



Your Company's Stock May Have Been a Great Investment. But Has Your Financial Strategy Kept Up?

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You don't need to be a founder or executive to potentially end up with millions tied to one stock.

For many employees, years of restricted stock units (RSUs) and options, and a stock that's doubled, tripled, or more – can quietly turn company shares into the largest part of their net worth.

That's a good problem to have. But it's still a problem worth managing.

When Success Creates Concentration Risk

Many people may understand diversification in theory. In practice, however, taxes often get in the way.

Highly appreciated stock often comes with significant capital gains, which can cause many employees to delay diversification longer than they planned. The result is a financial picture that may become increasingly dependent on one company's future performance.

A Potentially Smarter Way to Diversify – Without Stepping Out of the Market

Some investors who have accumulated significant wealth through equity compensation explore tax-aware approaches intended to reduce concentration gradually over time.

ETF-Based Tax Harvesting Portfolios

One approach some investors consider involves spreading market exposure across multiple exchange-traded funds (ETFs). This structure may create more opportunities to harvest tax losses as different areas of the market perform differently over time. In certain situations, realized losses may be used to help offset taxable gains when appreciated stock is sold, potentially allowing investors to remain invested while managing taxes.

Direct Indexing for Larger Portfolios

Another approach sometimes discussed for larger portfolios is direct indexing, which is often implemented through separately managed accounts (SMAs). Rather than owning a single fund, the investor holds many of the individual securities that make up an index. This structure may allow for tax-loss harvesting at the individual security level, even during periods when the broader market is rising, while still maintaining diversified market exposure.

Where Things Get More Interesting: 130/30 Strategies

In more advanced discussions, some investors may encounter references to 130/30 portfolios. These strategies are typically associated with institutional or sophisticated investment environments and are not appropriate for all investors.

130/30 strategies maintain market-like exposure while adding an important twist:

- Approximately 130% long exposure to equities
- Offset by 30% short exposure in selected securities

In theory, the net result is a portfolio that behaves much like a traditional equity allocation, but with a built-in mechanism for generating realized losses over time.

Why this matters:

- Markets have historically risen over long periods.
- Short positions, by design, often lose money as markets rise.
- Those losses can be harvested and potentially used to offset gains created when diversifying appreciated company stock.

In certain market environments, short positions may generate losses over time. Some investors may explore how realized losses are treated under tax rules, though outcomes vary and should be evaluated in light of individual circumstances with a qualified tax advisor. This concept is sometimes discussed in the context of managing large, unrealized gains, though outcomes can vary significantly.

These ideas are often discussed in institutional investment settings and may appear in broader conversations about advanced portfolio construction.

Turning Equity Success into Long-Term Planning

Diversifying doesn't mean walking away from the company that helped create your success.

It means having a plan – one that balances opportunity, risk, and taxes

The strategies discussed are for educational purposes only and are not recommendations. Not all strategies are suitable for all investors, and each involves risks and potential tax consequences. Stifel does not provide legal or tax advice. You should consult with your legal or tax advisors regarding your particular situation. Diversification does not ensure a profit or protect against loss.

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