MERRILL
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CHIEF INVESTMENT OFFICE

Portfolio Insights

Pop the Champagne

All data, projections and opinions are as of August 4, 2026 and subject to change.

EXECUTIVE SUMMARY

When a portfolio has generated significant unrealized gains, investors should view the resulting tax liability as a sign of investment success rather than a reason to avoid action. The key is to balance tax considerations with the benefits of diversification,* risk management, and long-term wealth objectives. The following framework helps advisors and investors weigh the visible cost of taxes against the less visible risks of remaining overly concentrated.

Our core message: Paying capital gains taxes can feel like a setback, but it is often the receipt for prior investment success. Celebrate the outcome, then rebalance with purpose.

DOES PRIOR INVESTMENT SUCCESS CREATE CONCENTRATION?

Concentrated positions often arise from successful investments, company stock, or long-held holdings that have appreciated significantly over time. As these positions grow, they can become a major driver of portfolio risk, liquidity needs, tax planning, and other financial goals. Ultimately, the decision is not simply whether to hold or sell, but how much of an investor's future should remain dependent on a single investment.

The issue becomes especially difficult because the tax bill is immediate and certain, while the risk of concentration is future and uncertain. That mismatch can lead investors to delay action even when diversification would better support long-term goals.

Importantly, concentration risk is not limited to a single stock or legacy holding. Time in the market itself can create substantial unrealized gains, especially for investors who remained invested through major market downturns and subsequent recoveries. In those cases, the challenge may be less about whether the investment worked and more about how much embedded gain, portfolio exposure, and behavioral inertia now sit inside the decision to diversify.

Illustration	S&P 500 Level	Value of $100,000	Unrealized Gain	20% Tax Exposure
Assumed cost basis: March 6, 2009 intraday low	666.79	$100,000	—	—
June 30, 2026 closing price	7,499.36	$1,124,690	$1,024,690	$204,938

Illustrative example; For Informational Purposes Only. Assume an investor put $100,000 into the S&P 500 at the March 6, 2009 intraday low of 666.79 and held through the June 30, 2026 closing level of 7,499.36. That investment would be worth approximately $1.125 million, creating an unrealized gain of roughly $1.025 million and an estimated 20% capital gains tax exposure of about $205,000 if fully realized. This example is for illustrative purposes only, uses simplified assumptions, and excludes state taxes, net investment income tax, transaction costs, fees, and other potential factors. The tax number is meaningful, but it exists because the investment created substantial wealth; the planning question is how to manage that success without allowing tax sensitivity to become the sole driver of the portfolio decision. It is not possible to invest directly in an index. Please refer to important disclosures at the end of this report. **Past performance is no guarantee of future results.**
*Diversification does not ensure a profit or protect against loss in declining markets.

KEY TAKEAWAYS

Capital gains taxes often signal investment success and wealth creation, making it important to acknowledge that success before addressing diversification, taxes, or risk management.

Taxes should inform investment decisions, but long-term goals, diversification, and risk management should remain the primary drivers.

A concentrated position that created past success may now pose future risk, making it important to weigh the visible tax cost of selling against the less visible risk of remaining undiversified.

Diversification can help preserve the benefits of past success while building a more resilient portfolio, with tax-aware strategies serving as a tool rather than the primary objective.

Don't let tax considerations overshadow sound investment decisions; instead, celebrate the gain, assess the risks, and take purposeful action to align the portfolio with long-term goals.

Pop the champagne. Then rebalance with purpose. Do not let the tax tail wag the investment dog.

WHY "POP THE CHAMPAGNE" MATTERS?

The phrase is deliberately memorable. It reframes the tax conversation away from regret and toward perspective. Realizing a gain means an investment created value. The tax obligation is not a sign that the investor made a mistake; it is frequently the byproduct of a successful outcome.

This shift in language can help move from avoidance to action. Instead of asking, "*How do we avoid paying taxes?*" the better question is, "*How do we use this success to improve the portfolio and fund the next phase of the plan?*"

A tax-aware plan can still be patient, strategic, and thoughtful. It can use staged selling, charitable giving, loss harvesting, direct indexing, exchange funds where appropriate, option-based risk management, or other planning tools. But the starting point should be clear: taxes matter, yet they should not dominate every decision when risk has become too concentrated.

Considerations	Why It Matters	Investor-centered Perspective
Recognize the prior investment success	A significant gain is evidence of that investment success, not a planning mistake.	This holding helped create meaningful wealth. The next step is deciding how that success can support your broader plan.
Assess the role of the holding	A successful investment can become too large relative to the overall plan.	The issue is not whether this was a good investment. It is whether it should still carry this much responsibility for your future goals.
Compare tax cost with risk cost	Taxes are visible and measurable; concentration risk is less obvious but can be meaningful.	The tax cost is real, but so is the risk of leaving too much of your plan tied to one outcome. Both should be weighed together.
Consider a gradual transition	Diversification does not have to be an all-or-nothing decision.	A staged plan can respect taxes, markets, and your comfort level while still moving the portfolio toward a more balanced outcome.
Plan for what comes next	Diversification can be a positive next step after a successful investment.	The goal is to convert a successful outcome into a more resilient portfolio designed for the next chapter of your plan.

A DISCIPLINED PATH FORWARD

Define the role of the holding: Clarify whether the concentrated position is intended to fund retirement, preserve legacy wealth, support philanthropy, provide liquidity, or express a high-conviction investment view. If the holding is being asked to accomplish multiple objectives, the portfolio may benefit from reducing its dependence on a single outcome.

Quantify concentration risk: Discuss how much of the portfolio, net worth, income exposure, and future liquidity depends on the position. Investors often think about concentration as a percentage of the investment account, but the true exposure may include employment, deferred compensation, real estate, business ownership, or sector-linked income.

