



## Executive Financial Services

### Case Study

**The Boston area is once again a hive of hyper-growth companies in the Technology, Biotech, and other spaces. Recent IPO/startup, stock market action, and executive financial behavior remind me of the TMT (Telecom, Media, and Telecom) hayday of 2000 on the I-495 belt...a boom turned bust. No one thought it would happen, but it did.**

The following is a case study on David, his TMT company and how he preserved and grew his IPO and stock option wealth...in spite of the TMT bust of 2001 that wiped out the vast majority of his coworkers.

I had been working as a Financial Advisor with all of the members of the C-suite, pre-IPO. Morgan Stanley was in heavy competition for lead underwriter. Though Morgan Stanley did not win the mandate, I was chosen to manage company's stock option and restricted stock sale plans. The plans included sales of restricted stock as well as the execution and sale/hold of Incentive Stock Options (ISO) and Non-qualified Stock Options (NSO), under Rule 144 in some cases.

I met with David, just like I did every other plan participant to explain the tax and other implications of various stock option exercise strategies and choices. David fully understood his options as a result of this one-on-one education. I advised David to exercise and sell the amount of his company's stock/options that would be required to fully fund his retirement, at the tender age of 32. David heeded my advice as few others did. With my help David intuitively

## Morgan Stanley

---

knew that once his retirement was funded, any excess growth in his company's stock value would be "gravy", and if the stock went to zero he and his family would have the retirement funds he set aside. David recently retired (expected age terminus: 110) with several million dollars in his investment portfolio, the majority of which I still manage.

Invariably, my education and conversations with the vast majority of stock option plan participants in the company did not go as David's did. I recall asking one plan participant what the difference in his lifestyle would be between having \$10mm (his net worth at \$90 per share was) versus \$20mm based on his anticipated growth in the stock's value. He did not have an answer, but was intent to "let it ride". The TMT and stock market declines began shortly thereafter, with the stock tanking to \$2 per share, causing his \$10mm to shrink to \$222,222...hardly enough to retire.

Another one of my clients who was the former CEO of another TMT company who did not heed my advice to unwind some of his \$100mm concentrated stock position, a position that I could have unwound without capital gains taxes, collared, or otherwise hedged. Two years and two mergers later, his \$100mm concentrated stock position was \$7m.

### The Guardian Group at Morgan Stanley

#### **Peter J. Perez**

Senior Vice President  
Executive Financial Services Director  
Portfolio Management Director  
Wealth Advisor

#### **Morgan Stanley Wealth Management**

125 High Street, 24th Floor | Boston, MA 02110

Phone: 617-478-6475

Fax: 617-790-5255

[peter.perez@morganstanley.com](mailto:peter.perez@morganstanley.com)

# Morgan Stanley

---

Past performance is no guarantee of future results.

Individuals executing a 10b5-1 trading plan should keep the following important considerations in mind:

(1) 10b5-1 trading plans should be approved by the compliance officer or general counsel of the individual's company.

(2) A 10b5-1 trading plan may require a cessation of trading activities at times when lockups may be necessary to the company (i.e., secondary offerings, pooling transactions, etc.).

(3) A 10b5-1 trading plan does not generally alter the restricted stock or other regulatory requirements (e.g., Rule 144, Section 16, Section 13) that may otherwise be applicable.

(4) 10b5-1 trading plans that are modified or terminated early may weaken or cause the individual to lose the benefit of the affirmative defense.

(5) Public disclosure of 10b5-1 trading plans (e.g., via press release) may be appropriate for some individuals.

(6) Most companies will permit 10b5-1 trading plans to be entered into only during open window periods.

(7) Morgan Stanley, as well as some issuers, imposes a mandatory waiting period between the execution of a 10b5-1 trading plan and the first sale pursuant to the plan.

Morgan Stanley Smith Barney LLC, its affiliates and Morgan Stanley Financial Advisors or Private Wealth Advisors do not provide tax or legal advice.

The case studies presented are provided for illustrative purposes only. Past performance is no guarantee of future results. The information has been obtained from sources we believe to be reliable, but we cannot guarantee its accuracy or completeness. Each customer's specific situation, goals, and results, may differ.

---

© 2018. Morgan Stanley Smith Barney LLC. member SIPC

CRC 220332 08/2018

