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Cocktail Parties, Concentrated Positions and the CAR Framework

By: Holly Swan | April 24, 2024

Let's say you meet someone at a cocktail party who, upon hearing what you do for a living, confides they don't know what to do with a highly appreciated concentrated stock position. How can you respond to lay the groundwork for a potential follow-up conversation? Use the CAR framework: Celebrate. Ask. Remind.

Start by celebrating the success they've had with the stock. Everyone loves a compliment and, in this case, it's warranted. Leading with how a failure to diversify could jeopardize their plans for a comfortable retirement would make for terrible conversation, and they're likely already aware of this since they brought it up.

Next, ask open-ended questions such as:

"How did you acquire the shares?"

People love to share their stories. Listen and look for possible tax implications like gift versus inheritance. Also look for signs of emotional biases that may have caused them not to diversify sooner.

"Tell me how you feel about this holding?"

The answer may tell you about their emotional attachment to the stock and their outlook for the holding as well.

"What concerns do you have about the built-in tax consequences of the holding?"

This is a great way to gauge their level of tax sensitivity and tax awareness.

Lastly, remind them that not all shares are created equal, especially from a tax perspective. Now isn't the time to get into tax nuances. Tell them that you'd be happy to reach out and schedule a time to discuss several tax-efficient considerations instead.

Bottom Line: Use the CAR framework to demonstrate a thoughtful approach to managing concentrations and set the stage for a follow-up conversation with first encounters.

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