

Managing Stock Options 101



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Congratulations! If you're reading this, your hard work has propelled your career forward and put you in an exciting position of financial opportunity. Stock options are a reward for your commitment and contributions, signifying the value you've helped to create.

But with this reward comes a challenge—what do you do next?

Maybe your stock options are forming a large, concentrated portion of your wealth. Perhaps you're uncertain about the tax consequences of exercising or selling your shares. Or maybe the idea of diversifying your portfolio feels impossible without letting go of a foundational piece of your hard work. This uncertainty can feel paralyzing, especially when you consider the stakes.

You're not alone in these concerns. Managing stock options requires careful thought and strategic planning. Making the right decisions now can help safeguard your wealth, optimize your tax outcomes, and potentially set you up for long-term financial independence. That's why I wrote this guide.

In this guide, we'll simplify the complexities of handling stock options. You'll gain actionable insights and strategies to help you make informed decisions and make sure your career success translates into a secure financial future for you and your family.

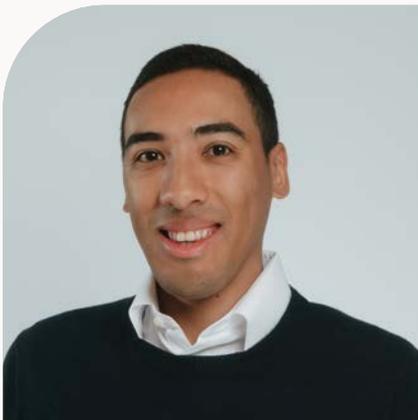
Think of this guide as a trusted resource, tailored to meet you at this pivotal stage in your financial journey. With the right tools and strategies, navigating the complexities of stock options is not just manageable—it's an opportunity to build and preserve meaningful wealth.

I'm excited to help guide you through this process. Together, we'll take full advantage of the opportunities your stock options represent, while avoiding costly missteps along the way.

To your continued success,

Arynton

A LITTLE BIT ABOUT ME...



Arynton Senna Hardy, AIF® is a Wealth Manager, Licensed Advisor, and Entrepreneur well-versed in the areas of financial planning, investment management, business guidance, and above all, top-tier client service. Prior to establishing Hardy Capital Investments, Arynton honed his expertise with Merrill Lynch & Bank of America in New York City, where he built his own book of business and private clientele. On the West Coast, Arynton worked with AXA Advisors in Century City and Beverly Hills, where he played an integral role in managing assets for High Net Worth Families and Institutions. Arynton is a graduate of Loyola Marymount University with a B.A. in Finance. There he received two research grants for his work on solar panel efficiency and was awarded a Certificate of Recognition from the LA City Council for his work in the community. Arynton has been featured in multiple publications including Forbes, Yahoo Finance, and MSN Money, Business Insider and was recently awarded a Rising Star by RIA Intel.

WHY COMPANIES OFFER EQUITY COMPENSATION

Before we dive into navigating your stock options, let's talk about why companies offer equity.

According to a 2024 Morgan Stanley Study, around 76% of companies offer some form of equity compensation. This is a significant increase from 65% three years prior.

Why the increase?

Equity compensation is a way for companies to attract, retain, and motivate employees by offering a stake in the business, like stock options or restricted stock units. It aligns employee goals with the company's success, encouraging growth and loyalty by sharing financial rewards. More and more, companies are rewarding employees with equity compensation.

THE DIFFERENT TYPES OF EQUITY COMPENSATION

Now that you know why companies offer equity, let's break down the different types of equity they can provide.

NON-QUALIFIED STOCK OPTIONS (NSOS):

NSOs let employees purchase company stock at a set price, typically lower than the current market value.

Unlike other options, they are available to both employees and external contractors, but the gains are taxed as regular income.

INCENTIVE STOCK OPTIONS (ISOS):

ISOs are a type of stock option specifically for employees.

They allow the purchase of company stock at a set price and offer tax advantages if held long enough, as gains can be taxed at a lower capital gains rate instead of regular income.

RESTRICTED STOCK UNITS (RSUS):

RSUs are company shares granted to employees, but they don't fully belong to the employee until certain conditions, like staying with the company for a set period, are met.

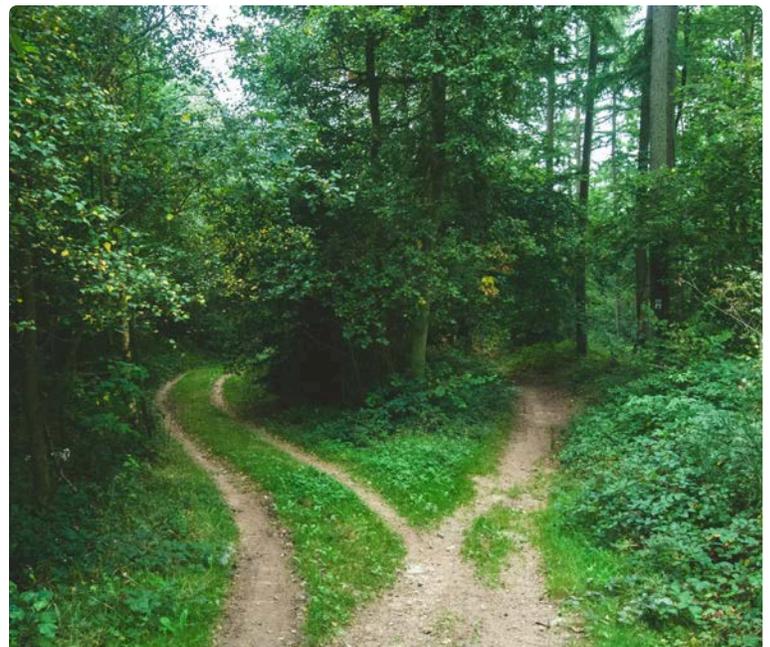
Once vested, the value is taxed as income.

