

Client Diversifies Single-Stock Concentration Using a Custom Core® Completion Portfolio

CHALLENGE

An investor with a large, appreciated position in a technology stock from his former employer wanted to reduce risk over time.

SOLUTION

We prepared a staged diversification program that used losses from the Custom Core portfolio to help offset taxes from the sale of the tech stock.

RESULTS

Building a broad-cap Custom Core portfolio around the tech holding helped reduce the investor's risk and tax exposure.

Challenge

An advisor's prospective client had a large position in a technology stock from his former employer. The client wanted to diversify to broad-cap equity exposure, but the technology stock had sizable gains and made up a large portion of his investable assets. The advisor wanted to provide a solution to help reduce the concentration over time and build a portfolio around the technology exposure.

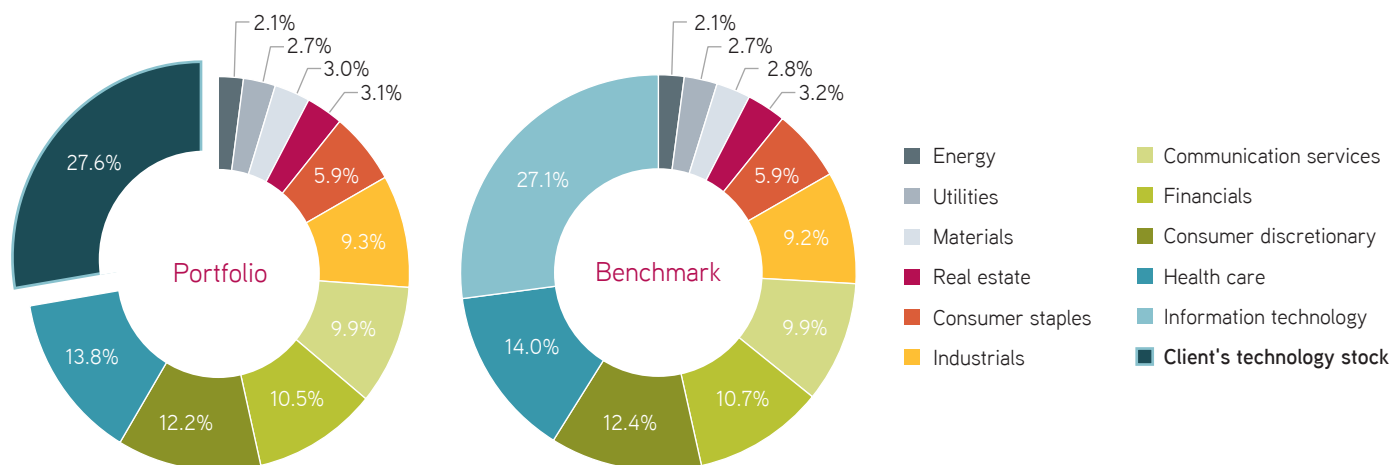
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Parametric solution

Parametric's staged diversification tool offered a plan for reducing the technology-stock position over time and investing the proceeds in a Custom Core® account. We adjusted the length of the staged diversification to meet the client's desire to reduce the position while spreading the realization of gains over multiple years.

The Custom Core account provides the broad-cap exposure while building the portfolio around the concentrated stock position. Since the client had exposure to technology from the concentrated position, the portfolio excludes the technology sector. Over time the portfolio managers can work with the advisor to adjust the target exposure as the client reduces his position in the technology stock. Realized losses in the Custom Core portfolio can be used to reduce taxes resulting from the sale of the concentrated technology stock.

Realized losses in the Custom Core portfolio can be used to reduce taxes from the sale of the concentrated technology stock.



Source: Parametric, 12/31/2020

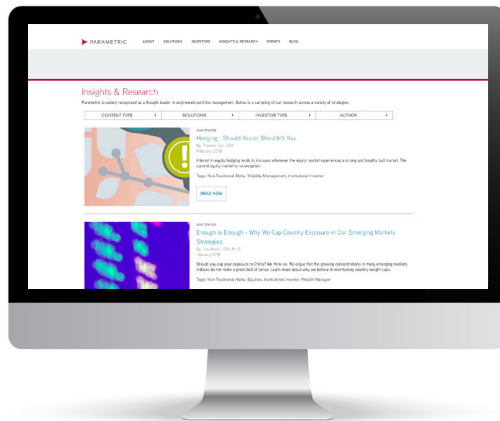
Results

By building a broad-cap Custom Core account around the client's technology stock, we helped diversify the client's portfolio without incurring the taxes of fully liquidating the position. Over time the move from the concentrated technology stock to a diversified broad-cap exposure will reduce the portfolio's specific risk. And as losses are harvested in the Custom Core account, they can be used to offset the gains from the sale of the concentrated position, helping the client tax-efficiently diversify over time.

At Parametric, we manage more than \$134 billion in assets in Custom Core accounts alone, with \$110 billion in client-specified tax mandates.* Harvesting losses while maintaining adherence to the client's desired benchmark is a critical component of our comprehensive approach to tax management.

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*As of 12/31/2020



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