3 Signs You Are Too Attached To Your Employer's Stock

By Robert Clarfeld, 10 Sept 2018 Investopedia

Becoming too emotionally attached to investments can result in irrationally clinging to an asset longer than you should. This can be especially true of stock issued or sold to you by your employer.

Taking an unrealistic view of your company stock can lead to a critical lack of portfolio diversification. Whether it's being overconfident about the stock's prospects or refusing to accept a loss, a lack of objectivity can leave your portfolio vulnerable to market shocks and can affect your long-term financial stability.

Here are three ways your overly sentimental attitude toward your company's stock can land you in financial hot water.

1. Not doing proper research

Knowledge is power, but overestimating the level of insight you have in your company's competitive situation can be disastrous. For example, an executive who is instrumental to the management of a company might believe that he or she has superior insights regarding its position in the marketplace. This executive might ignore brewing negativity that may impact market sentiment, and potentially its stock price.

Understanding and seeking out objective research, data and analysis, while at the same time paying attention to current market dynamics, is the key to making rational investment decisions.

2. Being emotionally attached

Being too emotionally attached to your company's stock can also lead to an over-concentration and a lack of portfolio diversification. Perhaps your stock was granted to you as part of your compensation, which makes it difficult to view it objectively.

Being overly sentimental makes you less realistic when it comes to the value of your asset and, in some cases, oblivious to new data and developments surrounding the company, industry or market environment. As you are closely entwined with your company, you hold firm to the position that your stock is undervalued. You may hang on to it, refusing to sell at the current price because you believe you should get more for it than the market is willing to pay, and you will get what you want in due course.

One way to ensure you don't have this mindset is to ask yourself: "If I didn't already own (or have a contractual requirement to hold) a particular stock based on its merits, would I buy it at the current price?" If the answer is no, then you likely have your answer.

3. Refusing to accept a loss

Taking a loss is always hard to do, and some investors may be tempted to stick with a stock whose price has plummeted, in the belief that it will bounce back to where they first bought it. As such, individuals may tend to avoid selling a stock when the price is down to avoid the recognition of a loss.

A bigger mistake would be to purchase additional shares at declining prices. Small losses can easily become big ones and the problem can be exacerbated. In regards to your company stock, recognizing when to accept a loss is an important part of maintaining a stable investment portfolio.

Generally, any asset held for a long period of time is viewed by its owner as undervalued relative to the marketplace. The only way to contend with this misperception is to examine your company stock holdings dispassionately. Diversify your holdings, reduce emotional attachments to any single investment, and ensure your portfolio is set up with the potential for long-term growth.