OPTIONS AS A PUBLIC VS. PRIVATE EMPLOYEE

The valuation differences between private and public stock options

A quick Google search can tell you the value of a publicly traded stock. For private companies, it's trickier to determine. Private company employees usually need to wait for events like an acquisition, merger, or IPO to cash in on their stock's value. Ultimately, the stock's valuation is determined through internal or third-party assessments (called 409A valuations), which can change over time based on the company's growth.

Exercising private stock options also comes with added challenges. Without a public market, employees need to carefully consider cash flow, taxes, and whether the stock's value might grow. There's also a risk that the stock may not gain value or become liquid in the future.



Liquidity challenges: Tender offers, secondary markets, and IPOs

Liquidity is a fancy way of saying “how easily can an asset be converted into cash without losing significant value?”

Private company stock options present unique liquidity challenges compared to those of public company stock. As mentioned earlier, private company stock options often require employees to wait for specific events, such as an acquisition or IPO, to realize their value. This waiting period can be a significant hurdle for employees who may need immediate access to their wealth.

To address this issue, some private companies offer tender offers or secondary markets where employees can sell their shares before a liquidity event occurs. However, these options are not available in all cases and may come with restrictions and fees that reduce the overall value received by the employee. Additionally, even if a tender offer or secondary market is available, the price offered may not reflect the true value of the stock.

When to exercise in a private company vs. a public company

This is the question you probably want an answer to the most.

Deciding when to exercise private company stock options requires careful consideration of various factors.

PRIVATE COMPANY OPTION EXERCISING

Exercising Early

In general, exercising early can be advantageous as it locks in a lower strike price for taxes and allows employees to start their capital gains holding period sooner. However, there are also risks associated with early exercise, such as the potential for the stock to decrease in value or become illiquid.

Waiting to Exercise

Waiting to exercise closer to a liquidity event can provide employees with more certainty about the current and future value of their options. However, this approach also comes with its own set of risks, including potential tax implications and unexpected changes in company valuation.

It's crucial to consult with a financial advisor and carefully weigh all factors before making any decisions related to exercising private company stock options.

PUBLIC COMPANY OPTION EXERCISING

Unlike private company stock options, public company stock options are traded on a public stock exchange, making them easier to exercise. However, timing is still an important factor when it comes to exercising these options.

Here are some key considerations for determining when to exercise public company stock options:

Vesting Period

Public companies typically have a vesting period for their stock options, which is the amount of time an employee must work at the company before they can exercise their options. It's important to keep track of this vesting period and plan accordingly.

Stock Price Performance (and Forecasting)

Monitoring the performance of the company's stock price can also help in deciding when to exercise stock options. If the stock price is consistently rising, it may be a good idea to exercise the options before they expire. If you think the performance will decrease for a particular reason, it might also be a good idea to exercise.

Tax Implications

It's important to consider the tax implications of exercising stock options, as there may be tax consequences when you exercise and sell your shares. Consulting with a financial advisor or tax professional can help in making informed decisions.

Financial Needs

Exercise of stock options requires cash to purchase those shares, so it's important to assess one's financial needs before deciding on when to exercise. This includes considering other sources of income and expenses that may affect your ability to exercise at a given time.

WHAT ARE NSOS & HOW DO THEY WORK?

NSOs, or non-qualified stock options, are a type of equity compensation offered by companies to their employees. These options give employees the right to purchase company stock at a predetermined price, known as the strike price. Typically, there is a specified vesting period, or the time an individual must wait before gaining full ownership of those stock options before employees can exercise these options and purchase the company's stock. Once exercised, employees can either hold onto the stock or sell it for a profit.

HOW ARE NSOS TAXED?

NSOs (Non-Qualified Stock Options) are taxed based on the difference between the strike price (the price at which you purchase the stock) and the fair market value (FMV) of the stock at the time of exercise. This difference is referred to as the bargain element or spread. The bargain element is considered ordinary income and is subject to applicable income tax rates as well as payroll taxes like Social Security and Medicare.

Additionally, when you sell the shares acquired through exercising NSOs, any further gain or loss is treated as a capital gain or loss. The tax rate on this gain depends on how long you held the shares before selling—short-term gains (held for one year or less) are taxed as ordinary income, whereas long-term gains (held for more than one year) are taxed at the more favorable capital gains rate.

STRATEGIES FOR EXERCISING NSOS:

Exercising non-qualified stock options (NSOs) involves careful planning to maximize benefits and minimize tax implications. Here's a deeper look at some key strategies:

SELL-TO-COVER VS. CASH EXERCISE:

Cash Exercise

When exercising NSOs, you can either use your own cash to purchase the shares or opt for a sell-to-cover approach. A cash exercise requires upfront capital, allowing you to hold the shares and potentially benefit from future growth.

Sell to Cover

On the other hand, the sell-to-cover method involves selling a portion of the exercised shares immediately to cover the purchase cost and taxes, which can be helpful if you don't have the cash on hand. Choosing the right method depends on your financial situation and long-term goals.

