Ten Lessons on Managing Concentrated Wealth

AQR · 2026-08-11 · English original

Every concentrated position tells a different story. For one investor, it may represent decades spent building a family business. For another, it may be equity accumulated as an executive or early employee. In each case, the concentrated asset often carries value that extends well beyond its market price, requiring an approach that reflects both its financial and personal significance.

A recent special issue of The Journal of Wealth Management explores these challenges through perspectives from leading academics and practitioners. While the articles approach the topic from different angles, they point to a common conclusion: concentrated wealth should not be viewed simply as a problem to solve, but as an asset to manage thoughtfully over time.

Below are ten principles that appear throughout, identified by Nathan Sosner, AQR Principal and guest co-editor of this special issue:

1. Remember that volatility can be costly. The greatest cost of concentration isn't always the eventual diversification decision. It may be years of elevated volatility that reduce the power of long-term compounding. When evaluating concentrated wealth, investors should consider both the potential upside and the impact that large drawdowns may have on achieving long-term objectives.

2. Think beyond the diversification event. Reducing concentration is only one step in the process. Equal attention should be paid to the portfolio that replaces the concentrated asset, including its expected return, risk characteristics, diversification benefits, and ability to support the investor's long-term goals.

3. Start with the investor's objectives. There is no universal "best" strategy for managing concentrated wealth. The appropriate approach depends on what the investor hopes to accomplish, including improving liquidity, amplifying charitable giving, reducing risk, or maintaining future market participation.

4. Treat diversification as a means, not an end. Diversification is a valuable tool, but it's not the objective itself. Decisions should ultimately be evaluated by how well they advance an investor's broader financial, family, and legacy goals.

5. Recognize that not all concentrated assets are alike. The risks associated with a concentrated position depend on more than its size. Business fundamentals, liquidity, volatility, governance rights, and the owner's ability to influence outcomes can all affect how concentration should be managed.

6. Separate wealth preservation from wealth creation. A concentrated position may continue to serve an important role in pursuing future growth, but investors should also evaluate whether enough assets have been secured to support essential goals such as retirement, family needs, or philanthropy.

7. Revisit the plan as life evolves. The appropriate approach to concentration often changes over time. A founder preparing for an IPO, a recently retired executive, and a multigenerational family may face very different priorities, requiring different solutions at different stages.

8. Respect the complexity. Many concentrated wealth strategies involve sophisticated investment, legal,

and planning considerations. Successful implementation often depends on careful coordination and a clear understanding of each strategy's tradeoffs and limitations.

9. Take an interdisciplinary approach. Concentrated wealth sits at the intersection of investment management, estate planning, philanthropy, governance, behavioral finance, and other disciplines. The strongest outcomes often come from considering these domains together rather than in isolation.

10. Build flexibility into the process. Managing concentrated wealth is rarely a one-time decision. Markets fluctuate, family circumstances evolve, regulations shift, and objectives change over time. Plans should be designed to adapt to varying conditions.

The research in this special issue makes one point especially clear: managing concentrated wealth is fundamentally about aligning investment decisions with investor objectives. Diversification, hedging, charitable planning, and other techniques are valuable tools, but they are most effective when employed in service of a clearly defined purpose.

As portfolios, families, markets, and objectives evolve, so too should the strategy—helping investors preserve the advantages of concentration where appropriate while managing the risks that could otherwise undermine long-term success.

This document is not intended to, and does not relate specifically to any investment strategy or product that AQR offers. It is being provided merely to provide a framework to assist in the implementation of an investor’s own analysis and an investor’s own view on the topic discussed herein.

Source: https://www.aqr.com/Insights/Research/Tax-Aware-Investing/Ten-Lessons-on-Managing-Concentrated-Wealth