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options**

Stock Rich, Cash Ready: **Your Guide to Equity Liquidity**

| The Tech Executive's Playbook for
Converting Equity into Real Wealth

You've navigated the complex world of tech startups, survived the ups and downs, and now find yourself with substantial equity compensation. Whether through an IPO, acquisition, or secondary sale opportunity, you're sitting on what could be life-changing wealth.

But having equity and having accessible wealth are two very different things.

This guide will show you how to think strategically about liquidity, manage tax consequences, and build lasting wealth beyond your company stock.

CHAPTER 1

The Equity Illusion

You check your equity tracking platform and see impressive numbers. On paper, you're worth millions. But when you think about buying a house, funding your children's education, or simply having the freedom to take a sabbatical, that wealth feels frustratingly out of reach.

You're not alone. This disconnect between paper wealth and actual financial flexibility affects thousands of tech executives.

During 2022 and most of 2023, employees grew increasingly less likely to exercise their vested, in-the-money equity grants before those grants expired. The exercise rate on these grants fell from a peak of 58% in November 2021 all the way to 30% in November 2023¹.

1 <https://carta.com/data/startup-compensation-h2-2023/>



Hidden Barriers to Your Wealth

Concentration Risk:

Your financial future shouldn't depend on a single company's performance, no matter how promising it looks today. When 70% or 80% of your net worth sits in one stock, you're exposed to risks that have nothing to do with your performance or the overall economy.

Tax Complexity:

Without proper planning, you could lose 40-50% of your equity value to taxes². The timing of when you sell, how you sell, and what other income you have all impact your tax bill significantly.

2 The 40-50% tax figure assumes a high-income earner in a high-tax state (such as California or New York) facing federal ordinary income tax rates up to 37%, state income tax up to 13.3%, net investment income tax of 3.8%, plus potential Alternative Minimum Tax implications. Actual tax rates vary significantly based on individual circumstances, income levels, state of residence, and specific equity compensation structures.

Liquidity Constraints:

Even post-IPO companies often have trading windows, lock-up periods, and insider trading restrictions that limit when and how much you can sell.

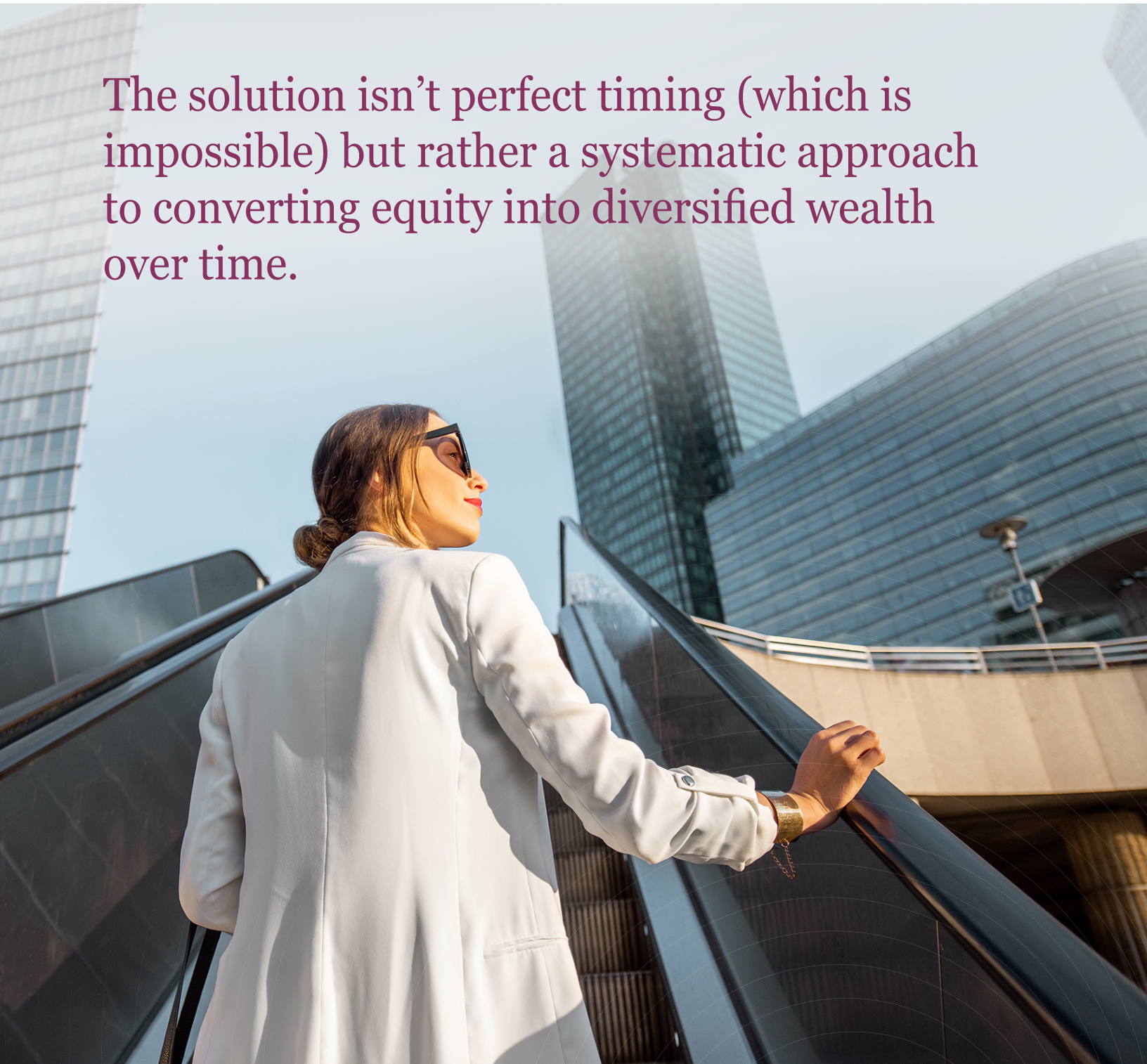
Decision Paralysis:

