TOP 13 MISTAKES TO AVOID WITH YOUR

RSU'S

RHS FINANCIAL

1) Not setting aside cash after each vest to pay additional tax: If your bonuses and RSUs for the year are not significantly more than $1,000,000, it is probable that your employer will not withhold enough for your federal taxes. To ensure that you have enough cash to cover these taxes, it is important to set aside a portion of your RSUs for each vesting period. You can do this by selling some of your RSUs and putting the proceeds into a savings account. A tax advisor or financial advisor can help you determine the exact amount to save. As a general rule of thumb, you may want to set aside 15% of your vesting amount before any withholding as an extra precaution.

2) Selling winners and holding on to losers: This approach is based on flawed logic. The idea is to sell the stocks that have increased in value (the "winners") and keep the ones that have decreased in value (the "losers") in the hope that they will eventually recover and bring a profit. However, every share of a particular stock has the same potential to either make or lose money.

For example, suppose you own 10 shares of stock XYZ, which are worth a total of $20 ($2 per share). You bought 5 shares for $1 each and have a profit of $1 per share, for a total profit of $5. You also bought 5 shares for $3 each and have a loss at $1 per share, for a total loss of $5.

If you sell the 5 profitable shares, you'll be left with 5 shares worth $10. If instead, you sell the 5 unprofitable shares, you'll also be left with 5 shares worth $10. Afterwards, the price of the shares could go up to $3, increasing your total value to $15, or it could go down to $1, decreasing your total value to $5.

No matter which shares you sell, the outcome is the same. The main difference is the taxes you pay: if you sell the profitable shares, you'll have to pay capital gains taxes, but if you sell the unprofitable shares, you can offset your tax bill.

3) Not paying attention to how many RSUs you are accumulating over your career: Over the course of your career, payouts from RSUs can make up a significant portion of your total compensation, sometimes even more than 50%. When you are just starting out, these payments in shares can add up quickly and become a significant part of your wealth. As you progress in your career and achieve higher levels of seniority, your RSU payouts will become larger. While it may not be a concern to have a large portion of your wealth invested in a single stock when you are young, this reliance on the success of one company can be risky as you approach retirement or other financial goals. It is important to periodically assess the size of your RSU holdings relative to the rest of your wealth and decide whether you want to sell future RSUs as they vest.

4) Not adjusting the rest of your portfolio for your RSU holdings: "Buy what you know" is a well-known piece of advice from Peter Lynch, a highly respected portfolio manager. However, if you work in the tech industry and are being paid in shares of a tech company, and you also buy shares of other tech companies, your risk may be unnecessarily high. In this case, it might be a good idea to consider diversifying your portfolio by looking for opportunities in other sectors of the market and in different types of assets. This can help you achieve growth, protection, and investments that are not as sensitive to similar negative economic developments.

5) Not selling your RSUs when they vest: The most favorable time to exercise your RSUs and avoid unfavorable tax consequences is when they vest. At this point, you will not have any capital gains, you won't have to worry about losses, and you can promptly reinvest in other suitable options. Many companies allow you to set up an automatic sale through your broker or transfer agent during this window of time.

6) Selling ESPPs but not RSUs: RSUs are a common form of compensation at publicly traded tech companies. Another type of equity compensation that is often offered is an Employee Stock Purchase Plan (ESPP). Unlike RSUs, ESPPs offer tax benefits for holding them through a certain period of time, known as the qualifying period. If you are planning to hold some shares of your employer's stock, it may be advantageous to hold onto the ESPPs, as you may receive a tax benefit.

7) Not waiting for long-term capital gains after an IPO blackout period: A traditional IPO will block you from selling any shares for about 6 months. If things go as planned and your stock price increases, then you are only 6 months and 1 day away from recognizing long-term capital gains. In this instance selling right away may not be the right call.

8) Not matching your personal goals and risk tolerance with your RSU strategy: It is very common to see RSUs as “free money”. You didn’t “earn” it so if it goes down in value oh well. If it goes up and makes you wealthy all the better. But that couldn’t be further from the truth.

Your RSU compensation is just like every dollar you save from your paycheck. You need to look at RSU payouts as a legitimate way to achieve your goals. Additionally, holding RSUs from your employer carries a dual risk: not only is there the possibility of losing your job and income, but the value of the employer's stock could also decline. To protect yourself, it is advisable to diversify your sources of wealth and income.

9) Not realizing that RSUs are income driven by the market and not your worth as a professional: When you start a new job, you are typically given an estimate of your total compensation, which includes your equity award. At the beginning of your employment, this figure is based on your seniority, experience, and skills. However, once you start working, the value of your equity compensation is no longer within your control. It is determined by the perceptions of millions of market participants about your company and the overall state of the market, rather than by your personal performance or the company's management. It is important not to become discouraged or frustrated if the value of your equity award does not match the initial estimate of your total compensation.

10) Setting arbitrary price targets for when you will sell: You missed your chance to sell. The stock is now down 10%, 30%, or dreaded 50% plus. You tell yourself, that the next moment it goes right back up to that moment you missed out, you will certainly sell. But why at that price? What makes it a good price to sell at? Is it because that is a fair value for the company, the highest you think it will go, or because this price fits your financial plan and needs?

Most of the time this price point is arbitrary and is a symptom of what is called anchoring bias. This bias forces us to set our decisions based on arbitrary prior price points we have experienced. Be careful not get stuck in this sand trap. You need to objectively evaluate why you would sell and at what price. Look through the lens of company strength and your own financial plan.

11) <u>Being overconfident that you know which way the stock price will go because you work for the company:</u> Having an inside perspective on a company can be a valuable asset, but it is important to recognize that your opinion may not necessarily align with that of the market. Trading on inside perspective, rather than on information that is about to be released, is not a violation of the law, but it is important to understand that your perspective may be overshadowed by the collective perspective of millions of market participants. Even if you have a strong belief in your perspective, it is important to consider the possibility that the market may not agree and to be cautious about putting all of your resources into a single investment.

12) <u>Not selling because you fear regret:</u> FOMO, or the fear of missing out is an incredibly powerful force in investing. What if you sell and it continues to go up, or you sell and then the stock price recovers? The challenging thing about regret is that once you make the decision you can compare yourself to that decision forever. At some point in time, you will look back and you will tell yourself that if you only held it would be up now. However, before you go down this spiral, you need to ask yourself two questions. Are there any better opportunities to increase my return or reduce my risk of loss? What goals do I have that require a high level of certainty that this money will be there for me? It would be shocking to assume that your company stock is the single best investment out there. If you are depending on one single stock to make or break your financial future it is almost always more reasonable to find ways to diversify.

13) <u>Holding because you already own them:</u> It has been shown through behavioral tests that people value what they own more than those things they don't own. This applies to stocks as well. We take a level of comfort in knowing "them". That is why we need to be extra careful in evaluating what we own through a lens of logic and scrutiny. Why should you continue to hold your company stock? What type of return should you expect from it? And once again, are there better opportunities out there?