

Avoid Mistakes With Your Options and RSUs

Get Started by Answering These 5 Questions



Congratulations!

You've been awarded stock in the company where you work.

Equity compensation isn't just for CEOs and senior management at big publicly traded companies anymore. You are part of a growing number of employees who can generate wealth from stock compensation to potentially achieve your financial goals.

That means you now have some important financial decisions ahead of you – decisions that can come with the risk of making some expensive mistakes along the way.

Mistakes could mean:

- Getting a big (unexpected) tax bill from the IRS
- Losing money by using the wrong exercise or sell strategy at the wrong time
- Waiting to sell your stock at a higher price it never reaches and then selling when it's down due to fears it will go even lower

Mistakes like these can lead to regret and make you more prone to making riskier decisions with your stock compensation. We actively work with our clients to overcome these challenges so they can focus on turning their stock compensation into real long-term wealth.



Here are 5 key questions you need to consider as you seek to maximize the value of your equity compensation:

1. How should I evaluate my stock options?

First, you need to review your option grants to understand what you own. If you're like many of our clients, your options are likely held at Shareworks, Carta, Schwab, E*Trade or Fidelity.

Next, you should download a spreadsheet or statement that contains these details for your options:

- Grant Date
- Strike Price or Grant Price
- Number of Options
- Options Exercised
- Options Outstanding
- Options Exercisable
- Expiration Date

From there, you'll want to determine how many of your equity grants are incentive stock options (ISOs), non-qualified stock options (NSOs/"Non-Quals"), and restricted stock units (RSUs). This difference matters because the taxes you'll pay will vary depending on the type of stock option you've been granted.

2. What percentage of my investment portfolio is in employer stock?

Take the value of your employer stock and divide it by the value of your total investment portfolio excluding your home equity (employer stock value + brokerage accounts + retirement accounts + investment real estate + crypto + hedge funds + private equity)

If your percentage is over 10%, that would be considered a concentration, which means your employer stock could have a large impact –positive and negative – on your financial picture.

3. How will my employer stock's volatility and value impact my retirement and other goals?

The volatility of one stock – like that of your employer – could be much greater than the volatility of a broad-based stock index like the S&P 500. These greater potential price swings every day could help you achieve your retirement and other goals when the stock does well – or it could derail your retirement plan when the stock price falls.

How much money do you need to accomplish your financial goals? Are you there? If not, how much more will get you there? When you put dollar amounts next to your financial goals, you can understand how much risk you need to take with your employer stock.

4. How do I diversify my employer stock concentration to reduce my risk?

Don't take unnecessary risk by holding too much of your employer stock. If you have enough money – net of taxes – to achieve your financial goals, it's important to reduce your risk so you protect yourself and don't lose ground financially. We wouldn't suggest you should sell all your holdings. The question you need to answer is how much you should sell – and when – to meet your goals and reduce your risk.

What's more, if you're still working for the company that granted your stock options, you need to be aware of your regularly scheduled open trading windows. These are your opportunities to "take chips off the table" and diversify your portfolio. Diversification doesn't create wealth, but it is an opportunity to help you both preserve it and grow it over the long term.

5. What are some smart strategies I can consider implementing that are used by the founders and CEOs of big companies to reduce their overall tax bill?

In the past, certain investing and planning strategies were reserved for individuals with hundreds of millions of dollars who met with Wall Street bankers in oak-paneled conference rooms.

That's no longer the case today. Thanks to advances in technology and industry innovations, you don't need an eight- to nine-figure net worth to access the tax, borrowing, and risk reduction strategies of the ultra-wealthy that we offer our clients. We leverage technology and our connections to some of the world's largest financial institutions to execute advanced planning strategies for the benefit of our clients.



Some of these strategies include:

- “Direct indexing” to build customized stock portfolios that are designed around your unique needs and help to reduce your tax bill when selling your company stock to diversify.
- Borrowing money at low interest rates by using your taxable investment portfolio as collateral. These credit lines are available to you with no loan applications, no fees, and no minimum payments. These lines can be used to delay or reduce capital gains, give you cash flow to exercise options, or provide funds to help you achieve your goals.*
- Establishing charitable vehicles to reduce your income taxes and help support your philanthropic objectives.
- Private investment opportunities from outside institutional asset managers for qualified clients.
- Consider Working With an Advisor You may not need help answering these questions, but if you want help to avoid the pitfalls discussed here, it may make sense to work with an advisor.



We believe a good advisor should:

- Provide a proactive and year-round strategy around your options and RSUs that seek to maximize your wealth and reduce your annual tax bill
- Analyze your overall situation to develop a custom financial plan to help optimize your wealth
- Hold you accountable for taking the next appropriate action toward achieving your goals
 - Keep your plan updated as your life and circumstances change so you meet your goals
- Provide constant oversight, education and guidance to keep you on track to reaching your goals
- Provide guidance that seeks to prevent you from making any big mistakes that could delay achieving your goals or negatively impact your hard-earned wealth

We actively work with our clients year-round to execute on these and other important tasks. Additionally, we commit to maintaining an exclusive “high tech and high-touch” concierge service so our very busy clients can meet with us whenever and wherever works best for them.

Ready to take the next step?

To learn how you can begin answering these questions and leverage our resources, reach out to Jackie@WealthWithOptions.com or text Jackie at **858.252.2844** today to schedule a short consultation call.

SCHEDULE AN INTRODUCTORY CALL

*Generally speaking if the securities pledged as collateral decrease below a certain level the pledge of additional eligible assets and/or liquidation of assets may be required. Before contemplating borrowing against the value of their portfolio one should consult with their advisor to better understand the level of risk associated with their respective assets.

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