Concentrated positions: reducing risk without a large tax bill

ROHIT CHAUDHARY, CFA, FRM, EA · OCTOBER 2026

The idea

Many successful families hold much of their wealth in a single stock: shares in the company an executive works for, a founder's stake, or a long-held position that has grown far beyond its cost.

Selling reduces the risk but triggers a large tax bill. Holding avoids the tax but leaves the family's wealth tied to one company. Most investors frame this as a choice between the two, and many end up holding by default.

There are more options than selling or holding. Several approaches reduce risk while deferring, reducing or avoiding part of the tax, and they work best combined over several years.

Why concentration is riskier than it feels

A stock that has made a family wealthy feels familiar, and familiarity feels safe. The record of individual stocks suggests otherwise.

A study of about 13,000 stocks that were in the Russell 3000 index at some point between 1980 and 2014 found that around 40% suffered a fall of 70% or more from their peak and never meaningfully recovered. About two-thirds did worse than the index over their lifetime, and 40% lost money outright.[1]

Longer studies point the same way. Of nearly 26,000 US stocks listed since 1926, 58% returned less than Treasury bills over their lifetimes, and about 4% of companies accounted for all of the market's wealth creation above Treasury bills.[2] A broad index captures those few winners; a single stock is far more likely to be one of the many that are not.

For most families, the question is not whether their stock is a good company. It is whether so much of their wealth should depend on any one company.

The tax trap

Consider a $10 million position bought for $1 million. Selling it all realizes a $9 million gain. At the top federal rate of 20% plus the 3.8% net investment income tax, the federal bill is about $2.1 million; for a California resident, state tax brings it to about $3.3 million.[3]

That bill is visible and certain, so it tends to win the argument. The cost of holding is less visible. If the stock falls by half, the family loses $5 million, more than twice the federal tax it was avoiding, and the tax saved shrinks with the gain.

There can be good reasons to keep part of the stock rather than sell it all, such as the step-up in basis at death, discussed below. The point is to weigh the tax against the risk deliberately, rather than letting the tax decide by default.

The main approaches at a glance

The following table covers the most widely used approaches. It is not exhaustive: the range of tools is broad and keeps changing as new structures appear and tax rules evolve. Each approach trades off tax, speed and flexibility differently; the sections that follow describe them in turn.

Approach	Tax on the gain	How fast risk falls	Main trade-off
1. Sell in stages	Paid, spread across years	Gradually	Tax is paid; the stock can fall meanwhile
2. Opportunity zone fund	Deferred five years, reduced 10%	At once, on the sale	Illiquid, 10+ year hold, mostly real estate
3. Collar	Deferred	At once, within a range	Upside capped; complex tax rules
4. Borrow against the stock	Deferred	Partly, as cash is invested	Margin and interest; the stock is still held
5. Variable prepaid forward	Deferred to settlement	At once, within a range	Bank pricing; structure must be right
6. Completion portfolio	Partly offset by harvested losses	Gradually	Benefit fades as markets rise
7. Tax-aware long/short	Potential to improve after-tax returns	Gradually	Leverage, shorting, higher cost
8. Charitable gifts and trusts	Avoided on shares given	At once	The shares, or part of them, go to charity
9. Gifts to family	Passed on with the shares	At once, for the giver	The shares leave the giver's control
10. Hold until death	Removed by the step-up	Not at all, unless hedged	Full exposure meanwhile
11. Exchange fund	Deferred	At once	Seven-year lock-up, fees, 20% real estate
12. Exchange fund replication	Deferred	At once, within a range	Active option management; complex tax rules

1. Selling in stages

The simplest approach is to sell on a schedule over several years. The tax is still paid, but spreading it lets the family time sales for years when income is lower, such as after retirement or a move to a lower-tax state, and pair them with losses realized elsewhere in the portfolio.

A written schedule also takes emotion out of the decision. Selling a set amount each quarter avoids waiting for a better price that may not come, and each sale funds a more diversified portfolio. Most of the approaches that follow can be combined with staged sales.

2. Opportunity zone funds under the rules from 2027

The opportunity zone program was made permanent in 2025, with revised rules for investments made from January 1, 2027.[4] An investor sells the stock and, within 180 days, reinvests the capital gain in a qualified opportunity fund that invests in designated lower-income areas.

- **Deferral.** Tax on the reinvested gain is deferred for five years from the date of the investment, or until the fund interest is sold, if sooner.
- **Reduction.** After five years, 10% of the deferred gain is excused from tax, or 30% for a fund investing in qualifying rural areas.
- **Exclusion.** If the fund interest is held for at least 10 years, its own appreciation is free of federal capital gains tax.

