

Managing your emotions when making stock compensation decisions

By Justin Goldstein, AIF®, a financial advisor in Madison, Wisconsin.

Please note this article was originally written for employees based in the U.S., although the concept and most rules apply to employees worldwide. Check the tax code and rules for your country.

Emotions can have a powerful impact on financial decision making. They can lead to errors resulting in losses or missed opportunities, whether with regular investing or with stock compensation or employee stock purchase plan (ESPP) participation.

How individuals can avoid irrational behavior

Even the most disciplined, financially savvy executives can be tempted to go with the crowd or to act on a hunch, especially when confronting informal company pressure to be a "good corporate citizen" and not sell company stock during big upturns or downturns or periods of volatility. Here are some recommendations for recognizing the potential for errors and avoiding costly mistakes.

Awareness. Know yourself and think about how you make decisions. When considering option exercises, ESPP participation, or sales of shares acquired from restricted stock/RSUs vesting, step back and list the pros and cons. Evaluate what is fact and what is opinion and how this decision will affect your finances over the long term.

Discipline. Create and maintain an overall financial and retirement plan and stick to it. Resist the temptation to bail out during volatile times. Remember that a "hold" strategy performs better over the long term than trying to time the market. However, discipline also can mean knowing when to sell if your holdings are overconcentrated in your company's stock. Losses and gains may happen over time, so don't succumb to loss aversion and do nothing when your financial plan indicates you should make a change.

Prioritizing savings. Prioritize retirement savings and set up an investment plan that considers company stock proceeds and dedicates a set amount each month for important long-term goals. For many, myopia too easily sets in. Try to avoid spending all available money on short-term wants.



Putting your strategy in writing. Some employees work with advisors to set up a written investment strategy that includes scenarios and how they would act under those circumstances. This allows for flexibility within the parameters of a financial plan and helps avoid making decisions based on emotion. For example, the plan could detail action to be taken if the market decreases by 20% or increases by 20%. These plans can prove helpful if an employee begins to doubt his or her long-term strategy. A written plan provides a roadmap when the emotion of intuition takes hold.

Visualizing the future. Counter potential myopia by thinking about your life 10, 20, and 30 years in the future, including the lifestyle you want and the lifestyle you will be able to afford with a disciplined financial plan that includes your stock compensation. Compare that with the potential savings over time in your financial plan to help stay on course.

This article is based on an article from [myStockOptions.com](https://www.mystockoptions.com) written by Justin Goldstein, AIF®, a financial advisor in Madison, Wisconsin.

This content is provided under arrangement with [myStockOptions.com](https://www.mystockoptions.com), an independent source of online stock plan education and tools. Content may not be reproduced without express permission from [myStockPlan.com](https://www.mystockplan.com), Inc., or Fidelity Investments.

[myStockOptions.com](https://www.mystockoptions.com) and Fidelity Stock Plan Services are not affiliated.

This information is intended to be educational and is not tailored to the investment needs of any specific investor.

Fidelity Stock Plan Services, LLC, provides recordkeeping and/or administrative services to your company's equity compensation plan, in addition to any services provided directly to the plan by your company or its service providers.

Fidelity Stock Plan Services, LLC

© 2020 FMR LLC. All rights reserved.

926592.1.0