The combination of market volatility, tax implications, and life planning makes it tempting to just "wait and see," but this passive approach may cost more than taking strategic action.

The Cost of Inaction

We've worked with executives who waited years to diversify, only to watch their net worth drop when their company hit rough patches. We've also seen the opposite: people who sold too early and missed out on substantial gains because they lacked a strategic framework.

The solution isn't perfect timing (which is impossible) but rather a systematic approach to converting equity into diversified wealth over time.



CHAPTER 2

Understanding Your Equity Landscape

Before you can optimize your equity strategy, you need to understand exactly what you own and how each type works.



Restricted Stock Units (RSUs)

RSUs are the most straightforward form of equity compensation. You receive actual shares that vest over time, typically with a four-year schedule. Once vested, you own the stock outright.

📊 Tax Treatment

You owe ordinary income tax on the fair market value when shares vest, whether you sell or not. This creates an immediate tax liability that catches many people off guard.

📺 Liquidity Strategy

Since you're already taxed at vesting, the decision of when to sell becomes purely an investment decision: do you want continued exposure to your company's stock, or would you prefer to diversify?

Non-Qualified Stock Options (NQSOs)

NQSOs give you the right to buy company stock at a predetermined price (the strike price) for a specific period.

📊 Tax Treatment

When you exercise, you pay ordinary income tax on the spread between the current stock price and your strike price. If you later sell the shares, any additional gain or loss is treated as capital gains.

📺 Liquidity Strategy

The key decision is when to exercise. You want the stock price to be substantially above your strike price, but you also need to consider your overall tax situation and diversification goals.

Incentive Stock Options (ISOs)

ISOs come with preferential tax treatment if you meet specific holding requirements, but they also trigger Alternative Minimum Tax (AMT) considerations.

Tax Treatment

No ordinary income tax at exercise, but the spread may be subject to AMT. If you hold the shares for at least one year after exercise and two years after grant, gains are taxed as capital gains.

Liquidity Strategy

ISOs require the most careful planning due to AMT implications. The timing of exercise and sale can dramatically impact your tax bill.

Employee Stock Purchase Plans (ESPPs)

ESPPs allow you to purchase company stock at a discount, typically 10-15% below market price.

Liquidity Strategy

Generally, it may make sense to participate at the maximum level and sell immediately if allowed, capturing the guaranteed discount with minimal risk.