Compare tax cost with risk cost: The tax bill from selling can be measured. The cost of a concentrated drawdown is harder to predict, but it can be far more damaging to the plan. A balanced discussion should evaluate both sides rather than treating taxes as the only risk that matters.

Build a tax-aware transition plan: A tax-aware transition plan should evaluate both straightforward diversification and more specialized strategies, with the appropriate approach determined by the investor's goals, risk profile, liquidity needs, and tax considerations. While selling and diversifying may be the simplest solution, staged implementation and other planning techniques can help manage the timing and impact of realized gains. Any strategy should be tailored to the investor's unique circumstances and reviewed with appropriate tax and legal professionals.

Reinvest with purpose: Diversification should not feel like selling a top performer and buying "less exciting" assets. It should feel like converting past success into a portfolio that is more resilient, more flexible, and better prepared for future potential opportunities.

Once the decision has been made to reduce concentration risk, the next step is selecting an appropriate implementation path. The strategies below are not mutually exclusive, and each involve different trade-offs across taxes, liquidity, complexity, timing, and risk reduction. The appropriate approach should be tailored to the investor's goals and reviewed alongside tax, legal, and investment professionals.

Strategy	How It May Help	When It May Be Relevant	Key Considerations
Sell and diversify outright	Immediately reduces concentration risk and redeploys capital into a more balanced portfolio.	Investors whose concentration risk outweighs the tax cost of realizing gains.	Creates a visible tax liability but may improve after-tax risk-adjusted outcomes.
Staged selling	Spreads gain recognition across multiple tax years.	Investors who need diversification but prefer a gradual path.	Concentration risk remains during the transition period.
Tax-loss harvesting	Uses realized losses to offset realized gains.	Taxable portfolios with loss opportunities.	Wash-sale rules, portfolio fit, and market conditions matter.
Charitable gifting of appreciated securities	May avoid realizing embedded gains while supporting charitable objectives.	Investors with philanthropic intent.	Deduction limits, charity eligibility, and holding period rules apply.
Donor-advised fund	Allows appreciated assets to be contributed now with grant recommendations over time.	Investors seeking charitable flexibility and potential current-year deduction planning.	Contributions are irrevocable and subject to program rules.
Direct indexing transition	Can harvest losses over time to help offset gains from staged sales.	Investors moving gradually into diversified equity exposure.	Loss availability is not guaranteed and depends on market conditions.
Exchange fund	May provide diversified exposure without an immediate taxable sale.	Qualified investors with concentrated public stock positions.	Long lockups, fees, eligibility limits, liquidity constraints, and suitability review apply.
Hedging or monetization	May reduce downside risk or provide liquidity without an immediate full sale.	Investors who need risk reduction or liquidity but are not ready to sell outright.	Complexity, costs, counterparty risk, and constructive sale rules require careful review.
Trust and estate planning	Coordinates tax, estate, legacy, and wealth transfer objectives.	High-net-worth investors with estate or legacy priorities.	Requires legal and tax review; may not directly eliminate current capital gains exposure.
Liquidity planning or borrowing	May reduce the need for an immediate sale to meet near-term liquidity needs.	Investors with temporary liquidity needs and sufficient collateral.	Introduces leverage, interest-rate, collateral, and market risks.

SETTING THE STAGE

Should this prior successful investment continue to carry so much of the portfolio's responsibility, or is it time to use some of that success to build a more diversified and resilient plan?

Are tax considerations helping keep the portfolio aligned with your goals, or are they preventing decisions that may strengthen the portfolio over the long term?

The decision is not simply whether to pay taxes now or defer them. The more important question is what this successful investment is meant to accomplish. "Pop the Champagne," celebrate the gain, and then position the portfolio for the next chapter of the plan.

WHAT IS THIS SUCCESS FOR?

Lifestyle & Retirement

Will this wealth help fund retirement income, lifestyle goals, or future spending needs?

Family & Legacy

What role should this wealth play for future generations, heirs, or estate objectives?

Purpose & Philanthropy

Could appreciated assets support charitable giving or personal values?

Liquidity & Flexibility

Would greater flexibility help meet upcoming expenses, unexpected needs, or new opportunities?

Confidence & Alignment

Is the current portfolio aligned with where life is headed, not just where the investment has been?

Important Disclosures

Investing involves risk, including the possible loss of principal. Past performance is no guarantee of future results.

Asset allocation, diversification and rebalancing do not ensure a profit or protect against loss in declining markets.

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All recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

"Tax Aware" refers to the process by which strategic benchmarks use forward-looking assumptions about generalized tax-adjusted returns. However, "Tax Aware" does not imply investors can avoid taxes on investment income, such as dividends, interest, and capital gains generated from investments held in the portfolio or resulting from active portfolio management decisions. The portfolio does not offer personalized tax advice or management for an investor based on their individual circumstances. Investors should consult a qualified tax professional in all instances for personalized tax advice.

Investing in exchange funds is speculative and involves substantial risks including the risk of investment loss. In addition, there are fees and expenses associated with investing in exchange funds, which may make them more expensive and/or less attractive to a particular client. Also, exchange funds may provide tax benefits only when certain conditions are met. Other risk considerations include the loss of voting rights and dividends on the contributed stock, the chance that future legislation may disallow exchange funds, a lack of management control by investors and the fact that exchange funds are not transferrable. This is not a complete list of the risk considerations for exchange funds.

Hedging and monetization strategies can result in higher return potential but also higher loss potential. Prospective investors are required to meet certain qualifications and acknowledge they understand the risks associated with certain hedging and monetization strategies that may not be in the best interest of all investors.

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