You can like your stock positions, just be careful about liking them too much

Q: I have accumulated my company's stock through the employee stock purchase plan, an executive benefit program, and stock options. I'm going to retire soon. Any advice?

A: Too much stock of any company may be a huge risk for a portfolio. You may get rich with a single stock or you may go broke. There is no consensus on what a concentrated stock position really is, but generally any position making up more than 10% of a portfolio should be considered 'risky'.

Stock concentration provides more exposure to volatility, potentially less liquidity, and usually higher risk than a diversified portfolio.

Since the year 2000, only 54% of Fortune 500 companies are still listed today. That means that 46% have either gone bankrupt, merged with another company or simply fallen off the Fortune 500 list. Remember Synergy Pharmaceuticals, Lehman Brothers, WorldCom, Enron, Washington Mutual and Circuit City?

Single stock positions require a higher level of monitoring, potentially causing untimely poor decisions. Money is like soap; the more you mess with it, the smaller it gets. It's counterintuitive to sell high and buy more stock when it is low.

Diversification spreads the risk. Check how much is in value versus growth. Sectors shouldn't be over-weighted. Look what happened recently with technology, retail and energy. Size matters. Small-cap stocks often underperform when the economy is faltering. Dissimilar stocks flatten volatility.

Since you're retiring soon, consider the net unrealized appreciation (NUA) method before rolling company stock out of your 401(k). This advantageous tax treatment permits a portion of the company stock in the retirement plan to be taxed as long-term capital gains when the stock is sold.

If the NUA method doesn't make sense, selling the stock in the 401(k) or the IRA does NOT cause a taxable event. Only withdrawals are taxed.

Appreciated stock is an ideal candidate for charitable donations. It must be transferred directly from a taxable account to the charity's account to avoid the capital gains tax.

Low-basis in a stock will create a tax bill when the stock is sold. Currently long-term capital gains rates are zero, 15% (most common), 20% (with the 3.8% net investment income tax) is for the highest wage earners.

If you're unwilling to diversify and pay tax, then consider a pooled fund where a partnership or investment club allows a group of investors to pool their shares.

When stock is inherited, it usually gets a step up to the current share price on the date of the owner's death.
Assess the situation, review the tax consequences, and don't let emotions drive your portfolio. Bad things happen to good stocks.

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