

*hedging for family security*

# Turning concentrated stock risk into *peace of mind*

## THE CHALLENGE

A new client faced a uniquely challenging situation. Over time, one stock had grown to represent the majority of his portfolio, creating significant concentration risk. This risk was heightened by his responsibility to provide for a child with special needs, making the stakes especially high.

Selling the position outright was not a straightforward option, as doing so would trigger a substantial tax liability. The client's financial security and family's future were closely tied to this single holding, and a significant decline could jeopardize both his portfolio and estate plan.

The key question was how to reduce this concentration risk in a way that minimized tax impact while ensuring long-term care and financial security for his family.

## THE PROCESS

We developed a customized hedging strategy using options. This approach combined long and short calls and puts to reduce downside risk while establishing a synthetic long market position. This shift replaced the concentrated stock exposure with diversified exposure to the broader equity market.

This strategy reduced the client's concentrated stock risk by nearly 70%, achieving diversification without triggering immediate tax consequences.

We also referred the client to a special needs estate planning attorney to update his estate plan, ensuring that his family's long-term care and financial security would be protected.



## THE OUTCOME

The client gained increased confidence and peace of mind. His portfolio risk was substantially diversified, his exit strategy designed to minimize tax costs, and his family's needs integrated into a comprehensive estate plan.

What initially felt like an overwhelming challenge became a clear and manageable financial path forward.

## REFLECTION & TAKEAWAY

Concentrated stock positions can present difficult dilemmas such as balancing risk reduction against the potential tax costs of selling. With appropriate strategies, including option overlays and coordinated estate planning, it's possible to reduce risk, manage tax exposure, and protect essential family goals.

For investors with similar concerns, thoughtful planning can ease uncertainty and help secure financial futures.

## ABOUT JOHNSON INVESTMENT COUNSEL

As one of the nation's largest independent wealth management firms with over 60 years of experience serving individuals, families, business owners, and nonprofit organizations, we have the deep expertise to provide a customized solution for your situation.

Our highly credentialed advisors work with clients in all 50 states. Learn more about our approach at [JOHNSONINV.COM](http://JOHNSONINV.COM).

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