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# Hot Employer Stocks Could End Up Burning Some Young Tech Tycoons

The Lesson of One-Time Highfliers Such as Pets.com Is to Diversify Your Holdings

Today's young tech tycoons should heed the meltdown of one-time highfliers such as Pets.com and Webvan.

San Francisco, which was built on a gold rush, is in the midst of yet another one. Will today's young tech tycoons make the same mistakes that their predecessors did in the late 1990s?

The boom in Internet and technology stocks—from comparative newcomers such as Facebook and LinkedIn to veterans such as Google and Apple—is creating another generation of the young and newly rich. Even middle-ranking employees at highflying companies are seeing their stock and options swell into paper fortunes. Many are still in their 20s.

They are driving the city's booming economy and sending real-estate prices soaring. Prices in the hottest neighborhoods, such as Noe Valley, have risen 70% in the past two years, according to real-estate-information website Zillow. "They're happy to overbid by $300,000 or $400,000″ on properties costing $1 million or $2 million, says Heidi Mueller, an agent at local real-estate firm BayAreaRelo.

So far, the good times continue to roll. It has been 14 years since the last dot-com boom burst. Maybe this time will be different. But then again, maybe not.

If you are among the city's new high-tech elite, what should you do? Should you hang on to all your company stock and options and hope they keep going up—or should you play it safe and reduce your holdings, even at the risk of missing out on further gains?

The answer—based on rules of basic financial prudence and risk management that apply in Silicon Valley just as they do everywhere else—is easy, say financial experts.

Sell down your holdings substantially, says Christopher Dalto, a financial planner in Waltham, Mass., whose clients include many in the technology industry. Your company's stock and options should be no more than 10% to 15% of your net worth, says Judy McNary, a planner in Broomfield, Colo.

Reinvest the money "in a broadly diversified portfolio that doesn't include shares in the company where you are making all your money," says Gifford Lehman, a planner in Monterey, Calif.

Those with big stakes in their employers are taking on “multiple layers of risk” and running the danger of “double trouble,” Mr. Dalto warns. If things turn down, as happened after 1999, they may see their savings and their job vanish at the same time.

Many experts suggest counterbalancing the riskiness of the high-tech industry by tilting the rest of a portfolio toward more-conservative investments, such as bonds and high-quality, low-volatility stocks.

Yet many of today’s tech elite will probably ignore the common-sense advice, say experts. If history is any guide, they will likely hang on to most or all of their stakes.

“These young hotshots are highly intelligent [and] have experienced success early,” Mr. Lehman says. As a result, they “have an enhanced perception of both their own omnipotence and diminished perception of risk.”

Their intelligence could well lead to overconfidence, says Trent Porter, a financial planner in Denver. “Doctors are notoriously bad investors because of their egos, and I’m starting to see the same thing with tech entrepreneurs.”

Another factor: They might not want to seem disloyal to their companies by selling stock. They might fear that if they do, and the stock keeps going up, they will miss out on big profits and look foolish to their co-workers.

Many of today’s new tech tycoons are so young they barely remember the last dot-com crash or have forgotten how quickly the mood can change. Names like Pets.com and Webvan—dot-com highfliers that crashed—seem like ancient history.

And here is what is widely forgotten: After 1999, even the stocks of companies that survived and went on to become great successes, such as Amazon.com and Priceline.com, also collapsed. Those holding stock or options in these companies saw their wealth eviscerated. They had to wait many years to recover.

Young Internet companies live in a volatile industry where today’s pioneer is next month’s old news. And many of today’s hot stocks now trade at lofty valuations in relation to their annual revenues or earnings, meaning they may be especially vulnerable to any pullback.

Yes, selling down your stake means you will make less if the stock keeps going upward. But it will keep you from moving back in with your parents if things go wrong.

Financial planners advise that if tycoons do choose to sell, they should establish a plan in advance and sell methodically. And they urge talking to an accountant first. “With stock options, it’s essential to talk to a CPA about the potential tax ramifications of any sale,” says Mr. Porter, who has had clients come to him for investment advice after cashing out a large amount of stock options. Some discover they could have easily halved their tax bill with a slight change in timing, he says.

They also should seek professional tax and legal advice. New wealth can bring a host of complications that the young may not have considered, such as the need to draw up a will or purchase liability insurance.

For many, handling this new wealth will prove a psychological challenge as much as a financial one, experts say.

“Be humble about your wealth, don’t spend too much on toys and homes” and save money instead of trying to keep up with your peers, advises Laura Scharr-Bykowsky, a financial adviser in Columbia, S.C.

Some of her clients are tech veterans. One moment they had senior and powerful jobs. The next, they were downsized and they couldn’t find work.

Many financial planners suggest that the newly rich also seek out a trusted counselor, or even a psychologist, to discuss how their new wealth can change their lives—for good and bad.

“You are smart, you worked really hard, maybe you deserve to make all that money—but you were also lucky,” Mr. Lehman says. “So don’t overestimate your ability to keep this going on indefinitely, and don’t underestimate the things that can go wrong.”

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