EXERCISING EARLY VS. WAITING:

Exercising Early

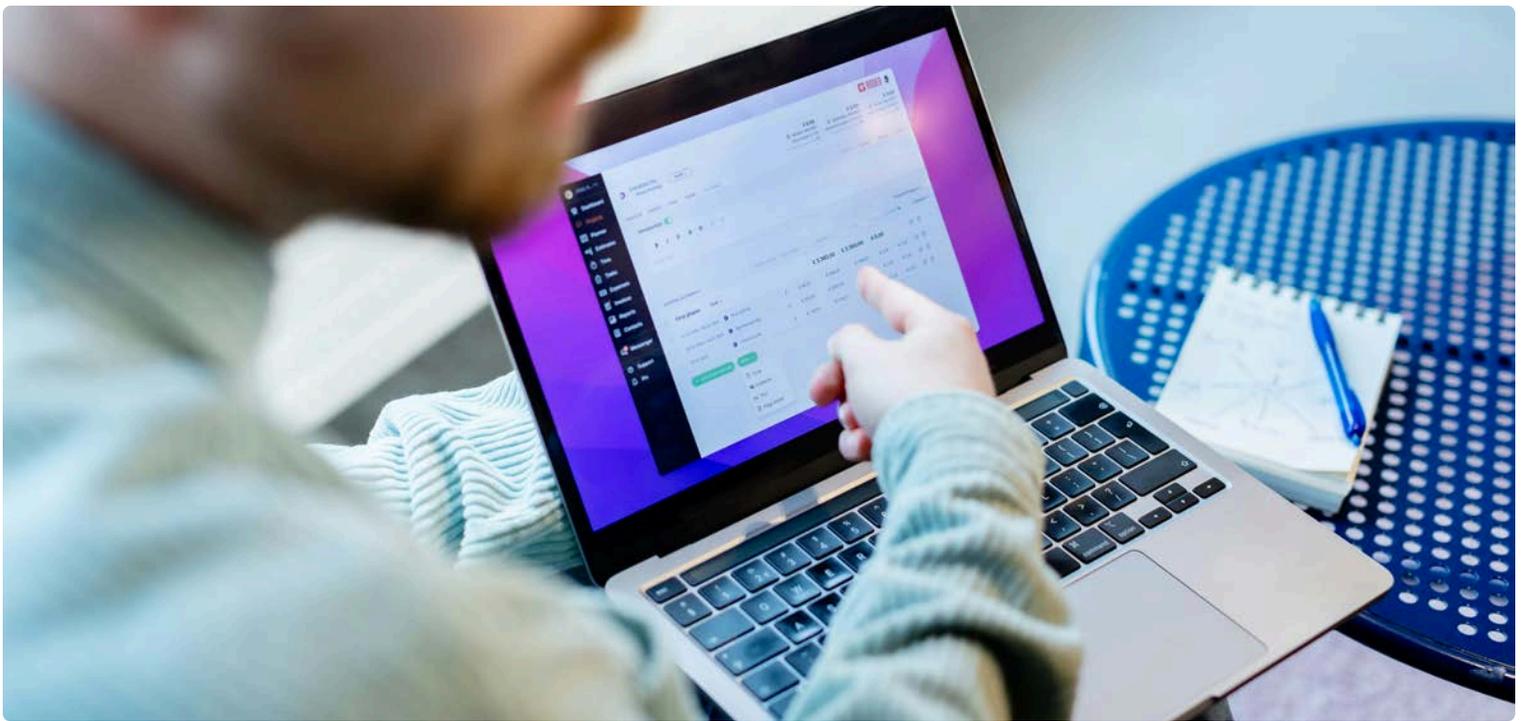
Timing is critical when exercising NSOs. Exercising early—while the stock price is low—can reduce the overall cost and potentially minimize taxes. However, there are risks involved, such as the possibility of the stock's value declining.

Waiting to Exercise

Alternatively, waiting to exercise closer to an exit event or when liquidity is available can reduce financial exposure but may increase tax liabilities if the stock price has grown significantly. Balancing these factors is key to making the right decision.

HOW TO SPREAD EXERCISES OVER MULTIPLE YEARS:

Spreading exercises over several years can help you manage tax liabilities more effectively by avoiding a large single-year income spike. This strategy also allows you to take advantage of lower tax brackets or stagger the timing of gains. By planning exercises around your income and tax obligations, you can reduce the overall financial impact and make the process more manageable.



Incentive Stock Options (ISOs)

CHAPTER 3

Incentive Stock Options (ISOs) and Non-Qualified Stock Options (NSOs) primarily differ in terms of tax treatment, eligibility, and benefits. ISOs are typically reserved for employees, whereas NSOs can be granted to employees, contractors, or board members. ISOs can offer significant tax advantages if certain conditions are met, while NSOs are subject to regular income tax at the time of exercise.

TAX ADVANTAGES OF ISOs

ISOs provide unique tax benefits that make them attractive to employees:

- **No Ordinary Income Tax at Exercise (if held for 1+ year):** Unlike NSOs, ISOs are not taxed as regular income when exercised, provided the shares are held for at least one year after exercise and two years from the grant date. Upon meeting these conditions, gains are taxed at the lower long-term capital gains rate when the shares are sold.
- **The Alternative Minimum Tax (AMT) Trap:** While ISOs offer potential tax savings, they come with a caveat—the Alternative Minimum Tax (AMT). When you exercise ISOs, the difference between the exercise price and the fair market value of the shares is considered an AMT adjustment, which could trigger a tax liability. Understanding how AMT works and whether it applies to your situation is essential before exercising ISOs.

