Should I Hold or Harvest my single stock profits?

Single stock portfolio concentrations in excess of 20% of the overall investor liquid net worth with profits of over 1000% seems more common place these days than what most of us would think. Most examples of single stock exposures are due to (ex-) employees holding on to their stock and are worried now about the lack of diversification. This white paper specifically attempts to address such recent High Net Worth (HNW) investor questions around holding significant unrealized profits in single stocks that benefited from the 15-year plus bull market run and the ongoing AI boom. While this is a notoriously difficult question to answer, we believe that higher market volatility, primarily in the technology sector, increases the downside risk of such concentrated positions. In such environments, investors are faced with the difficult decision of either holding their positions with extreme drawdowns or harvest profits during a fire sale.

For those readers in a hurry, the key takeaway from our analyses here is that if you expect the stock to correct more than 20% and continued under-performance of the stock (100-200 bps less) versus the broader S&P 500 index over the next 12-36 months, harvesting the stock may be the better option (despite being hit today with a huge tax bill)!

Changing dynamics of concentrated stock positions

Despite sector-specific concerns, markets may still react positively to favorable macroeconomic data. However, current trends suggest fading optimism as AI-bubble fears rise. While these AI companies may not have hit sky-high dot-com era valuations, concerns around affordability, adoption, viability, and competition have meaningfully increased the AI trade's downside risk.

To put this into perspective, let us assume a simple 2-stock portfolio consisting of a 10% holding in (say) Nvidia (NVDA) and 90% in the S&P 500 index ETF (SPY) invested in November 2022. We have chosen November 2022 as the beginning period to capture the returns from the ongoing AI rally for our analysis. As of November 2025, Exhibit 1 clearly shows that NVDA's 947% rally during the three-year period dramatically increased its weight to 40% of the portfolio. Although the portfolio value has more than doubled during this period, the risk profile has shifted materially.

Concentrated positions significantly alter the portfolio's risk dynamics.

Exhibit 1: Two-stock portfolio

As of November 2025	S&P 500	NVDA	Total portfolio
Purchase price (Nov 2022)	$391.25	$16.91	
Invested amount	$90,000	$10,000	$100,000
Prior Portfolio position	90.0%	10.0%	100.0%
Current Market price	$683.39	$177.00	
Current total value	$157,202	$104,672	$261,873
Profit (in %)	74.7%	946.7%	155.7%
Current portfolio position	60.0%	40.0%	100.0%

Source: Berunda analysis

Currently, NVDA has a 5-year monthly beta of 2.27, implying a 1% change in the overall market may lead to a 2.27% change in NVDA. Even though historical data suggests strong risk-adjusted performance for Nvidia, near-term sentiments have noticeably weakened. Circular deals, China export restrictions, and potential competition from Alphabet's TPUs (Tensor Processing Units) have sparked fresh concerns, continuing to weigh on stock performance. For portfolios with similar concentrated positions, rising volatility can quickly turn favorable exposure into disproportionate risk.

Buy & Hold vs. Harvest - A Hypothetical Analysis

Investor with concentrated stock positions face the dilemma of holding or harvesting profits. A structured scenario analysis helps highlight the trade-offs. For our analysis, we have considered both the taxable Brokerage account and a tax-free Individual Retirement Account (IRA).

This analysis aims to highlight the differences between

a) A decision to buy & hold (B&H) the position despite a significant near-term downside and underperformance compared to the market over a specified period vs.
b) Immediately, harvesting the position before the downside and reinvesting in assets that track market performance.

The brokerage account incorporates a 33% (short-term) capital gains tax constraint in the analysis and investors can extend this easily to the 20% long-term gains case.

Modeling the single-stock under-performance

We model the future single-stock correction in two phases:

1. First, the stock experiences near-term corrections of 20%, 30% and 50% (perhaps due to earnings misses or broader weakness).
2. Second, the stock then continues to underperforms the broad equity markets for a given number of years – 1, 2, 5 years (Exhibits 2, 3 and 4 respectively)

Why this two-phase model? This appears to strongly mimic historical performance data. Stocks of companies like Nvidia (and Tesla recently, along with MSFT & CSCO post the 1999 internet bubble, for those of us who remember) have recorded a strong immediate correction in excess of 20% when fundamentals become questionable, followed by a long period (perhaps even a decade, but we limit ourselves to 5 years) of underperformance. Notably, the most recent correction being post-COVID, NVDA fell 62% from its peak in November 2021 to its October 2022 low. Following each hypothetical correction, we assume Nvidia underperforms the market (say 12% annualized returns) by 200 basis points. That is, we are assuming that NVDA will still return 10% per year, but 2% points below the overall market going forward for a select number of years.

