



2020 financial planning tips

Diversifying through staged selling

May 18, 2020

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Staged selling gives investors a strategy to diversify concentrated positions. Over time, risk of the portfolio will be spread across industries and asset classes—maximizing the potential to achieve their goals.

It's a common situation: After working at a company for years, an executive holds a concentrated position in the employer's stock as a result of a stock purchase plan, incentive stock options, nonqualified stock options, restricted stock options, stock bonuses and other sources.

When the market experiences periods of extraordinary volatility, the impact on a concentrated portfolio is magnified. In particular, the steep market falloff in March 2020 had disproportionately large effects on portfolios that weren't diversified.

In the past, there have been many barriers to diversifying portfolios that have concentrated positions, including potential tax liabilities and strong emotional ties to the company. Still, investors frequently want to reduce future risk associated with the concentrated holdings. They are interested in a diversification strategy, not just a hedging strategy.

Upside and downside target for staged selling

While an immediate sale is not an option for many holders of concentrated stock positions, staged selling can be an attractive alternative. Staged selling involves setting a target for selling stock over time—typically a period of several years—at progressively higher (or lower) prices. For example, the investor commits to selling x% of stock XYZ if it hits Target #1, y% if it hits Target #2, and z% if it hits Target Z. Rules can be established and applied for both gains and declines in a stock's prices.

Staged selling helps investors pre-commit to change. Because it involves the execution of a predetermined plan to sell, staged selling enables the investor to avoid having to make a real-time investment decision. With a plan in place, an individual can thus begin to reduce risk and spread the capital gains tax.

Benefits of staged selling

Staged selling allows the investor to:

- Retain some upside potential while gradually reducing risk through diversification.
- Lessen the fear of missing out on the potential upside of a stock by selling too soon.
- Defer capital gains taxes.
- Maintain market participation, albeit in a different industry or asset class.

Diversifying concentrated positions

With staged selling, the investor can have a strategy in place to diversify a concentrated stock position. Over time, the overall risk of the portfolio will be spread across multiple industries and asset classes, which maximizes the probability of successfully achieving an investor's goals.

It is essential that investors work with their financial and tax advisors to understand the tax implications of the different stock compensation mechanisms. Importantly, the impact of potential sales and overall wealth management objectives must be incorporated into the plan. As always, the diversification strategy should be tailored to an investor's unique situation.

For more information, [please contact your Key Private Bank Advisor.](#)

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Publish Date: May 18, 2020

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201208-923741.02