CHAPTER 3

The Liquidity Challenge

Having equity is one thing. Converting it to spendable cash is another. In this chapter, we'll take a look at the practical challenges of turning your equity into liquidity while seeking to minimize taxes and market risk.

Market Timing vs. Strategic Timing

You can't control market movements, but you can control your approach to liquidity by considering:

Your personal cash flow needs: When do you need liquidity for major purchases, investments, or life changes?

Tax planning opportunities: Can you spread sales across multiple tax years to stay in lower brackets?

Company-specific events: Are there upcoming announcements, product launches, or earnings reports that might affect stock price?

Overall portfolio balance: How concentrated are you in company stock relative to your other assets?



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Smart Triggers for Selling

Rather than trying to time the market perfectly, we believe you should consider these systematic approaches:

Percentage-Based Triggers: Sell a fixed percentage of your vested shares each quarter or year, regardless of stock price. This removes emotion from the decision.

Price-Target Approach: Set specific price targets where you'll sell predetermined amounts. This helps you take profits during strong performance while maintaining some upside exposure.

Life-Event Triggers: Plan liquidity around major life events like home purchases, children's education, or career transitions. This ensures your equity serves your actual life goals.

Rebalancing Triggers: When your company stock exceeds a certain percentage of your total net worth (say, 20-30%), automatically sell enough to bring it back to your target allocation.

Avoiding Tax Surprises

Without proper planning, you could lose 40-50% of your equity value to taxes³. The timing of when you sell, how you sell, and your other income all impact your tax bill significantly. One of the most common mistakes people make is failing to “step up” their tax basis when selling equity, meaning they use the original exercise price rather than the higher fair market value they already paid taxes on. This essentially causes them to paying tax twice on the same income.

We work with clients to implement the following tax-smart strategies:

Quarterly Tax Planning: Don't wait until December to think about taxes. Regular check-ins with your tax advisor help you optimize the timing of equity sales.

Charitable Strategies: Donating appreciated company stock to charity allows you to avoid capital gains tax while taking a full deduction for the fair market value.

Tax-Loss Harvesting: Coordinating equity sales with other investment activities can help offset gains with losses where possible.

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CHAPTER 4

From Concentration to Diversification

Your company stock has served you well, but smart wealth building requires diversification, which means building a portfolio that can weather any storm.

The Case for Diversification

Even the best companies face challenges. Market conditions change, competitive landscapes shift, and industries evolve. Diversification can help protect you from company-specific risks while still allowing you to benefit from any overall market growth.



Practical Diversification Strategies

1. The Bucket Approach

Divide your equity into three buckets:

Liquidity Bucket

Sell enough to cover 1-2 years of expenses and major upcoming purchases

Growth Bucket

Diversify into other growth investments (other stocks, bonds, real estate, private investments)

Company Loyalty Bucket:

Keep some company stock if you believe strongly in the long-term prospects

2. Geographic and Sector Diversification

Your company represents one sector and likely one geographic market. Diversifying across different sectors, countries, and asset classes can help reduce your overall portfolio risk.

3. Alternative Investments

Consider real estate, private equity, or other investments that don't correlate directly with public stock markets.

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Managing the Emotional Side of Selling

Selling company stock can feel like betrayal, especially if you helped build the company. Remember:

Your contribution to the **company's success** doesn't depend on how much stock you own

✓ Diversification allows you to take some chips off the table while still participating in **future growth**

✓ **Financial security** gives you more freedom to take career risks and pursue opportunities

CHAPTER 5

Wealth Planning Beyond Equity

Your equity compensation is likely the foundation of your wealth, but achieving true financial freedom requires a more comprehensive approach:



Building Your Financial Infrastructure



Emergency Fund

Even with substantial equity, you need liquid cash for emergencies. Having six months of expenses in readily accessible accounts provides security and prevents forced selling of investments at bad times.



Estate Planning

As your wealth grows, so does the need for proper estate planning that encompasses wills, trusts, beneficiary designations, and strategies to minimize estate taxes.



Insurance Updates

Your insurance needs change as your wealth increases. Life insurance might shift from income replacement to estate tax planning. Disability insurance becomes more important when you have substantial assets to protect.



Tax Optimization

Beyond equity compensation tax considerations, consider strategies like tax-advantaged retirement accounts, health savings accounts, and municipal bonds for high earners.

