Employees with too many eggs

Employee share purchase plans can be a terrific method to attract, retain, motivate and incentivise staff, and to allow staff to participate in the growth of a company. Many companies allow staff to purchase shares, pay them off little by little over a period of time and then become the full owner of the shares with the ability to sell the shares, hopefully for a healthy profit. While there are many benefits, there are also a number of risks when investing with the company that may also be your employer.

One investment story that caught attention recently was the dramatic fall in the share price of Wynyard Group shares. Wynyard announced in 2014 an incentive scheme to enable employees to purchase shares in the company.

Wynyard Group is a market leader in serious crime fighting and security software used by law enforcement agencies, Governments, major financial institutions and infrastructure corporations around the world. There are over 240 employees at Wynyard with operations in six key regions; United States, United Kingdom, Canada, United Arab Emirates, Australia and New Zealand.

For a small New Zealand company, Wynyard is certainly punching above its weight in the international arena. However companies that grow quickly often require fresh capital to ensure growth plans can be continued. In mid February, Wynyard planned to raise $30 million through a one for four rights issue at a discounted price of 85 cents per share, a price almost half the previous close price of $1.54. With the plan rejected, Wynyard was forced to halt trading in the shares while alternative funding could be arranged. Many of the large institutional shareholders (fund managers, KiwiSaver managers and the like) agreed to commit to an amended rights issue.

It's important to evaluate a share purchase plan just like any other investment, consider the risks as well as the benefits, and not to let personal knowledge of the company cloud reasonable judgment. Think about the worst case scenario, if the company failed investors could lose both their investment and their job, the unfortunate tale of Dick Smith Group is a very recent case in point. Dick Smith Group even won an award for 'Best New Employee Share Plan" in 2014 yet entered receivership less than 2 years later.

Employee share plans can be very rewarding if the company performs well, but always consider the risks financially, the risk of capital loss as well as employment loss. As with any investment, it's wise not to have all your eggs in the one basket.

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