WHEN SHOULD YOU EXERCISE ISOs?

Timing is crucial when deciding to exercise ISOs, as it can significantly impact your financial outcome:

- **Holding Long-Term for Capital Gains:** If you believe the company's stock value will appreciate, holding your ISOs long-term can maximize tax benefits by qualifying for the long-term capital gains rate. However, this strategy requires careful planning to avoid triggering AMT.
- **Exercising Early:** Some employees choose to exercise their ISOs early, particularly when the stock price is low, to reduce the potential AMT impact and start the holding period clock for capital gains treatment. This approach carries risk, as the stock value could decline, leaving you with a financial loss.

Consulting with a financial advisor or tax professional is highly recommended to make the most of your ISOs and avoid surprises come tax season.

WHAT ARE RSUS & HOW DO THEY WORK?

Restricted Stock Units (RSUs) are a form of equity compensation offered by many companies, typically as part of an employee's overall benefits package. They represent a promise to grant company stock to an employee at a future date, subject to specific conditions such as continued employment or performance goals.

HOW RSUS WORK & WHEN THEY VEST

RSUs are awarded but do not have immediate value until they vest. Vesting schedules vary by company but often follow a timeline (e.g., vesting over four years with a one-year cliff). Once vested, the employee owns the stock, which they can hold or sell. Vesting is typically tied to staying with the company, meaning RSUs incentivize employee retention.

TAXATION AT VESTING & AT SALE

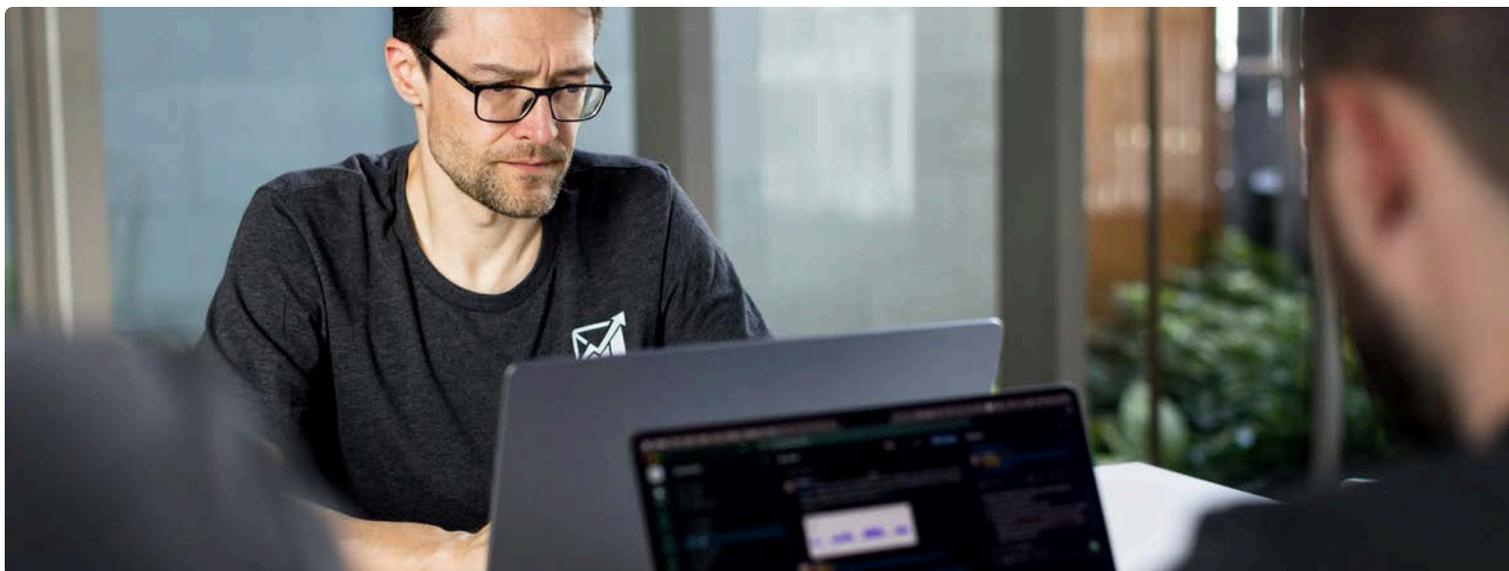
RSUs are taxed as income at the time they vest. The value of the stock on the vesting date is added to the employee's taxable income, and taxes are withheld accordingly. If you later sell the stock, any additional gains (or losses) are subject to capital gains tax, with the rate depending on how long you've held the stock after vesting (short-term vs. long-term capital gains).

SHOULD YOU HOLD RSUS FOR LONG-TERM CAPITAL GAINS OR SELL IMMEDIATELY?

Holding the stock for over a year after vesting may qualify you for lower long-term capital gains tax rates. However, this comes with the risk of the stock price declining. Selling immediately after vesting may reduce risk but could result in higher short-term capital gains taxes if the stock has already increased in value.

DIVERSIFICATION STRATEGIES TO MANAGE RSU RISK

Holding too much company stock can make your portfolio overly reliant on one asset, increasing financial risk. To mitigate this, you can diversify by selling some or all of your RSUs and reallocating the proceeds into other investments such as index funds, real estate, or other asset classes. Regularly reviewing your portfolio and overall financial plan can help ensure you're not overexposed to your company's performance.



