How much of my employer’s stock should I own?

Many American workers own a significant position of employer stock. In fact, a survey of 401(k) plans showed that when employer stock was offered as an investment option, over 40% of participants held more than 10% of their assets in company shares.*

Understanding investor behavior

Since people often invest in companies they are familiar with, employees typically feel comfortable buying employer stock. Even if employees don’t purchase the stock directly, they may receive shares from their employers through a profit sharing or employee stock ownership plan (ESOP). Also, some firms choose to match employee 401(k) contributions or company stock purchases with additional shares.

As a general rule, a single security should not exceed 5% of your portfolio’s total equity holdings. And with your company’s stock, not only does a larger position increase your portfolio’s potential for volatility but overall risk is compounded because you are dependent on your company for your current income as well. For example, if business conditions result in lower profitability for your employer, the company’s stock price is likely to depreciate—reducing the value of your investments—and your source of income could also be compromised.

Manage your exposure

To calculate the percentage of company stock in your portfolio, begin by looking at all of your accounts, such as your 401(k), ESOP, and profit sharing accounts. (Keep in mind that your mutual funds may also hold your employer’s stock.) If your company’s stock represents a significant portion of your assets, you should try to reduce your exposure to business risk by diversifying your investments. Consider the following options:

- Sell shares in your taxable accounts if the benefit outweighs the tax consequences. (If your shares have appreciated, you will likely have to pay tax on the capital gains. Holding on to the shares to avoid taxes means that you run the risk that the shares may decline in value in the future to such an extent that you end up with no taxable gains.)
- Redirect assets intended for any future, voluntary company stock purchases into other investments. This strategy is appropriate until you’ve reached a comfortable balance in your portfolio.
- Sell shares in your ESOP (if permitted).

Maintaining a broad mix of assets may help reduce the volatility that comes with a concentrated stock position. Remember, however, that diversification cannot assure a profit or protect against loss in a declining market.

It’s a good idea to evaluate your holdings annually and make adjustments when necessary. The percentage of company stock in your portfolio may change over time for a variety of reasons, including year-end company contributions. Regardless of the returns on your employer’s stock (or any stock), you should ensure your portfolio does not rely too heavily on a single asset’s performance.

Morningstar® Portfolio X-Ray® can help you calculate the percentage of company stock in your portfolio. To access this tool, log in to your account at troweprice.com/access and click the link to Morningstar tools under Research.