

Every generation seems to experience a technological revolution that creates extraordinary wealth. The internet transformed the 1990s. Cloud computing reshaped the 2010s. Today, artificial intelligence is fueling the next wave of innovation ... and potentially one of the largest wealth creation events in modern history.

AI companies have reached staggering valuations, with many current and former employees holding significant equity stakes that could become life changing as liquidity events unfold. While the technology may be new, the financial challenges surrounding concentrated stock positions are anything but.

I recently spoke with **Ross Henry**, Wealth Manager with LNW; whose decades of experience advising technology executives, including Microsoft employees during some of the company's most transformative years; provides a unique perspective on navigating today's AI wealth boom. We discussed the parallels between previous technology cycles and today's AI landscape, as well as the strategies employees should consider to help preserve the wealth they have worked so hard to create.

Ross, based on your experience working with Microsoft employees during Microsoft's period of hypergrowth, what parallels do you see with today's AI companies?

The similarities are striking.

Many Microsoft employees had the vast majority of their net worth tied up in company stock and stock options. As the company's value soared, so did their paper wealth, but along with that came outsized exposure to risk. Without thoughtful planning, they faced substantial tax obligations and liquidity challenges.

It was also common for employees to borrow against their stock, assuming the share price would continue climbing indefinitely and easily outpace the cost of borrowing. Others resisted diversification altogether because they were convinced Microsoft would only continue to appreciate.

In hindsight, Microsoft's success appeared inevitable, but it certainly didn't feel that way at the time. The company ultimately became one of the greatest wealth creators in history, but employees who held concentrated positions endured years of uncertainty and significant volatility along the way.

Today's AI leaders face a similar situation. While the long-term outlook for artificial intelligence is incredibly compelling, it is far from certain which companies will ultimately dominate the market. That's why it's critical to pressure-test different scenarios rather than assuming the current trajectory will continue uninterrupted.

Successful wealth planning isn't about predicting the future perfectly; it's about preparing for multiple possible futures.

What are the biggest lessons AI employees should take away from previous technology booms?

Three themes consistently emerge:

- **Diversify sooner than later.** Concentrated stock positions create tremendous upside, but they also create significant risk. While every situation is different, gradually diversifying can help protect the wealth you've already created while still allowing participation in future growth.
- **Build your advisory team early.** The most successful outcomes rarely happen by accident. They result from coordinated planning among a wealth advisor, CPA, estate planning attorney, and other specialists who understand the complexities of equity compensation, taxes, and long-term financial planning.



- **Be cautious about borrowing against your stock.** Using appreciated shares as collateral may appear attractive when stock prices are rising, but leverage can amplify losses just as quickly as it magnifies gains. A strategy that looks prudent during a bull market can become problematic if market conditions change unexpectedly.

In your experience, what are the most common mistakes employees make related to an IPO? Where is money often "left on the table"?

One of the biggest mistakes is failing to involve a qualified CPA early enough in the planning process. Taxes often represent the largest expense associated with a liquidity event, and thoughtful planning can significantly improve after-tax outcomes.

For example, we recently worked with a former employee of a leading AI firm alongside an experienced CPA. Through detailed tax modeling, we determined that selling certain short-term gain lots first kept the client in the 28% tax bracket rather than the 37% bracket. We also structured the transaction to avoid Washington state's capital gains tax and transferred high-basis, long-term positions into separately managed accounts, allowing for more effective tax-loss harvesting over time.

Those decisions resulted in meaningful tax savings that would likely have been missed without coordinated planning.

The broader lesson is simple: taxes should never be an afterthought. The modeling performed by a CPA in collaboration with your broader advisory team can have a greater impact on long-term wealth than trying to perfectly time the market.

One of the most common questions you receive is, "How much of my company stock should I keep?" How do you approach that conversation?

There isn't a one-size-fits-all answer, but a common industry guideline is to limit any single stock to roughly 5% to 10% of your liquid net worth. However, depending on your financial goals, cash flow needs, risk tolerance, and conviction in your company's long-term prospects, maintaining a larger position, perhaps as much as 25%, may be appropriate.

The key is making that decision intentionally rather than emotionally.

We spend considerable time modeling different market outcomes and evaluating how various scenarios would affect a client's lifestyle, retirement goals, charitable giving, and legacy objectives before determining an appropriate concentration level.

What other issues do you find common among pre-IPO participants?

Pre-IPO stock that is illiquid presents a challenge for the payment of estate taxes. Life insurance can be a source of liquidity and ensure that estate taxes are paid in a timely fashion in the event of the death of a shareholder. By leveraging life insurance, a shareholder can potentially avoid the sale of stock in a "fire sale."

Another consideration is how employees can finance the exercise of stock options when they lack sufficient liquidity. Depending on the company and their personal circumstances, employees may be able to utilize cashless exercise programs, third-party financing, family loans, or partial exercises to reduce the upfront capital required. Because these strategies can have significant tax, cost, and risk implications, it is important to evaluate them well in advance of a potential IPO or other liquidity event.



Planning often receives the most attention before an IPO and immediately afterward, but what happens six, 12, or 18 months later? Why is ongoing planning so important?

The IPO is only the beginning of the wealth management journey. Once the excitement subsides, the conversation shifts from, "How do I monetize my stock?" to, "What kind of financial life am I trying to build?" That's where long-term planning becomes essential.

At LNW, we often use a "bucket" framework to help clients organize their wealth around specific objectives:

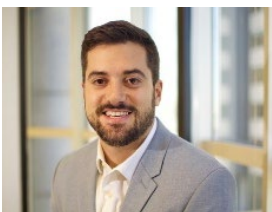
- A Lifestyle Bucket provides liquidity for taxes, spending needs, and near-term cash flow.
- A Diversified Growth Bucket is designed to build long-term wealth through a diversified investment portfolio aligned with the client's broader financial goals.
- An Opportunistic Bucket allows clients to maintain exposure to high-conviction investments, including a meaningful allocation to company stock without putting their overall financial security at unnecessary risk.

This framework shifts the conversation away from individual transactions and toward building a sustainable financial strategy that can support clients for decades.

For AI employees fortunate enough to participate in the next wave of liquidity events, thoughtful planning can make the difference between simply experiencing a financial windfall and building lasting, multi-generational wealth. The earlier that planning begins, and the more coordinated the advisory team, the better positioned employees will be to navigate taxes, manage risk, diversify thoughtfully, and transform concentrated equity into enduring financial security.

Contact us to start a conversation.

ABOUT THE AUTHORS



Brandon Smith, JD, LL.M. Taxation, serves as a subject matter expert for LNW clients, wealth managers and analysts, helping to identify appropriate tax, trust and estate planning strategies for the unique circumstance of individuals and families with multigenerational wealth. He also works closely with the LNW trust services team on matters pertaining to the firm's trust companies in Washington State and South Dakota and is a member of the South Dakota entity's Board of Directors. An important aspect of Brandon's work is monitoring developments in tax and financial law at the federal and state levels to provide LNW colleagues and clients with proactive analysis and insights.



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