These are federal benefits. States differ: some, including California, have not adopted the federal rules, so their residents may owe state tax on the gain when the stock is sold, and on the fund's growth at exit.[4]

The sale itself is what reduces the risk; the fund only changes how the gain is taxed. Only the gain needs to be reinvested, and the original cost can be invested anywhere.

The trade-offs are real. Opportunity zone funds are illiquid, typically concentrated in real estate or a few private businesses, and need a holding period of ten years or more to deliver their full benefit. Fees and quality vary widely. Putting the whole gain into one fund can swap one concentration for another, so a fund is usually best used for part of the gain, chosen with the same care as any private investment.

Hedging and borrowing

A family that is not ready to sell can still limit the damage a fall would do, and raise cash without selling.

3. A collar puts a floor under the position. The investor buys a put option, which protects below a chosen price, and pays for it by selling a call option, which gives up gains above a higher price. A collar can often be set up at little or no net cost. It buys time: the family keeps the shares and defers the tax while the range of outcomes narrows.

The tax rules need care. A hedge that removes nearly all of the risk and reward of the stock can be treated as a "constructive sale", triggering the tax it was meant to defer, so the gap between the floor and the cap has to stay meaningful.[5] A collar is also a straddle for tax purposes, which can defer losses, require interest costs to be capitalized rather than deducted, and affect whether dividends qualify for the lower rate.

4. Borrowing against the position turns some of its value into cash without a sale. A box spread, described in our note *Box spreads: borrowing at close to Treasury rates*, typically costs much less than a margin loan, and its implied interest is generally treated as a capital loss. The cash can be invested in a diversified portfolio, so the family's wealth depends less on the one stock even though the shares are still held.

Combined, a collar and a box spread loan can protect the position and fund diversification at the same time. Economically, the pair is similar to a variable prepaid forward, described next, but built

from listed instruments, with more visible pricing and more freedom to adjust. The costs are a capped upside, borrowing and trading costs, margin that must be managed, and tax rules complex enough to need a tax adviser's review before the trade.

5. A variable prepaid forward packages protection and cash up front into a single contract with a bank. The bank pays the investor roughly 75% to 85% of the position's value today; in three to five years, the investor delivers a number of shares that depends on the price then, within a floor and a cap. The tax is generally deferred until settlement, but only if the contract is structured carefully: arrangements that let the bank borrow and sell the pledged shares have been treated as an immediate sale.[5] Bank pricing is built into the terms, so the cost is less visible than with listed options.

Diversifying around the position

Another route is to build the rest of the portfolio around the stock, then reduce the stock over time as losses elsewhere absorb some of the gains.

6. A completion portfolio holds the rest of the market in individual stocks, leaving out the concentrated company and underweighting its industry. Viewed together, the family's holdings look much more like a diversified portfolio. Because the completion portfolio holds hundreds of stocks, some will fall even in a rising market, and selling those losers realizes losses that can offset gains from trimming the concentrated stock. The opportunities tend to shrink as the portfolio rises over the years, and wash sale rules limit buying back what was sold.

7. A tax-aware long/short portfolio holds long and short positions in stocks around a market benchmark. It seeks pre-tax returns above that benchmark while keeping the family invested in the market, and its ongoing rebalancing and risk management have the potential to improve after-tax returns. That can make room to sell the concentrated stock gradually. It uses leverage and short selling, which magnify both gains and losses, may cost more than a simple index portfolio, and can trail the benchmark for long periods.

Neither approach removes the concentration on day one. Both turn a single large decision into a steady process, paced by how much gain the family can absorb each year.

Giving and estate planning

For shares the family does not need to spend, the most tax-efficient routes often avoid selling them at all.

8. Charitable gifts and trusts. Giving appreciated shares directly, or through a donor-advised fund, avoids tax on the gain and generally allows a deduction for their full market value, within income-based limits; rules from 2026 trim the deduction's value slightly for top earners.[6] A charitable remainder trust can sell donated shares without immediate tax, pay the family an income for a period or for life, and leave the remainder to charity, with part of the gift deductible.

9. Gifts to family. Shares given to children or to trusts move future growth out of the estate, though the recipient takes over the original cost basis and its built-in gain.

10. Holding until death. Shares held until death generally pass to heirs with their cost reset to market value, the step-up in basis, so the gain is never taxed. For an older investor, holding part of a position, hedged if need be, can be the most efficient choice of all.