What to Do When Your Company Is Exploding, Declining, or Static

Navigating decisions around company stock can be complex, especially when your company's performance is in flux. Whether your stock is skyrocketing, stagnant, or declining, understanding how to manage your equity effectively can make a significant difference in your financial outcomes. Here's a breakdown of strategies tailored to each scenario:

WHEN YOUR COMPANY STOCK IS SKYROCKETING:

Your company's success is exciting, but it's essential to manage this growth wisely. Here's how to make the most of your gains:

- **Exercise and Hold vs. Sell Immediately:** Decide whether to hold onto your options to benefit from further growth potential or sell to lock in gains. This decision should consider your financial goals, risk tolerance, and the company's growth trajectory.
- **Managing Taxes While Capturing Growth:** Work with a tax advisor to minimize your tax liability. Strategies might include spreading out exercises over multiple tax years or taking advantage of long-term capital gains tax rates by holding stock for at least one year after exercise.
- **Using Protective Puts to Hedge Downside Risk:** As the stock value skyrockets, consider purchasing protective puts. This options strategy gives you the right to sell your stock at a predetermined price, helping you lock in gains while protecting against sudden declines.



WHEN YOUR COMPANY STOCK IS STAGNANT:

A stagnant stock price doesn't mean you're out of options. There are still strategies to make the most of your equity:

- **Holding Options Until the Last Moment vs. Exercising Early:** Evaluate whether to wait until close to the expiration date to maximize leverage or exercise earlier to avoid risks tied to company performance. Weigh this against the risk of losing value if the stock remains flat.
- **Diversification Strategies To Offset Lack of Growth:** If your stock isn't performing, consider diversifying your portfolio by investing in other assets or sectors. This reduces your dependence on the company's stock for financial growth.
- **Selling Covered Calls for Additional Income:** Generate extra income from stagnant stock by selling covered call options. This allows you to collect a premium, even if the stock price isn't moving, while maintaining your core position.

WHEN YOUR COMPANY STOCK IS DECLINING:

A declining stock can be challenging, but there are ways to mitigate losses and protect your financial position:

- **Minimizing Tax Losses on Exercised Options:** If you've already exercised options, work with a tax professional to explore strategies for minimizing losses, such as harvesting tax deductions in years with significant losses.
- **Hedging with Options Strategies Like a Collar or Protective Puts:** Use options strategies to manage downside risk. A collar strategy involves buying a protective put and selling a covered call simultaneously, capping both potential losses and gains. Protective puts offer insurance-like protection by letting you sell stock at a guaranteed price.
- **When to Cut Losses and Exit:** Know when it's time to walk away. If the company's long-term outlook appears bleak, consider selling your position and reallocating funds to more promising opportunities.

Tax Strategies to Reduce Equity Income Taxes

When managing equity income taxes, implementing the right strategies can make a significant difference in minimizing your tax burden. Below are some key approaches to consider:

1 PRE-TAX CONTRIBUTIONS

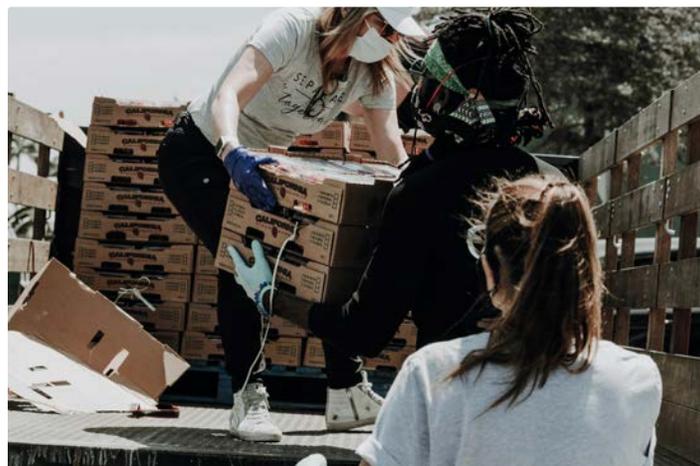
Maximizing pre-tax contributions can help lower your taxable income. Consider these options:

- **401(k) Contributions:** Max out your contributions to a traditional 401(k) account, which allows you to defer taxes on income that you save for retirement. This reduces your taxable income for the year.
- **Health Savings Account (HSA):** An often-overlooked tool, HSAs offer triple tax benefits: contributions are pre-tax, growth is tax-free, and withdrawals for qualified medical expenses are tax-free.
- **Roth IRA Strategies for High-Income Earners:** Although Roth IRA contributions have income limits, high-income earners can use a backdoor Roth IRA strategy to enjoy tax-free growth and withdrawals in retirement.

2 CHARITABLE GIVING

If you regularly donate to charity, you can make your giving work harder for you from a tax perspective:

- **Donor-Advised Fund (DAF):** Contribute appreciated stock to a DAF instead of cash. By donating stock, you avoid paying capital gains taxes on the appreciation, and you can deduct the fair market value of the donation on your taxes. This strategy is particularly effective for those looking to reduce equity income tax while supporting causes they care about. By donating stock you can also repurchase new shares for the same amount and reset your cost basis on those shares.



