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The Challenges of Concentrated Wealth

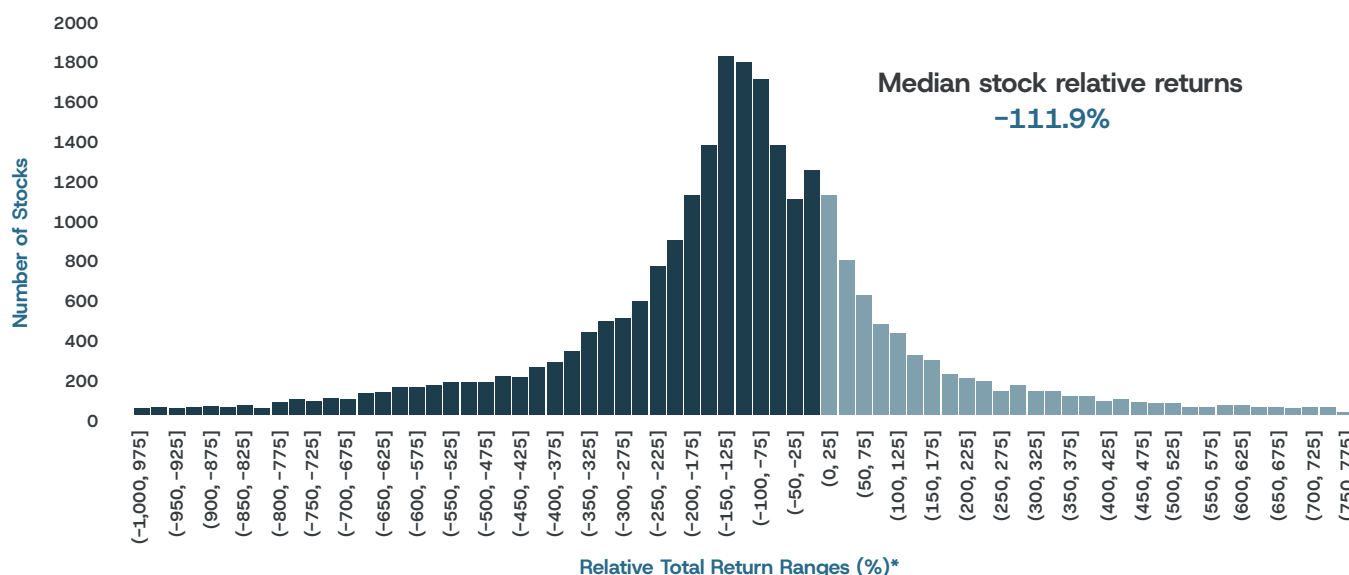
Strategies for managing single-stock risk

For some ultra-high-net-worth individuals, their wealth has accumulated greatly from concentrated stock positions. A concentrated position is an investment portfolio where a significant portion of an individual's wealth is held in a single stock or a small number of stocks. This is a reality for many business owners who hold a significant number of shares of their company's stock, employees who receive employee compensation, or individuals who have received an inheritance or have a single successful investment in their portfolio.

Although a concentrated stock can bring significant wealth, it can also present the risk of losing wealth without the right strategies in place. Below, we detail the risks of concentrated positions and give guidance on the different strategies to use to help manage these risks.

Why Concentration Can Undermine Long-Term Outcomes

One of the most persistent myths in investing is that skillful stock selection consistently beats the market. In reality, most individual stocks underperform their benchmark indexes on a risk-adjusted basis over both short and long-time horizons. Even the stocks that do outperform tend to struggle to sustain their leadership, often lagging in subsequent periods.



Past performance is no guarantee of future results. Information is as of 12/31/24.* Bars represent 25% increments. Overflow returns at the top and bottom of the Relative Total Return Ranges (<-1,000% and >1,000%) have been removed.¹ Derived from a universe of 26,862 actively traded stocks listed on NYSE, NASDAQ, and NYSE American (formerly AMEX) since 12/31/1980; and based on relative total return versus the S&P 500* over the listed trading period of the stock through 12/31/24. Returns are calculated daily, starting on 1/3/1972. Sources: Ned Davis Research, Eaton Vance.² All actively traded stocks listed on NYSE, NASDAQ and NYSE American (formerly AMEX) since 12/31/1980; 26,861 total stocks. Catastrophic loss is defined as a maximum price drawdown greater than 70%. Recovery is defined as recovery in price to high prior to maximum drawdown.

