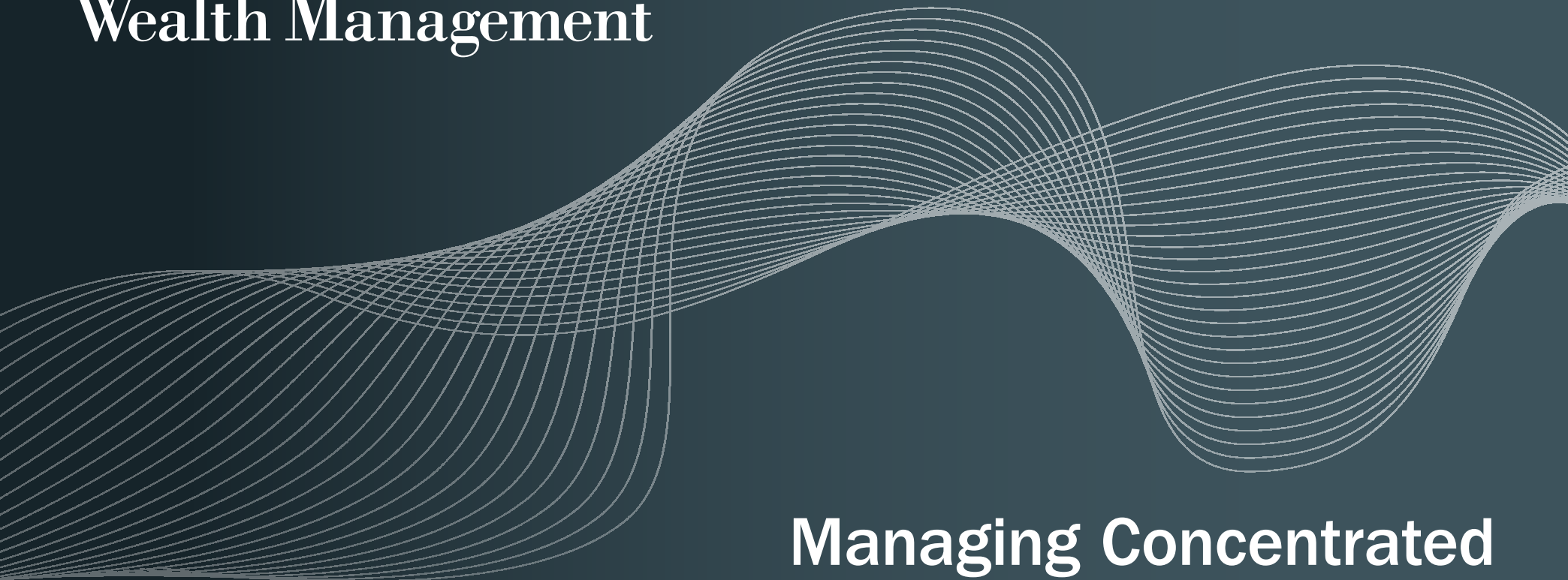


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Wealth Management

Research promotion kit



Managing Concentrated Positions through a Goals-Based Framework

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Key Findings

1. Concentration risk can reduce the probability of meeting financial goals even when expected returns are unchanged

The research isolates the effect of diversification by assigning the modeled concentrated stock and the diversified 60/40 portfolio the same 7.4% expected return. The difference is volatility: 18.5% for the concentrated position versus 10.6% for the diversified portfolio. In the simulations, that lower volatility produces better downside outcomes and higher probabilities of achieving the investors' goals.

Investor implication: The case for reducing concentration does not have to depend on forecasting lower returns for the stock. Reducing the range of potential outcomes can itself improve financial-plan resilience.

2. The right concentrated-stock strategy depends on the investor's objective, not on a single measure of tax efficiency

The analysis evaluates 11 scenarios across three broad approaches: monetizing, gifting, and diversifying or hedging. No one structure solves every problem. An investor seeking to preserve equity exposure faces a different decision from one seeking to reduce overall portfolio risk or transfer wealth to charity.

Investor implication: Concentrated-stock planning should begin with the desired end state—asset allocation, cash flow, philanthropy, estate transfer, or continued ownership—before evaluating individual products or structures.

3. For the modeled investors, diversification strategies materially improved goal attainment

The base case of retaining the concentrated position produced a 95% probability of success. Selling immediately increased that figure to 97%, staged sales to 98%, and staged sales combined with a direct-indexing completion portfolio to more than 99%. The modeling attributes the improvement primarily to lower portfolio risk, with direct indexing also assumed to generate a tax-alpha benefit.

Investor implication: Tax costs from diversification should be evaluated against the financial cost of continuing to bear concentrated risk rather than considered in isolation.

4. Different strategies solve different forms of concentration risk

The research draws an important distinction between reducing single-stock risk and reducing equity risk. An exchange fund diversified Stock A exposure and produced a 99% probability of success in the sample analysis, but it retained a predominantly equity-oriented allocation. By contrast, staged sales into the target 60/40 portfolio reduced both company-specific concentration and overall equity exposure.

Investor implication: A strategy can diversify the name without materially de-risking the asset allocation. Investors should define which risk they actually want to remove.