It should be clear that this single stock vs. index analysis can be easily substituted to two different competing asset classes and for different percentages of capital gains taxes paid. For example, US stocks vs Europe/emerging market stocks at 20% long-term capital gains.

Exhibit 2 below presents the one-year underperformance scenario. At a 20% downside scenario, the brokerage account harvest strategy underperforms a Buy & Hold (B&H) by 10%. In other words, if the under-performance is just temporary, then a B&H strategy makes sense unless you expect the stock to correct more than 30%.

The key takeaway is that if you expect the stock to correct more than 20% and under-performance, harvesting the stock may be the better option (despite being hit with a huge tax bill)!

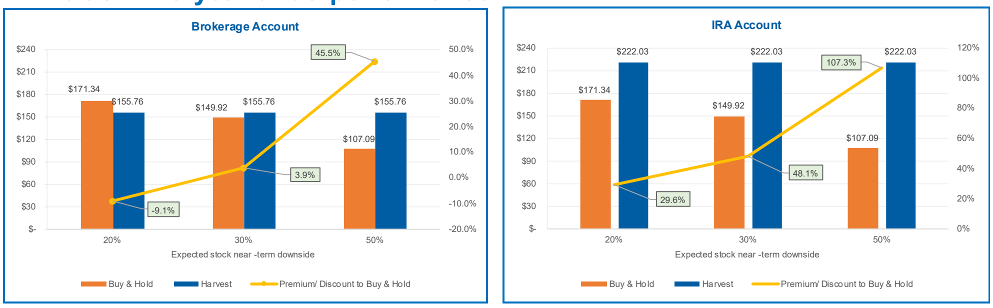
Exhibit 2: One-year underperformance

Source: Berunda analysis - All scenarios assume sharp correction (downside % indicated) followed by 200 bps of long-term underperformance to the broad S&P index i.e. returning 10% per year while market returns 12% per year.

Exhibits 3 & 4 also show that the brokerage account buy & hold strategy modestly outperforms the harvest strategy in a 20% downside scenario. However, the harvest now strategy gains significance when there is a correction of 30% or above, despite incurring a 33% capital gains tax. For the IRA account, harvesting always proves to be the better choice rather than holding the position. More importantly, the longer the underperformance, the harder it is for the portfolio's net worth to catch up over time. In other words, there are better alternatives and leadership in the stock market changes more often than we think they do.

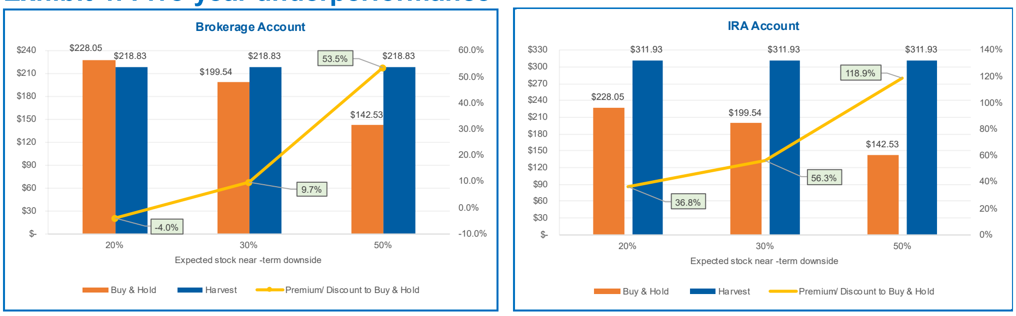
Harvesting strategy in a brokerage account proves to be meaningful in a significant downside risk scenario.

Exhibit 3: Two-year underperformance



Source: Berunda analysis - All scenarios assume sharp correction (downside % indicated) followed by 200 bps of long-term underperformance to the broad S&P index i.e. returning 10% per year while market returns 12% per year.

Exhibit 4: Five-year underperformance



Source: Berunda analysis - All scenarios assume sharp correction (downside % indicated) followed by 200 bps of long-term underperformance to the broad S&P index i.e. returning 10% per year while market returns 12% per year.

