Truepoint WEALTH COUNSEL

Managing Concentration Risk in Your P&G PST Plan

P&Gers often ask us: "How should I handle having so much of my wealth tied up in P&G stock?"

This is an important consideration, and the answer depends on your particular situation—your age, your tenure with P&G, and your financial goals. (Be sure to check out our series on the Frank Duke method for a deep dive into one powerful strategy.) Nevertheless, there are certain common principles to consider when handling your P&G **"concentration risk"—the risk that comes when a significant portion of your assets are dedicated to one particular investment.**

Need a refresher about how the P&G profit sharing plan (PST) works? Read our FAQ, which defines some key terms and offer a few strategies for managing your account.

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Under 50? Consider leveraging bonds.

For P&G employees, a critical component of limiting your concentration risk involves managing your PST account, which the company funds via both preferred and common shares of P&G stock (PG). **The plan requires that at least 40% of your PST account be held in PG, meaning you'll always have some exposure to PG.**

Plus, if you're under 50, you face an additional restriction: other than shares of PG, **you can only hold bonds or cash in your PST account.** You can't reduce your concentration risk by buying other stock with your PST assets.

Because of this, if you're a participant under 50, you should consider housing all your bond allocation in your PST account. In other words, you would use up to 60% of your PST account to hit your entire bond asset allocation target. Fortunately, **using your PST in this way aligns well with conventional financial advice, which recommends holding bonds in tax-deferred accounts, like the PST, in order to shelter the income generated by bonds from taxation and thereby lower your tax bill.**

The PST plan offers two bond funds for participants—**a short-term fund and an intermediate-term fund. Both options are low-cost index funds, and we typically recommend a combination of the two funds for most clients' accounts.**

If 60% of your PST assets isn't enough to meet your personal bond allocation target, then look to your other investment accounts to fill that gap (typically starting with tax-deferred accounts first).

What if bonds aren't right for you?

On the other hand, **if you're many years away from retirement, you may not currently want to allocate any of your assets to bonds.** For example, one of our P&G clients is in her late 30s, has no children, and is earning more than $250,000 per year. Given her situation, she decided to allocate 100% of her investments to stocks.

If you are in a similar position and a bond allocation isn't right for you, you don't want to sell the PG shares in your PST just to manage concentration risk. Instead, you should **turn to your other investment accounts to generate adequate diversification and reduce your overall concentration risk.**

We're here to help.

Regardless of your ideal bond allocation target, the steps for managing concentration risk in your PST account are the same: **assess how much PG exposure you have across all of your investment accounts, identify options for diversifying your holdings and controlling concentration risk, and then implement the right strategy for your particular objectives.**

While we've done our best to consolidate some best practices in this piece, every situation is unique and may necessitate a different approach. **Use the QR code to the left or visit www.truepointwealth.com/contact/ to tell us about your unique situation and find out how we can help you make the most of the advantages offered to you through the P&G PST Plan.**