3 TAX-LOSS HARVESTING

This strategy involves selling investments at a loss to offset gains elsewhere in your portfolio:

- **What is Direct Indexing?** Instead of investing in ETFs, direct indexing allows you to own a customized portfolio of individual stocks tailored to mimic an index. This customization lets you harvest losses opportunistically, which can reduce your overall taxable income.
- **Offsetting NSO & RSU Income:** Equity compensation from non-qualified stock options (NSOs) and restricted stock units (RSUs) can lead to significant tax bills. Tax-loss harvesting can help offset these gains, providing relief from the tax impact of your equity income.

4 REAL ESTATE DEPRECIATION AS AN OFFSET STRATEGY

Investing in real estate can offer a variety of tax advantages, including the ability to use depreciation to offset taxable income:

- **Depreciation deductions** allow you to reduce the taxable income generated by rental properties, effectively lowering your overall tax bill. For individuals with significant equity income, real estate depreciation can serve as an effective offset strategy, especially when combined with other tax-efficient planning techniques.

By combining these strategies, you can optimize your tax situation and reduce the impact of equity income taxes. Always consult with a tax professional to tailor these strategies to your specific financial circumstances.

Options Strategies for Managing Your Stock

Managing your stock portfolio effectively requires strategic planning, especially when dealing with equity compensation like NSO-exercised shares. Here are some popular options strategies to consider:

Covered Calls:

This strategy involves selling call options on stocks you already own to generate additional income. For NSO-exercised shares, covered calls can be a great way to earn a premium while maintaining ownership. However, keep in mind that this approach may limit your upside if the stock price rises significantly beyond the strike price of the sold call.

Protective Puts:

Protective puts act as a form of insurance for your stock holdings. By purchasing put options, you can hedge against potential downside risk, ensuring a safety net if the stock price falls. This is particularly useful for protecting the value of NSO shares, especially in volatile markets.

Collar Strategy:

A collar strategy combines selling covered calls and buying protective puts. This approach helps you cap both potential gains and losses, making it ideal for managing risk in uncertain or volatile markets. While it limits your upside, it may offer peace of mind by helping to protect against major downside losses.

Exchange Funds:

If you're looking to diversify your portfolio without selling shares or triggering taxable events, exchange funds can be a reasonable option. This strategy involves pooling your shares with other investors to create a diversified fund, reducing concentration risk while deferring taxes until you sell your portion of the fund.



Cashless Exercise vs. Using Personal Cash

WHAT IS A CASHLESS EXERCISE?

A cashless exercise is a method of exercising stock options where you don't need to pay upfront using personal cash. Instead, you sell enough of the exercised shares to cover the exercise price and any associated taxes. This approach is often preferred by employees who want to gain the financial benefits of their stock options but don't have the liquidity to pay out-of-pocket.

SELL-TO-COVER VS. FULL CASHLESS EXERCISE

Sell-to-Cover:

In this method, you sell just enough shares to cover the costs of exercising and taxes, while keeping the remaining shares for potential future gains. This allows you to maintain some equity in the company while reducing the financial burden upfront.

Full Cashless Exercise:

This involves selling all the shares immediately after exercising to cover costs and receive the remaining proceeds in cash. This is a good option if you prefer liquidity or want to reduce exposure to company stock.

PROS & CONS OF PAYING FOR OPTIONS WITH CASH

Using personal cash to exercise stock options comes with its own set of benefits and drawbacks:

Pros:

- You retain full ownership of all exercised shares, maximizing potential future gains.
- Avoids potential tax consequences of selling shares immediately after exercising.

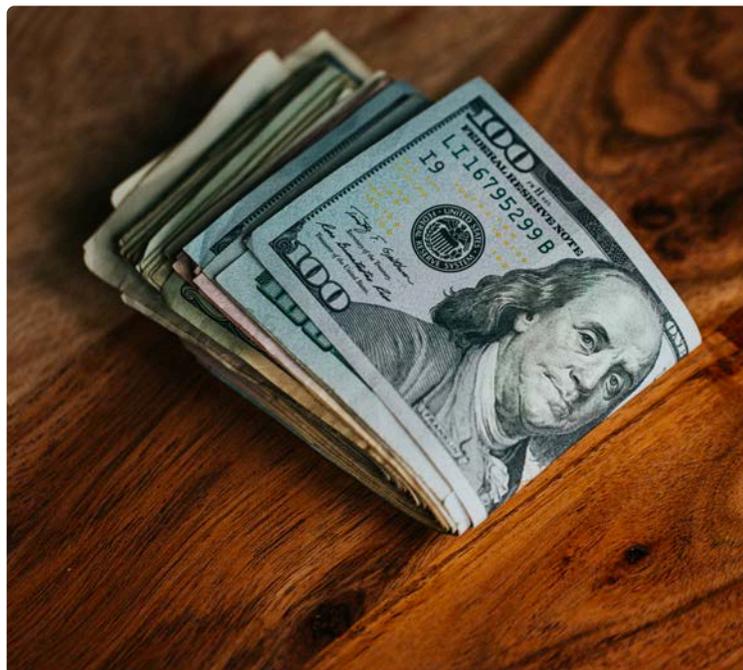
Cons:

- Requires significant upfront capital, which may not be feasible for all employees.
- Ties up personal funds in company stock, which can be risky if the stock price falls.

WHEN SHOULD YOU HOLD EXERCISED SHARES FOR FUTURE GROWTH?