Exhibit 5: Harvesting may be better if we expect long-term under-performance

Brokerage	**20% Downside**		
Period of underperformance	**1Y**	**2Y**	**5Y**
Premium/ Discount to Buy & Hold	-10.7%	-9.1%	-4.0%
IRA	**20% Downside**		
Period of underperformance	**1Y**	**2Y**	**5Y**
Premium/ Discount to Buy & Hold	27.3%	29.6%	36.8%

Brokerage	**30% Downside**		
Period of underperformance	**1Y**	**2Y**	**5Y**
Premium/ Discount to Buy & Hold	2.0%	3.9%	9.7%
IRA	**30% Downside**		
Period of underperformance	**1Y**	**2Y**	**5Y**
Premium/ Discount to Buy & Hold	45.5%	48.1%	56.3%

Brokerage	**50% Downside**		
Period of underperformance	**1Y**	**2Y**	**5Y**
Premium/ Discount to Buy & Hold	42.9%	45.5%	53.5%
IRA	**50% Downside**		
Period of underperformance	**1Y**	**2Y**	**5Y**
Premium/ Discount to Buy & Hold	103.6%	107.3%	118.9%

Source: Berunda analysis - All scenarios assume sharp correction (downside % indicated) followed by 200 bps of long-term underperformance to the broad S&P index i.e. returning 10% per year while market returns 12% per year.

Investors should effectively manage concentration risk, and take a victory lap on their successful investments!

It also makes more sense to reduce portfolio concentration and downside risk

Real-world market environments tend to be more unpredictable and severe than the simplified assumptions used in the scenario analysis. While such analysis helps quantify potential gains and losses, factors such as total net worth, risk tolerance, and the investors' dependence on portfolio income ultimately influence the appropriate course of action. Even clients with low risk aversion must position their portfolios strategically to mitigate meaningful downside risk – especially when a large percentage of their wealth is concentrated in just a few holdings.

The key takeaway is that in an accelerated stock sell-off scenario of over 20%, assuming a long recovery (3-5 year or greater) period, the most rational solution may still be a partial or complete liquidation of these single-stock holdings. Yet, high net worth clients often prioritize minimizing capital gains taxes over mitigating drawdown risk. In such situations, alternative strategies such as active hedging or wealth-transfer/ diversification vehicles may provide effective outcomes.

What other strategies than harvesting are available to the investor?

To the highly concentrated investor portfolio, we recommend "looking at the C-suite" or other ultra-HNW leaders to see what they do.

1. Most C-level executives have pre-planned stock sale arrangements at fixed time intervals. The proceeds, while taxable, can then be invested in other asset classes and may be the best option to diversify your single-stock portfolio concentration over time.
2. Active hedging of your exposure requires ongoing monitoring and may trigger short-term capital gains.
3. Wealth transfer strategies such as irrevocable trusts: Transferring funds into an irrevocable trust shifts future capital gains liability to the beneficiary
4. Cache exchange funds offer more structural solutions: These funds enable diversification without incurring taxes (although there may be a significant lock-up period). The investor contributes shares to a pooled investment structure and, in return, receives a pro rata basket of diversified holdings.

We at Berunda, with 20+ years of experience in the investment industry, offer clients customized solutions to manage such concentrated risks and preserve long-term wealth. YTD in 2025, our long-short strategies have returned 30+%, while our long-only strategies have returned 20+%, while under-performing in the three-year time horizon. Long term, Berunda's GTAA strategy delivered an average of 10.4% annual return while the S&P 500 returned 9.4%, while also demonstrating significantly lower volatility (10.8 vs S&P 500's 14.8) and downside risk (0.07 vs S&P 500's 0.10).

Sources

- Surviving the AI boom | Sparkline Capital Sachs
- The Information – *AI native apps generate 18 billion annualized revenue (released on Aug 2025)*
- Berunda Analysis

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Sri Nagarajan is the Managing Partner of Berunda Capital Partners. He is also the Principal of ValAn Global Solutions, a research support services firm. Prior to founding Berunda Capital and ValAn Global Solutions, Sri Nagarajan served as a Senior Research Analyst and Managing Director at Cantor Fitzgerald. Sri Nagarajan has also served as a senior analyst at various sell-side firms such as FBR Capital Markets & Co., RBC Capital Markets and UBS from 2002-12. Mr. Nagarajan has also worked as a senior investment analyst at Cohen & Steers Capital Management, a global asset management firm from 2007-9. From 1993-2000, Sri Nagarajan was a senior manager at Sabre, Inc., managing a team researching efficient scheduling optimization algorithms and macroeconomic forecasting models for the transportation industry. Mr. Nagarajan received his B.E. from Anna University, India, an M.S. in industrial engineering from Louisiana State University, M.S. in systems engineering from The University of Arizona, and an MBA in Finance and Strategic Management from The Wharton School of Business.

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