Managing Lifestyle Inflation

Wealth provides opportunities, but it can also create the temptation to spend beyond your means. We've seen many tech executives struggle with lifestyle inflation that outpaces even substantial equity gains.

Guidance we often give to clients is to create an intentional budget that aligns with your values. Spend generously on things that matter to you while being mindful of overall cash flow.

And rather than accumulating wealth for its own sake, consider tying your investments to specific goals: **children's education, philanthropy, early retirement**, or other **meaningful objectives**.

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CHAPTER 6

Common Mistakes to Avoid

Without proper guidance, it's easy to make mistakes with equity compensation. These are the most common problems we see:

Mistake #1: The “Set It and Forget It” Approach

❏ The Problem

Treating equity compensation like a 401(k) that you can ignore until retirement. Equity requires active management, especially around tax planning and diversification.

✓ The Solution

Regular review and systematic decision-making. Set calendar reminders to evaluate your equity position quarterly, not annually.

Mistake #2: All-or-Nothing Thinking

❏ The Problem

Either holding onto 100% of company stock or selling everything at once. Both approaches miss opportunities for optimization.

✓ The Solution

Systematic selling that balances diversification with continued upside exposure. We believe a balanced strategy generally involves selling 20-40% of vesting shares over time.

Mistake #3: Ignoring Tax Implications

❏ The Problem

Making equity decisions based solely on stock price without considering tax consequences, which can result in paying thousands more in taxes than necessary.

✓ The Solution

Coordinate equity planning with overall tax strategy. Sometimes it makes sense to sell at a lower stock price if it results in better tax treatment.

Mistake #4: Emotional Decision Making

❏ The Problem

Letting fear, greed, or company loyalty drive financial decisions rather than systematic analysis.

✓ The Solution

Create predetermined rules for buying and selling. When emotions run high, fall back on your systematic approach.

Mistake #5: Neglecting Estate Planning

❏ The Problem

Failing to update estate plans as equity wealth grows, potentially creating unnecessary tax burdens for heirs.

✓ The Solution

Regular estate planning review, especially after major vesting events or changes in stock price.

Mistake #6: Overlooking AMT Planning

❏ The Problem

Exercising ISOs without considering Alternative Minimum Tax implications, resulting in unexpected tax bills.

✓ The Solution

AMT planning should be part of any ISO exercise strategy. Sometimes exercising fewer options results in better after-tax outcomes.

CHAPTER 7

Your Next Steps for Turning Equity

You now have a framework for thinking strategically about your equity compensation, but implementing these strategies requires specialized expertise and ongoing attention.

Why Specialized Expertise Matters

Generic financial advice can't account for the intricacies of equity compensation. You need advisors who understand:

- The nuances of different **equity types** and their tax implications
- How to coordinate **equity planning** with broader wealth management
- The unique challenges and opportunities of **tech industry** compensation
- How to navigate **company-specific restrictions** and blackout periods



Our Approach to Equity Planning

At Wealth With Options, we specialize in helping tech professionals like you convert their hard-earned equity into the financial freedom they deserve.

Education First

We don't just make recommendations; we help you understand the reasoning behind every strategy. An educated client makes better decisions and feels more confident about their financial future.

Tax-Smart Implementation

Every equity decision has tax consequences. We can coordinate with your CPA in an attempt to minimize taxes while working with you to achieve your liquidity and diversification goals.

Systematic Process

Rather than reactive decision-making, we help you create systematic approaches to equity management that seek to remove emotion and optimize outcomes over time.

Ongoing Partnership

Equity compensation requires ongoing attention. Market conditions change, tax laws evolve, and your personal situation shifts. We provide the consistency and expertise to navigate these changes successfully.

Take Action Today

Your equity compensation represents years of hard work and company success. Now it's time to convert that success into lasting financial security and life options.

Ready to get started?

Schedule a Strategy Call

Let's discuss your specific situation and develop a customized approach to your equity compensation. We'll review your current position, identify opportunities, and create a concrete action plan.

Your equity has the potential to provide true financial freedom. Don't let complexity, procrastination, or information overload prevent you from maximizing what you've already earned. Take the first step today.

LET'S TALK



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