

With a combined 50+ years of experience, 2X Wealth Group is committed to educating and empowering investors. We firmly believe financial literacy helps people make better decisions.

Does Your Portfolio Need PPE (Personal Protection Equipment) Due to Single Stock Risk?

The creep can be insidious. Restricted stock units, options, inherited stock or a growing position due to outperformance can all contribute to being overly invested in a single company stock. Regardless of how it happens, **excessive single stock risk can blow up your financial plan.**

According to a recent J.P. Morgan study, from 1980 to 2014, over 320 companies were deleted from the S&P 500 for business distress reasons. Over the same time period, about 40% of the 3000 largest companies suffered declines of more than 70% from their peak value. Often, investors and even company insiders do not anticipate these declines.

Although there is no set number for an acceptable amount of single stock risk, when one stock exceeds 10% of your portfolio, consider it a concentrated position. Young investors may decide the double-edged sword of single stock risk works for them, but what is acceptable will vary by age, risk capacity and risk tolerance. A concentrated stock position in the company or industry where you are employed creates additional risk as you may lose your job at the same time your portfolio goes down.

If a major decline in a single stock's value will affect the success of your financial plan, it is time to create a strategy to diversify. Financial goals such as buying a house, saving for college, or building/maintaining a retirement nest egg make it prudent to pare your concentrated stock position.

Yet, investors resist advice to reduce concentrated positions for many reasons:

- Lack of time to devote to selling the stock
- Lack of familiarity with alternative investments
- Tax aversion
- Emotional ties to the stock (if inherited)
- Familiarity bias – you know your company well and think it will do better than others
- Recency bias – your stock has done well recently, so you think it will continue to improve
- Regret aversion bias – you will be upset if you sell and the stock goes up

Have a Plan

Create a gradual selling plan at a certain price and/or over a certain time period. This process can mitigate the tax impact and reduce the emotions that come into play. Public company executives often sell stock through 10b5-1 plans, which allow insiders to create a trading plan where a preset date or price is used to trigger stock sales. You can institute a similar strategy for yourself! Further, if you currently receive employer RSUs on a regular basis, you can instruct your custodian to automatically sell your stock on vesting dates, stopping the accumulation process before you get overloaded.

A major market decline, while clearly negative for portfolio values, can offer a tax efficient opportunity to diversify, especially if you previously had sizable capital gains in your single stock position. If, for example, you can sell your stock at a loss and reinvest the proceeds in a diversified fund, you create a financial trifecta – you maintain your market exposure, diversify your holdings and take a capital loss from a tax standpoint.

Act like a CEO

Since January 31st, Jeff Bezos sold \$4.1 billion in Amazon stock as part of a 10b5-1 trading plan. It is complicated to evaluate and mitigate the risks created by concentrated stock positions, and good ways to model your ongoing exposure are not readily available, especially if your company distributes options, RSUs, or TSRUs. At 2X Wealth, we can help you develop your own plan using our analytical tools.

Feel free to pass this blog along to friends and family who suffer from SSR (Single Stock Risk)! Call with any questions about how to proceed.



Contact Us:

Lisa James

lisa@2xwealth.ingalls.net
212-269-7758

Lori Zager

lori@2xwealth.ingalls.net
212-269-7757

www.2xwealth.ingalls.net

The content provided herein is for informational purposes only, and should not be considered advice that is specific to your personal circumstances. Nothing contained herein is intended to be a formal research report, or as a source of any specific investment recommendations and makes no implied or express recommendations concerning the manner in which any accounts should be handled. The information contained herein is not intended to be comprehensive, and there may be other factors and questions relevant to your own individual situation. Any opinions expressed in this material are only current opinions and while the information contained is believed to be reliable there is no representation that it is accurate or complete and it should not be relied upon as such. Investing involves risk, including loss of principal, and no assurance can be given that a specific investment objective will be achieved. You should consult a professional legal and tax advisor for any tax and estate planning advice prior to taking action.