Exchange funds and their alternatives

11. An exchange fund is a partnership that pools stocks contributed by many investors. Each investor receives a stake in the diversified pool without selling, so no tax is due on the contribution. Investors generally need to stay in for about seven years, the fund must hold at least 20% in assets such as real estate, the original cost basis carries over to the stake, and fees and minimums are significant.[7]

A related route, contributing holdings to a newly launched ETF, also defers tax, but only for a basket in which no single stock exceeds 25% and the five largest do not exceed 50%. It suits a portfolio of several large holdings rather than one stock.

12. Exchange fund replication aims for a similar result with listed options in the investor's own account. The stock is collared, and index options add exposure to a broad market index, so the account behaves more like the market than the single stock while the shares are still held. Over time, losses realized on the options can offset gains from selling the stock gradually. There is no lock-up and every position is visible, but the options must be actively managed and renewed, results depend on option prices, and the straddle and constructive sale rules described above apply.

Special cases: executives and founders

Company insiders face limits on when and how they can sell. Trading windows open only for short periods, and many companies forbid directors and officers from hedging or pledging company stock, which can rule out collars and borrowing. A preset trading plan under Rule 10b5-1 can allow sales on a schedule, even during blackout periods. Stock options and restricted stock add their own tax timing, so sales are best planned alongside vesting and exercise decisions.

Founders and early investors may hold qualified small business stock (QSBS). If it qualifies and is held long enough, a large part of the gain, often millions of dollars, can be excluded from federal tax.[8] Whether the stock qualifies, and how long to hold it, can be worth more than any other decision in this note.

How the pieces fit together

No single approach suits a whole position. A family with the $10 million holding above might divide it by purpose, as in this illustration:

Share of the position	Purpose	Approach
$1 million	Planned giving over the next decade	Gift shares to a donor-advised fund
$3 million	Money to diversify soon	Sell over three or four years, with the proceeds invested in a tax-aware long/short portfolio
$3 million	Wealth the family wants protected but not sold	Collar, with a box spread loan funding a diversified portfolio
$1 million	Long-term growth with a tax incentive	Sell and reinvest part of the gain in an opportunity zone fund
$2 million	Wealth expected to pass to heirs	Hold for the step-up in basis, hedged if needed

The right split depends on the family's age, income, spending needs, giving plans and how much risk it can bear. It also changes over time, as markets move, tax law shifts and the family's plans evolve, so the plan is reviewed each year rather than set once.

The common thread is that the decision is made deliberately, with tax, investment, charitable and estate considerations weighed together.

IMPORTANT INFORMATION

This note is provided for general information and education. It is not investment, tax or legal advice, and it is not an offer to sell or a solicitation of an offer to buy any security or to engage any advisory service.

The examples are simplified illustrations, not recommendations, and do not represent any client account. Tax treatment depends on each investor's circumstances and on tax law, which can change; investors should consult their own tax adviser and attorney before acting. Options, borrowing, leverage and short selling involve risk of loss, which can exceed the amount invested in some cases. Opportunity zone funds and exchange funds are illiquid private investments available only to eligible investors.

Tulan Capital LLC is an investment adviser registered with the State of Colorado. Registration does not imply a certain level of skill or training. Tulan Capital LLC offers advisory services only where it is registered or exempt from registration. Its Form ADV Part 2A brochure describes its services, fees, conflicts of interest and risks in full and is available on request.

Notes: [1] J.P. Morgan, "The Agony and the Ecstasy: The Risks and Rewards of a Concentrated Stock Position", Eye on the Market (2014); Russell 3000 constituents, 1980–2014. [2] Hendrik Bessembinder, "Do stocks outperform Treasury bills?", W. P. Carey School of Business, Arizona State University (2018); US stocks, 1926–2016. [3] Top federal long-term capital gains rate of 20% plus the 3.8% net investment income tax; California's top rate of 13.3%; ignores the federal deduction for state taxes. [4] Cozen O'Connor, "Opportunity Zones Under the One Big Beautiful Bill Act" (2025); Greenberg Traurig, summary of the permanent opportunity zone provisions (July 2025); Realized, "Do Opportunity Zones Defer State Taxes?" (2023), on state conformity. [5] Internal Revenue Code Section 1259; The Florida Bar Journal, "The IRS's Derivative Treatment of Variable Prepaid Forward Sales". [6] Kaufman Rossin, "Revisit your giving strategy: what OBBBA changed". [7] Morgan Stanley, "Exchange Funds"; Bernstein, "Unlocking the Golden Handcuffs of Highly Appreciated Securities" (2026); Cboe, "How Exchange Fund Replication (EFR) Brings the Power of Options to Investors" (2022). [8] Jones Day, "Qualified Small Business Stock Benefits Expanded in New Tax Bill" (July 2025).