Sources: Ned Davis Research, Eaton Vance.

When investors concentrate portfolios around these perceived winners, they frequently underestimate the risks involved, leading to higher volatility and the potential for meaningful drawdowns.

Concentrated stock positions are inherently risky because portfolio outcomes become tied to the fate of a single company. Historical data from the Russell 3000 Index dating back to 1980 shows that more than 40% of companies experienced a catastrophic stock price loss—typically defined as a 70% decline from peak levels that was never recovered—often resulting in a near-total loss of capital.¹

For those with concentrated positions, this underscores the importance of managing exposure thoughtfully. While diversification remains a cornerstone of portfolio construction, practical considerations such as taxes, liquidity needs, and employer restrictions often require more deliberate approaches.

Strategies for Managing Concentrated Stock Risk

Once the risks of concentrated stock positions are understood, the next step is determining how to manage them in a thoughtful and practical way. For many investors, selling a large stock position outright may not be feasible due to tax considerations, timing concerns, or personal circumstances. The strategies below highlight different approaches investors can use to gradually reduce concentration risk while balancing diversification, taxes, and long-term financial goals.

Strategy	Description	Key Considerations
Diversify through sales and reinvestment	Gradually sell a portion (or all) of your concentrated stock and reinvest proceeds in diversified assets such as mutual funds, ETFs, or index portfolios. May also include rolling employer stock into an IRA for diversification.	<ul style="list-style-type: none"> May trigger capital gains taxes on appreciated shares. Can be structured over multiple years to spread the tax impact. In-service rollovers (for investors 55+, depending on plan rules) can allow diversification without immediate tax consequences.
Exchange fund	Contribute your stock to a professionally managed fund in exchange for a diversified basket of other investors' holdings. Defers capital gains taxes and provides instant diversification.	<ul style="list-style-type: none"> Typically, available only to high-net-worth investors with significant single-stock positions. Requires a multi-year holding period (usually 7+ years). Must use publicly traded stock to qualify.
Donate appreciated stock	Give highly appreciated shares directly to a qualified charity or through a donor-advised fund (DAF). This helps you avoid capital gains taxes, and you may receive an income tax deduction for the fair market value of the gift.	<ul style="list-style-type: none"> Provides tax-efficient philanthropy. Using a DAF allows flexibility in the timing of grants to charities. Best for investors with charitable intent and large unrealized gains.
Charitable remainder trust (CRT)	Contribute appreciated stock to a CRT, receive an income stream for life or a set term, and pass the remainder to a charity. The initial donation avoids immediate capital gains tax.	<ul style="list-style-type: none"> Creates ongoing income while supporting charitable causes. Irrevocable — once contributed, assets cannot be retrieved. Requires professional trust administration and setup costs.
Borrow against holding (margin or securities-based lending)	Use the value of your concentrated stock as collateral to access liquidity without selling. The borrowed funds can be used to purchase other investments, helping diversify your portfolio.	<ul style="list-style-type: none"> Avoids immediate taxes since the stock isn't sold. Subject to interest costs and margin call risk if stock value declines. Works best for short- to mid-term liquidity needs with a clear repayment plan.



aligning strategy with your financial journey

While these strategies provide a strong foundation for understanding how to manage a concentrated stock position, the most appropriate approach ultimately depends on who holds the stock and where they are in their financial journey. An entrepreneur may remain concentrated to preserve control and long-term upside, a long-term investor may hold based on conviction and tax efficiency, an inheritor may prioritize diversification and simplicity, and a corporate executive or founder—particularly one preparing to leave a company—may choose to reduce exposure as influence over company decisions declines and personal financial goals evolve.

Because concentrated stock positions intersect with taxes, liquidity, career considerations, and personal objectives, there is no one-size-fits-all solution. This is why having a thoughtful conversation with a financial advisor is essential. Our advisors help evaluate these strategies within the context of your broader wealth, risk tolerance, and long-term objectives. Connect with us to discuss integrated approaches to managing concentration risk and enhancing after-tax outcomes.





HIGHTOWER

Westchester

440 MAMARONECK AVENUE, SUITE 506
HARRISON, NY 10528

(914) 825-8630
HIGHTOWERWESTCHESTER.COM

¹ Turn concentrated stock risk into potential tax-savings reward. (n.d.). Retrieved January 4, 2026, from <https://am.jpmorgan.com/us/en/asset-management/adv/investment-strategies/separately-managed-accounts/tax-managed-solutions/concentrated-stock-risk/>

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