

Beyond the Bounty

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Diversifying P&G Stock—Exchange Funds, Direct Indexing, and Long-Short Strategies

A Savvy Approach to Protecting Wealth and Embracing Growth

Introduction

P&G employees and retirees often accumulate significant holdings in company stock, whether through long-term employment, stock purchase plans, or equity compensation. While this reflects confidence in a trusted global leader, it also exposes investors to the risks of over-concentration. Managing such positions requires strategies that address growth, tax efficiency, and risk management without sacrificing loyalty to the brand.^{1 2}

At **Savvy**, we focus on empowering P&G employees and retirees with sophisticated tools to transition from concentrated stock positions to diversified portfolios. This whitepaper, part of our Bounty of Wealth: Absorbing Financial Insights for P&G series, explores three key strategies: exchange funds, standard direct indexing, and direct indexing with long-short overlays. These approaches can help transform a concentrated portfolio into a diversified one tailored to your financial goals.

The Challenge of Concentrated Stock Positions

Holding a significant portion of wealth in a single stock, even a strong performer like P&G, comes with risks:

- **Single-Stock Risk:** Overexposure to one company increases vulnerability to company-specific downturns, regardless of market conditions.^{1 2}
- **Sector Concentration:** P&G's Consumer Staples focus can lead to overexposure to sector-specific trends.¹³
- **Tax Complexity:** Selling appreciated stock outright may trigger substantial capital gains taxes, discouraging diversification efforts.^{1 2}

To preserve wealth and minimize risk, it's essential to diversify in ways that manage tax implications while maintaining the growth potential of a balanced portfolio.

Exchange Funds: A Tax-Efficient Diversification Tool

Exchange funds offer a solution for investors seeking broad diversification without the immediate tax liability of selling stock.^{3 4}

How Exchange Funds Work

1. **Pooling Assets:** Investors contribute their appreciated shares, such as P&G stock, into a diversified fund alongside other participants.^{3 4}
2. **Tax Deferral:** By exchanging stock for fund shares, investors defer capital gains taxes until the fund shares are sold.^{3 4}
3. **Broad Diversification:** The fund holds a variety of stocks, reducing exposure to individual companies or sectors.^{3 4}

Example Application for P&G Stock

Contributing P&G shares to an exchange fund allows a shareholder to shift from a single-stock position to a diversified portfolio without triggering capital gains taxes. This can mitigate risks associated with sector overexposure and company-specific volatility.^{3 4}

Limitations of Exchange Funds

- **Liquidity Constraints:** Many exchange funds have a lock-up period of up to seven years.^{3 4}
- **High Thresholds:** Minimum contribution requirements may exclude some investors.^{3 4}
- **Limited Customization:** These funds provide broad diversification but lack flexibility to tailor investments to individual preferences, such as ESG priorities.^{3 4}

Exchange funds offer a strong foundation for diversification but may benefit from pairing with more dynamic strategies for tailored results.

Standard Direct Indexing: Personalized Diversification with Tax Efficiency

Direct indexing is a modern strategy that allows investors to replicate the composition of an index by owning individual stocks directly. Unlike exchange funds, direct indexing offers customization and tax-efficient portfolio management without relying on pooled funds.^{6 11 12}

How Standard Direct Indexing Works

- **Replicating an Index:** Investors own individual stocks in a portfolio designed to track an index, such as the S&P 500.^{6 11 12}
- **Tax-Loss Harvesting:** Portfolio managers systematically sell underperforming stocks to generate tax losses, which offset taxable gains elsewhere in the portfolio.^{6 11 12}
- **Customizing Allocations:** Investors can exclude certain sectors, overweight specific industries, or align holdings with personal values, such as ESG preferences.^{6 11 12}

Benefits for P&G Stock Diversification

1. **Tax-Efficient Transition:** Selling P&G stock and reallocating proceeds into a direct indexing portfolio provides a path to diversification while minimizing tax impacts through ongoing tax-loss harvesting.^{6 11 12}
2. **Customizable Diversification:** Investors can personalize their portfolio to align with their risk tolerance, financial goals, and preferences. For example, a P&G retiree might retain partial exposure to Consumer Staples while adding Technology or Healthcare sector stocks.^{6 11 12}
3. **No Lock-Up Period:** Unlike exchange funds, direct indexing portfolios remain fully liquid, allowing investors to make adjustments as needed.^{6 11 12}
4. **Broad and Passive Growth Potential:** Direct indexing captures market returns similar to an index fund while providing the benefits of personalized ownership and tax efficiency.^{6 11 12}

Limitations

- **Market-Like Returns:** Standard direct indexing aims to match, not outperform, the index. For those seeking alpha, a long-short overlay offers additional potential.^{6 11 12}

Direct Indexing with Long-Short Strategies

Building on the foundation of standard direct indexing, a long-short overlay adds a performance-driven element by incorporating short positions to hedge risks and seek outperformance.⁷

How It Works

- **Long Positions:** Retain undervalued or high-performing stocks.
- **Short Positions:** Hedge against overvalued or low-performing stocks, sectors, or factors.⁷

This hybrid approach enhances portfolio management by creating opportunities for growth, risk mitigation, and greater tax efficiency.⁷

Benefits for P&G Stock Diversification

1. **Enhanced Tax Efficiency:** Losses from short positions complement tax-loss harvesting from long positions, further increasing the tax loss harvesting component.⁷
2. **Advanced Risk Management:** Hedging Consumer Staples exposure through short positions reduces over-reliance on sector performance.⁷
3. **Opportunities for Outperformance:** Shorting overvalued stocks while reallocating to undervalued ones creates potential for alpha generation beyond index returns.⁷
4. **Dynamic Customization:** Unlike exchange funds or standard direct indexing, a long-short overlay allows for real-time adjustments based on market trends.⁷

Comparing the Strategies

Feature	Exchange Funds	Standard Direct Indexing	Direct Indexing with Long-Short
Tax Efficiency	Tax-loss harvesting + short-position losses	Tax-loss harvesting + short-position losses	Tax-loss harvesting + short-position losses
Diversification	Broad and passive	Personalized and market-like returns	Personalized with alpha potential
Liquidity	Lock-up period (e.g., 7 years)	Full liquidity	Full liquidity
Customization	None	High	Highest
Performance Potential	Index-like returns	Market-matching returns	Opportunity for alpha generation

A Savvy Combination for P&G Stockholders

For investors with significant P&G holdings, combining these strategies can create a comprehensive solution:

1. **Initial Diversification:** Use exchange funds to reduce single-stock exposure without triggering immediate capital gains.^{3 4}
2. **Core Portfolio Management:** Transition remaining assets into a standard direct indexing portfolio to achieve broad diversification.^{6 11 12}
3. **Performance Optimization:** Incorporate a long-short overlay on part of the portfolio for enhanced tax efficiency, risk management, and outperformance potential.⁷

Conclusion

Diversifying concentrated P&G stock positions is essential for reducing risk and achieving long-term financial security. Whether through the tax-efficient structure of exchange funds, the flexibility of standard direct indexing, or the performance-driven potential of direct indexing with long-short strategies, there's a solution tailored to every investor's goals.

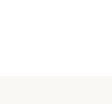
At **Savvy**, we're dedicated to helping P&G employees and retirees build diversified, resilient portfolios. Let us guide you through these advanced strategies to preserve your legacy and embrace growth with confidence.

This whitepaper is part of Savvy's **Bounty of Wealth** series, delivering financial insights tailored to P&G families.

Contact Savvy today to explore how these strategies can help you achieve your financial goals.

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