans provide a structured, rules-based process and help mitigate the risk of insider trading concerns.

Donor-advised funds

Contributing appreciated shares directly to a donor-advised fund reduces concentration while avoiding capital gains tax on the donated portion. The assets can be sold within the fund and reinvested in a diversified portfolio. This structure separates the timing of the tax benefit from charitable distributions, provides an immediate charitable deduction, and preserves advisory input over how and when grants are made.

Charitable gift annuities

Transferring appreciated shares to a charitable organization in exchange for a lifetime income stream can reduce concentration and partially defer capital gains recognition. This approach provides predictable income, a partial charitable deduction, and a way to convert a concentrated position into a more balanced financial outcome aligned with philanthropic objectives.

Charitable remainder trusts

Contributing appreciated shares to a charitable remainder trust allows the trust to sell the assets without triggering immediate capital gains tax at the time of sale. The proceeds are reinvested in a diversified portfolio within the trust, reducing concentration risk while generating income for beneficiaries over a specified term or lifetime. A partial charitable deduction may be available at funding, with remaining assets ultimately directed to a designated charity, aligning tax efficiency, income planning, and philanthropic goals.

Post-Exit Strategies for Concentrated Stock

A departure from a company often marks a natural point to reassess a concentrated stock position. Without an active role, influence over the business and access to internal visibility decline, while future wealth creation is no longer tied to ongoing equity compensation. A position that once served as a primary growth driver may shift into a legacy holding, prompting greater focus on diversification and risk management.

Flexibility to act typically increases over time but is rarely immediate. The ability to sell or restructure shares may depend on separation terms, and the nature of the holdings, including vesting schedules or lock-up provisions. As these constraints diminish, greater control over timing and strategy allows for a more deliberate approach to reducing exposure.

Several strategies may be used to manage concentrated positions in this stage:

Covered calls

Selling call options against an existing stock position can generate income through option premiums. In exchange, upside appreciation is capped at the selected strike price. This approach is often more effective with higher-volatility stocks and can provide incremental income while maintaining partial exposure to future gains.

Equity collars

Collars combine the purchase of a put option, which provides downside protection, with the sale of a call option, which limits upside potential. In some cases, option premiums can be structured to offset each other, resulting in a cash-neutral position. This strategy may appeal to those seeking to manage short-term volatility while retaining some participation in long-term appreciation.

Exchange funds

Exchange funds offer a way to diversify a concentrated position without triggering an immediate taxable event, provided certain conditions are met. Contributing shares to the fund replaces single-stock exposure with a diversified portfolio of equities. A minimum holding period, typically seven years, applies before receiving a diversified basket of stocks. The original cost basis carries through, deferring capital gains taxes until the newly received securities are sold.

Key Takeaways

A concentrated stock position should be evaluated in the context of your total financial picture. Share prices can change quickly, and a large position can have an outsized impact on long-term outcomes. Thoughtful diversification and risk management can help protect accumulated wealth and reduce reliance on a single holding.

Each situation is different and individual constraints and tax considerations all influence the right approach. With multiple strategies available, managing concentrated stock often requires coordinated planning across diversification, hedging, and broader wealth decisions.

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Options carry a high level of risk and are not suitable for all investors. Covered calls provide downside protection only to the extent premiums are received, and prevent any profit above the strike price of the call. Long options can result in loss of 100% of funds invested.

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