Deciding whether to hold onto exercised shares depends on your financial goals and confidence in the company's future performance. Holding shares can be beneficial if you believe the company's stock value will increase significantly over time. However, it also involves risks, especially if the company's stock price is volatile. Make sure to consider your financial situation, diversification, and risk tolerance before deciding to hold shares long-term.

By weighing the pros and cons of cashless exercise versus using personal cash, you can make an informed decision that aligns with your financial goals and risk preferences. You may want to ask yourself the question, "how much of my net worth should my company shares make up?" 100%, 90% 50%, 0%? Putting this into perspective with how much you want your personal wealth tied to your company can often be a good starting point.





Diversifying Your Portfolio After Exercising

CHAPTER 9

When you exercise stock options, it's essential to think strategically about how to diversify your portfolio based on your personal situation. Holding a high concentration of company stock can expose you to significant risk, so taking steps to rebalance and diversify your investments is crucial.

Here are some effective strategies to consider:

AVOIDING CONCENTRATION RISK (TOO MUCH COMPANY STOCK)

Holding a large portion of your wealth in your employer's stock can leave you vulnerable if the company's performance and stock value declines, or fails to keep up with the overall market. Diversification is designed to reduce this concentration risk by spreading your investments across different asset classes, industries, or geographies, helping to stabilize your portfolio and reduce volatility. Selling a portion of your company stock and reinvesting it into a broader range of assets can be a beneficial move to protect your financial future.

USING AN EXCHANGE FUND TO DIVERSIFY TAX-FREE

An exchange fund offers a unique way to diversify your portfolio without triggering immediate capital gains taxes. By contributing your company stock to an exchange fund, you gain access to a professionally managed, diversified portfolio of stocks while deferring taxes on the sale of your shares. This can be an attractive option for high-net-worth individuals looking to maintain tax efficiency while reducing exposure to company-specific risk.

DIRECT INDEXING & TAX-EFFICIENT INVESTING

Direct indexing allows you to invest in a customized portfolio that mimics an index while owning the individual stocks outright. More specifically, it also allows you to remove or isolate companies in the market to avoid double dipping into your own company, competitors or industries as a whole. This directly personalizes your diversification based on where you would like to maintain exposure/risk. This strategy can enhance tax efficiency by enabling tax-loss harvesting, where you sell underperforming stocks to offset gains elsewhere in your portfolio. Direct indexing also allows for greater personalization, letting you align your investments with specific values or financial goals while maintaining diversification.

By taking a thoughtful approach to diversification after exercising stock options, you can manage some risk, optimize tax efficiency, and build a more resilient portfolio that supports your long-term financial goals.

When to Sell: Optimizing Your Exit Strategy

Deciding when to sell your shares can have a significant impact on your financial outcomes, whether you're aiming to maximize profits, minimize taxes, or align with your personal financial goals.

Here's a deeper look into the key factors to consider:

SHORT-TERM VS. LONG-TERM CAPITAL GAINS

Understanding the difference between short-term and long-term capital gains is crucial for optimizing your exit strategy.

Short Term Capital Gains

Short-term capital gains apply to assets held for less than a year and are typically taxed at your regular income tax rate, which can be significantly higher.

Long-Term Capital Gains

Long-term gains—triggered when holding assets for over a year—are taxed at a lower, more favorable rate.

Timing your sale to qualify for long-term capital gains can lead to substantial tax savings, but it requires careful planning and patience.

HOW TO DECIDE WHEN TO LIQUIDATE SHARES

Timing the sale of your shares can be influenced by various factors, including market conditions, the performance of your company, and your personal financial needs. It's important to regularly evaluate the value of your shares and assess how they fit into your overall investment portfolio. Consider liquidating shares strategically to balance your portfolio while keeping tax implications in mind. Consulting with a financial advisor can help you make informed decisions about when and how to liquidate.



SELLING RSUS VS. NSOS FOR THE MOST TAX-EFFICIENT OUTCOME

Restricted Stock Units (RSUs) and Non-Qualified Stock Options (NSOs) come with different tax implications, which should factor into your decision to sell.

RSUs are taxed as ordinary income when they vest, so selling them soon after may not have a significant impact on your tax liability.

For NSOs, however, how and when you exercise and sell them can drastically affect your taxes. Taxes on NSOs are assessed both at the time of exercise and at the time of sale, with the opportunity to qualify for long-term capital gains on the appreciation if you hold the shares long enough.

Understanding the nuances of RSUs and NSOs is essential for crafting a tax-efficient exit strategy.

By carefully considering these factors—capital gains, timing, and the type of equity you're holding—you can optimize your exit strategy to align with your financial goals while minimizing tax burdens. Whether you're planning for immediate gains or long-term wealth, taking a strategic approach to selling your shares is essential.

When you exercise stock options, it's essential to think strategically about how to diversify your portfolio based on your personal situation. Holding a high concentration of company stock can expose you to significant risk, so taking steps to rebalance and diversify your investments is crucial.

Here are some effective strategies to consider:

HOW TO INCORPORATE STOCK OPTIONS INTO RETIREMENT PLANNING

Equity compensation, such as stock options, can play a crucial role in building your retirement savings. However, planning for retirement with stock options requires a thoughtful approach. It's important to understand the vesting schedules, potential tax implications, and when to exercise your options for maximum benefit. Diversifying your portfolio by converting some equity into more stable investment vehicles can also help balance risk as you approach retirement age. This ensures your retirement plan remains secure and aligned with your long-term financial goals.

