



Options-Based Downside Protection for Concentrated Equity Position

Scenario Type: Family Office – Founder / Concentrated Single-Stock Wealth

Asset Class: Single-Name Equity with Derivative Overlay

Situation Type: Highly concentrated equity exposure with constraints on selling, signalling, tax, and timing

Primary Issue: Tail risk concentration under real-world constraints, where selling is limited and ad-hoc hedging becomes economically and operationally unsustainable

1. Decision Context

The family office holds a dominant equity position in a single publicly listed stock following an IPO or liquidity event.

The exposure represents a material proportion of family net worth. Diversification is acknowledged as desirable, but execution is constrained by trading windows, disclosure optics, tax considerations, and founder psychology.

The IC decision is **not whether the position is risky**.

It is whether the family is comfortable remaining structurally exposed to a single-name drawdown **during periods when selling may be impractical or impossible**, and whether an options-based protection framework can provide bounded downside without creating secondary risks.

This is not a return optimisation exercise. It is a **control-under-constraint decision**.

2. What Changed

At the time of liquidity:

- Concentration accepted as temporary
- Diversification deferred to avoid signalling and tax leakage
- No formal downside protection implemented
- Governance relied on “we’ll deal with it later” logic

As time passed:

- The position remained dominant
- Market volatility increased
- Liquidity windows remained narrow

- Hedging discussions were repeatedly postponed
- No pre-committed response existed for a sharp drawdown

The exposure persisted. The ability to act did not improve.

3. How the Risk Actually Manifests

The primary risk is not gradual underperformance. It is **discontinuous loss under constraint**.

- Single-name equity gaps during market stress
- Selling into weakness creates signalling and tax damage
- Trading windows close precisely when volatility spikes
- Unhedged exposure forces reactive decision-making
- Family governance becomes stress-driven rather than planned

The absence of a protection framework turns a market move into a governance crisis.

4. What Surfaces on Review

When reviewed without product bias, several realities emerge:

- Outright put programmes are prohibitively expensive to maintain at scale
- Listed options lack depth and discretion for large positions
- OTC structures introduce counterparty, collateral, and CSA dynamics that must be engineered deliberately
- Monetisation facilities can become margin traps if not designed for stress
- One-off trades drift without roll discipline or re-underwriting
- There is no shared definition of “acceptable downside”

The issue is not lack of tools. It is lack of a **coherent, governable posture**.

5. Structural Assessment

This is not:

- A timing problem
- A volatility forecast
- A product selection issue

It is:

- A concentration-risk architecture problem
- A governance problem under constraint
- A failure to pre-commit to survivable outcomes

Any response must preserve:

1. Meaningful upside participation
2. Bounded downside during periods when selling is unavailable
3. Discretion, scale, and collateral resilience

4. A repeatable roll and decision framework

Ad-hoc hedging fails these tests.

6. Structuring Logic

Effective responses focus on **posture**, not individual trades.

Key principles:

- Define a downside band the family can live with and defend
- Use collar structures to trade extreme upside for survivable protection
- Engineer OTC mechanics (counterparty, CSA, collateral) for stress, not calm markets
- Embed roll cadence, re-strike logic, and decision triggers
- Design monetisation pathways that do not force sales during drawdowns

The objective is not sophistication. It is **durable control when discretion is limited**.

7. Intended Outcomes

When structured correctly:

- Downside exposure is explicitly bounded
- Protection cost is known and governable
- The structure is executable at scale without market disruption
- Collateral and liquidity risks are engineered, not discovered
- Governance shifts from reactive to pre-committed

The family is no longer hostage to a single bad week.

8. IC Takeaway

This was not a failure of risk awareness.

It was the predictable outcome of allowing concentration risk to persist without a structure that works **when selling is constrained**.

In concentrated equity, the risk is not volatility. It is being forced to decide under pressure with no viable options.

A structured protection framework restores control before that moment arrives.

9. Applicability

Most relevant where:

- One stock dominates family net worth
- Selling is constrained by optics, windows, or tax
- Outright put programmes are economically unsustainable
- Position size requires OTC execution
- Liquidity is needed without triggering forced sales

Less relevant where:

- Concentration is modest
- The position can be sold down quietly
- A disciplined de-risking framework already exists
- Full drawdown risk is explicitly accepted

10. Engagement Path

Primary Offer: Hedge Rebuild™ – Concentrated Equity Protection Reset

Design of a maintainable options-based protection framework, including structure architecture, OTC execution pathway, collateral mechanics, and roll governance.

Secondary / Bespoke: Monetisation facility design, CSA and counterparty structuring, 10b5-1 coordination support, reporting and family governance narrative.

A full structural narrative is available for readers who wish to review the underlying mechanics, trade-offs, and remediation sequencing in greater detail.

Disclaimer

Illustrative scenario for discussion purposes only. Not a transaction summary or client-specific case study.