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Practical Implications

5. Direct indexing can make a staged exit more tax-efficient, but it does not remove the need to sell

The completion-portfolio approach builds around the concentrated position while staged sales gradually reduce it. In the sample analysis, direct indexing was modeled with a 2.2% tax-alpha benefit and increased the probability of success to more than 99%, with the highest median portfolio value among the 60/40 scenarios. The research also notes that tax alpha is not guaranteed and tends to erode over time.

Investor implication: Direct indexing may improve the economics of an already-planned diversification program, but it should not be mistaken for a substitute for reducing the concentrated holding itself.

6. Charitable structures can change the trade-off between diversification, cash flow, and giving

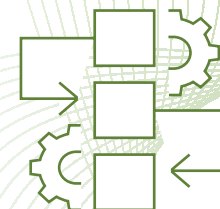
An outright \$10 million charitable gift reduced the sample investors' modeled probability of success to 82% because assets permanently left their portfolio. A charitable remainder trust produced a very different result: the modeled 7% annual unitrust payment supported ongoing cash flow while the trust diversified the stock, resulting in a 99% probability of success.

Investor implication: For charitably inclined investors, the choice of giving vehicle can matter as much as the decision to give, particularly when income needs and concentrated-stock diversification must be addressed together.

7. Goals-based modeling turns product comparisons into portfolio decisions

The article's results summary on page 64 shows why strategies should not be compared on one headline metric. Exchange funds offered the strongest modeled outcome for maintaining the current asset allocation; staged sales through direct indexing were most effective for the sample investors seeking a 60/40 allocation; and the charitable remainder trust was strongest among the modeled charitable approaches. These outcomes depend on the article's specific investor profile and assumptions.

Investor implication: Advisors can use probability of success, projected portfolio values, taxes, liquidity, estate objectives, and desired asset allocation together rather than choosing a strategy from product features alone.



These findings highlight the most important conclusions from the research and their practical relevance for investors, portfolio teams, analysts, and industry practitioners.

LinkedIn Series

Post 1: Concentrated Stock Is a Goals-Based Planning Problem

A concentrated stock position creates more than an investment decision.

Selling may reduce risk but accelerate taxes. Holding preserves tax deferral but leaves wealth exposed to one company. Gifting can advance family or charitable objectives while changing the investor's available resources. Hedging and diversification structures introduce another set of trade-offs.

Our latest research explores these choices through a goals-based framework, using Monte Carlo analysis to compare 11 concentrated-stock scenarios for a hypothetical high-net-worth couple.

The central question is not simply, "How should I diversify?"

It is, "Which strategy gives this investor the strongest path toward the goals they actually want to achieve?"

[#WealthManagement](#) [#ConcentratedStock](#) [#GoalsBasedInvesting](#) [#PortfolioConstruction](#) [#TaxPlanning](#)

Post 2: Equal Expected Return Does Not Mean Equal Financial Outcomes

One of the most useful findings from our research comes from holding expected return constant.

We modeled both the concentrated stock and a diversified 60/40 portfolio with the same 7.4% expected return. The difference was risk: projected volatility was 18.5% for the single stock and 10.6% for the diversified portfolio.

That difference materially changed the range of outcomes.

For the hypothetical investors, diversification improved downside portfolio values and increased the probability of meeting long-term financial goals.

The comparison reframes the concentrated-stock decision. Investors do not have to believe their stock will underperform to justify diversification.

Reducing the consequences of an unfavorable path can be valuable even when return expectations are unchanged.

[#PortfolioRisk](#) [#Diversification](#) [#WealthPlanning](#) [#InvestmentStrategy](#) [#RiskManagement](#)

Post 3: Diversifying a Stock Is Not the Same as De-Risking a Portfolio

Concentrated-stock strategies are often grouped together, but they can lead to very different end portfolios.

An exchange fund can replace single-stock exposure with a diversified equity portfolio while deferring gain recognition. For the sample investors in our research, that produced a 99% probability of success—but it largely preserved their equity exposure.

Staged sales invested into a 60/40 portfolio addressed a different objective: reducing both company-specific risk and overall equity risk. Adding a direct-indexing completion portfolio improved the modeled result further under the assumptions used.

The distinction matters.

Before choosing a structure, investors should decide whether they want to diversify a holding, reduce portfolio risk, preserve liquidity, generate income, or transfer wealth.

The product should follow the goal.

[#ConcentratedPositions](#) [#DirectIndexing](#) [#ExchangeFunds](#) [#WealthManagement](#) [#AssetAllocation](#)



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Pull Quote Pack — Article-Derived

“Diversification can improve financial-plan resilience even when expected return does not change.”

“The cost of selling concentrated stock should be weighed against the risk of continuing to hold it.”

“Managing concentration starts with the investor’s desired end portfolio, not with the available product.”

“Diversifying a single stock is not necessarily the same as reducing overall equity risk.”

“Direct indexing can improve a staged diversification plan, but it does not eliminate the need to reduce the concentrated holding.”

“A concentrated-stock strategy should be judged by the goals it serves, not tax efficiency alone.”

“Charitable structures can combine diversification with giving, but different structures produce very different cash-flow outcomes.”

“Goals-based analysis turns concentrated-stock planning from a product choice into a portfolio decision.”

Source article: Managing Concentrated Positions through a Goals-Based Framework



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