

SINGLE STOCK DIVERSIFICATION

EVERYTHING YOU NEED TO KNOW

UNDERSTANDING SINGLE STOCK POSITIONS

A concentrated stock position occurs when a **significant portion of an investor's wealth is tied to a single stock or a small group of stocks**. While this can result in substantial gains, it also comes with heightened risks, including lack of diversification, financial misalignment, and potential tax implications.

EXAMPLE

John has worked for NVIDIA for many years and now holds a significant position. With the stock's remarkable growth, NVIDIA now makes up 70% of his total investment portfolio. **While John has seen impressive gains, he's increasingly worried about the risks of having so much of his wealth tied to one company.**



WHY SHOULD YOU DIVERSIFY?



REDUCE RISK EXPOSURE

A concentrated position in a single stock can make your portfolio highly sensitive to the company's performance and market fluctuations.



ALIGN FINANCIAL GOALS

Diversifying ensures that your investment portfolio supports your long-term financial objectives, balancing both risk and reward.



MANAGE TAX LIABILITIES

Strategic diversification can also help in managing and potentially reducing tax liabilities associated with capital gains.

KEY STRATEGIES FOR DIVERSIFICATION

DOLLAR-COST AVERAGING

Gradually sell portions of your concentrated stock over a set period, regardless of market conditions, to minimize the impact of volatility and avoid making emotional decisions.

JOHN'S EXAMPLE

John could sell 10% of his NVIDIA shares every quarter, slowly reducing his exposure while still benefiting from any potential upside during the selling period.

INVEST IN ETFs OR MUTUAL FUNDS

Use the proceeds from selling your shares to invest in ETFs or mutual funds that offer broad exposure to various sectors, helping to reduce reliance on a single stock's performance.

JOHN'S EXAMPLE

John could invest in an S&P 500 ETF or a tech sector ETF, which would still give him exposure to tech companies but with much lower risk than just holding NVIDIA.

ASSET ALLOCATION

Diversify across different asset classes like bonds, real estate, or international stocks to create a balanced portfolio that reduces reliance on a single asset.

JOHN'S EXAMPLE

John could allocate 40% of his portfolio to stocks (including diversified funds), 30% to bonds, 20% to international investments, and 10% to real estate, thereby reducing his concentrated risk.

PROTECTION PLANS

Consider using options strategies like Protective Puts to hedge against potential losses in your concentrated position.

JOHN'S EXAMPLE

John could buy put options on NVIDIA, which would give him the right to sell his shares at a predetermined price, protecting against significant losses if the stock prices fall.

PHILANTHROPIC STRATEGIES

Utilize charitable remainder trusts (CRTs) or other charitable giving strategies to diversify while also supporting philanthropic goals.

JOHN'S EXAMPLE

John could donate a portion of his NVIDIA stocks to a charitable organization, potentially reducing his tax burden and supporting a cause he cares about.

MAKING THE RIGHT CHOICE

This guide covers key strategies for single stock diversification, offering practical examples for investors with significant positions. Consider your financial goals, risk tolerance, and desired involvement before deciding. Lyons Wealth advises consulting an expert, as these strategies can be risky without proper knowledge



DIVERSIFYING YOUR INVESTMENTS WITH LYONS WEALTH

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“Lyons Wealth Management helped educate me and allay my fears, as well as provided solid guidance on steps I could take to help me reach my goals even sooner.”

Dorothy P

The testimonial above was provided by Dorothy P., who is a current client of Lyons Wealth Management. Dorothy P. received no compensation for this testimonial. Please be aware that individual experiences may vary, and this testimonial should not be considered as a guarantee of future results or performance.

DISCLAIMER:

This document is not intended as an offer or solicitation. The Lyons Income Overlay is intended for holders of large equity or other concentrated holdings who seek to earn option premium income over and above the dividends or interest payments generated from their existing underlying holdings. The strategy utilizes the available margin capacity of such holdings to purchase options on indices, exchange-traded funds or listed equity options that are different from the client's underlying holdings.

The option strategy employed in Overlay may vary and depends on LWM's view of the market as being bullish, bearish or neutral. Please see ADV Part 2 for a detailed, descriptive list of the various option strategies that may be utilized and their associated risks.

Unlike covered call or other strategies in which the underlying stock is pledged and at risk of assignment or forced sale by the Options Clearing Corporation, clients in the Lyons Income Overlay are not exposed to the risk of assignment because their underlying holdings are not incorporated into an options strategy, but are instead used only for their margin borrowing capacity.

However, this is not to say that the program is not without risks. Options are not suitable for all investors as the special risks inherent to options trading may expose investors to potentially rapid and substantial losses. Prior to investing in listed options, you should read and understand the Options Disclosure Document ("ODD") published by the Options Clearing Corporation. For a copy of the ODD please email s.lopez@lyonswealth.com or go to the OCC's website. Additionally, prior to investing in any options strategies, you should consult with a tax advisor to understand the tax implications of such transactions.

Specific to the Lyons Income Overlay are the risks associated with margin accounts and margin borrowing. Margin policies and rates are subject to change at any time, and losses that results in account balances below required minimums are subject to liquidation by the custodian or broker-dealer. A decrease in value of the underlying stock position could result in a margin call which may jeopardize the overall strategy's performance. Before trading stocks or other securities on margin, you should carefully review the margin agreement provided by your custodian for more information on specific risks and policies, including but not limited to: `

- You can lose more funds than you deposit in the margin account
- The firm can force the sale of securities or other assets in your account(s)
- The firm can sell your securities without contacting you
- You are not entitled to choose which securities or other assets in your account(s) are liquidated or sold to meet a margin call
- The firm can increase its "house" maintenance margin requirements at any time and is not required to provide you advance written notice
- You are not entitled to an extension of time on a margin call