USING EQUITY FOR BIG LIFE EVENTS (HOUSE, KIDS, INVESTMENTS)

Equity compensation can be a valuable financial resource for major life milestones. Whether you're buying a house, starting a family, or funding a new investment, leveraging your stock options strategically is key. Timing is everything—consider the market value of your equity and any potential tax consequences before selling or exercising your options. Working with a financial advisor can help you optimize your strategy, ensuring your equity supports your major life goals without jeopardizing your financial stability.



LIFE INSURANCE CONSIDERATIONS FOR EQUITY-HEAVY INVESTORS

For those whose wealth is heavily tied to equity compensation, life insurance can be an important tool for financial security. If your income and assets are largely equity-based, there may be periods of illiquidity that could leave loved ones financially vulnerable in unexpected circumstances. A robust life insurance plan can provide peace of mind, ensuring your family's financial needs are met even if your equity cannot be immediately accessed. Tailoring a life insurance policy to complement your equity-heavy portfolio can create a more comprehensive financial safety net.

When you exercise stock options, it's essential to think strategically about how to diversify your portfolio based on your personal situation. Holding a high concentration of company stock can expose you to significant risk, so taking steps to rebalance and diversify your investments is crucial.

Here are some effective strategies to consider:

EXAMPLE 1**A TECH EMPLOYEE WITH NSOS – PLANNING A 3-YEAR EXERCISE STRATEGY**

James, a senior engineer at a large tech company, held over 25,000 NSOs, most of which were deep in the money. With the company stock near all-time highs, he was worried about triggering a huge tax bill if he exercised all at once, but he also feared missing the window if the stock declined. His goals were to reduce tax liability, manage downside risk, and gradually convert stock into diversified wealth. His adviser recommended he build a 3-year exercise schedule to keep him out of the highest tax brackets while preserving upside. To protect against downside during this period, James implemented a collar strategy—selling calls to fund protective puts. This gave him a safety net during volatile markets and a clear roadmap for long-term wealth building.

EXAMPLE 2**A STARTUP FOUNDER WITH ISOS – MANAGING AMT RISK**

Lisa, a founder of a Series C startup, had built up a large ISO position over several years. When the company raised its latest round at a much higher valuation, her paper gains looked impressive—but exercising all at once would have pushed her deep into AMT territory. She was overwhelmed and unsure whether to exercise, hold, or wait for a potential exit. We created a custom AMT projection that showed how much she could exercise annually while staying below AMT thresholds. During this process, we reviewed her prior-year returns and noticed she hadn't used her adjusted basis for a prior ISO sale—an error that would've cost her \$100,000 in taxes. Fixing it and building a staged exercise plan gave Lisa clarity, confidence, and substantial tax savings.

EXAMPLE 3**AN EXECUTIVE WITH RSUS – DIVERSIFICATION & LIQUIDITY WITHOUT SELLING**

Alex, a senior executive at a Mag 7 tech company, had over \$3M in stock and a new grant of RSUs vesting each quarter. He wanted to buy a home with a large down payment but didn't want to sell stock and trigger long-term capital gains, nor did he want to lose upside. He was also increasingly uncomfortable with the concentration of his wealth in one company. We structured a strategy using a pledged asset line backed by his shares, giving him access to \$1M at a competitive interest rate. Simultaneously, we implemented a covered call strategy generating 8.5% annually—more than enough to cover interest payments. To further reduce risk, we allocated a portion of his holdings to an exchange fund, allowing him to diversify 67% of his exposure without selling a single share. The result: liquidity without taxes, maintained upside, and a long-term diversification path.

These case studies highlight how strategic planning around equity compensation—tailored to the unique profile of each client—can unlock liquidity, reduce taxes, and protect long-term growth potential.

All examples are for informational purposes only and not based on real clients or real outcomes. Hypothetical scenarios are being shared to help illustrate strategies but should not be construed as investment advice or a recommendation. All investments involve risk, including loss of principal.



Building Wealth Through Equity Compensation

FINAL TAKEAWAY

Equity compensation can be a powerful tool for building long-term wealth, but understanding how to maximize its potential is key. Here are some important steps to set yourself up for success:

HOW TO CREATE A LONG-TERM EQUITY PLAN

Start by understanding the types of equity you hold, such as stock options, RSUs, or ESPPs. Think about your financial goals—whether it's buying a home, funding retirement, or diversifying your portfolio—and develop a plan that aligns with these objectives. Consider factors like vesting schedules, tax implications, and market conditions to create a strategy that works for you.

TOOLS & RESOURCES TO MANAGE STOCK OPTIONS EFFECTIVELY

Take advantage of tools designed to simplify equity management. Platforms like Carta, Shareworks, and EquityZen can help you track your options, monitor their value, and understand key dates. Additionally, educate yourself with resources on tax strategies and financial planning to avoid costly mistakes. Knowledge is power when it comes to making informed decisions about your equity.

WHEN TO HIRE A FINANCIAL ADVISOR VS. DIY PLANNING

Deciding between managing your equity compensation on your own or hiring a financial advisor depends on your level of expertise and the complexity of your situation. If you're comfortable with financial planning and have a straightforward equity setup, a DIY approach may be sufficient. However, if you're dealing with intricate tax scenarios, significant holdings, or need guidance on diversification, consulting a financial advisor could save you time and money in the long run.

By taking the time to understand your equity compensation and creating a thoughtful plan, you can turn your stock options into a valuable asset for achieving your financial goals.

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