

I Miss My “Guaranteed” 15% Return (or Better) Every 6 Months

Last week I was reading a post by fellow a blogger and unfortunately did not bookmark the post. And to make matters worse, I don't remember which blog it was (first thank you to the blogger for the inspiration for this post, secondly this post is going live a few months since reading that post). However, the post was talking about how even people who work in Finance don't make the best decisions when it comes to their finances. It reminded me of a story that I would like to share with you all here.

Back Story

I used to work for a public company a little over a year ago that offered an “employee stock purchase program” or ESPP for short. The program allowed all employees who opted to participate to buy company stock at a discounted price. Here are the particulars on how it worked:

- Employees could allocate up to a max of 15% of their income, but there was a cap at 4,000 shares per purchase window.
- The shares were distributed every 6-months.
- The price was discounted by 15%. But the kicker was that the priced used for calculation was the lower of the closing price on the 1st or last day of the 6-month trading window. So if the stock closed day 1 at \$10 and then on the last day before distribution at \$15, then the starting price before the discount would be \$10. The cost to employees was then discounted by 15%, which in this example would have resulted in a share price of \$8.50/share (for a gain of \$6.5/share or 76.5%).
- Shares were allocated out in July and January. After every distribution you had about 2 weeks to sell your shares before the blackout period. You didn't have to sell, but because we were a public company we had certain windows to sell. I always sold my shares immediately after distribution.

This was a sweet deal that I really miss. You don't get too many opportunities for a guaranteed return like this. Well, it was almost guaranteed.

My Analysis before participation

At first the program sounded a little too good to be true. When I was first informed of the program, the worst case scenario I came up with was that the stock finished on its lows and you only got a 15% return instead of something greater. So if you reverse my example from above, let's say the stock started at \$15 and then closed on the last day at \$10. Your cost per share would still be \$8.50, but the return now is only 15% (\$1.50/share).

Again I thought to myself "that is a sweet deal, but there has to be a catch..."

What if the stock tanked pre-market on the day of distribution? The stock would have to decline by more than 15% before you lost any money. But **it could happen**. Obviously in my first example you had a lot more cushion. So I decided to do one final piece of analysis before I signed up for the program. Don't get me wrong, I had always intended to sign up for the program, I just wanted to know exactly what I was signing up for (you should always do your homework).

The next thing I did was download the historical closing prices for the past 23 years. First I filtered the data to isolate January, June, July, and December closing dates as these would be the start and end months of each of the two 6-month windows needed for analysis.

I was now armed with the data set that I needed to complete my analysis. Of course I did this in Excel (such a handy tool).

[share title="Digging the blog? If so, can you please share this post on your favorite social media channel?" facebook="true" twitter="true" google_plus="true" linkedin="true" reddit="true" email="true"]

The Analysis:

Start	Close	End	Close	Lower OF	-15%
7/2/1990	\$ 23.88	12/31/1990	\$ 14.50	\$ 14.50	\$ 12.33
1/2/1991	\$ 14.50	6/28/1991	\$ 12.25	\$ 12.25	\$ 10.41
7/1/1991	\$ 12.00	12/31/1991	\$ 6.88	\$ 6.88	\$ 5.85
1/2/1992	\$ 6.88	6/30/1992	\$ 5.62	\$ 5.62	\$ 4.78
7/1/1992	\$ 5.50	12/31/1992	\$ 6.00	\$ 5.50	\$ 4.68
1/4/1993	\$ 6.25	6/30/1993	\$ 12.00	\$ 6.25	\$ 5.31
7/1/1993	\$ 11.50	12/31/1993	\$ 14.12	\$ 11.50	\$ 9.78
1/3/1994	\$ 14.88	6/30/1994	\$ 13.62	\$ 13.62	\$ 11.58
7/1/1994	\$ 13.25	12/30/1994	\$ 15.25	\$ 13.25	\$ 11.26
1/3/1995	\$ 15.25	6/30/1995	\$ 26.25	\$ 15.25	\$ 12.96
7/3/1995	\$ 27.38	12/29/1995	\$ 34.19	\$ 27.38	\$ 23.27
1/2/1996	\$ 33.31	6/28/1996	\$ 30.00	\$ 30.00	\$ 25.50
7/1/1996	\$ 29.75	12/31/1996	\$ 21.38	\$ 21.38	\$ 18.17
1/2/1997	\$ 21.25	6/30/1997	\$ 32.00	\$ 21.25	\$ 18.06
7/1/1997	\$ 31.75	12/31/1997	\$ 28.63	\$ 28.63	\$ 24.34
1/2/1998	\$ 28.00	6/30/1998	\$ 19.94	\$ 19.94	\$ 16.95
7/1/1998	\$ 19.81	12/31/1998	\$ 30.00	\$ 19.81	\$ 16.84
1/4/1999	\$ 29.94	6/30/1999	\$ 26.06	\$ 26.06	\$ 22.15
7/1/1999	\$ 26.62	12/31/1999	\$ 15.50	\$ 15.50	\$ 13.18
1/3/2000	\$ 14.81	6/30/2000	\$ 15.56	\$ 14.81	\$ 12.59
7/3/2000	\$ 15.50	12/29/2000	\$ 19.38	\$ 15.50	\$ 13.18
1/2/2001	\$ 18.25	6/29/2001	\$ 25.00	\$ 18.25	\$ 15.51
7/2/2001	\$ 24.12	12/31/2001	\$ 17.20	\$ 17.20	\$ 14.62
1/2/2002	\$ 17.00	6/28/2002	\$ 24.80	\$ 17.00	\$ 14.45
7/1/2002	\$ 25.12	12/31/2002	\$ 26.66	\$ 25.12	\$ 21.35
1/2/2003	\$ 27.40	6/30/2003	\$ 16.49	\$ 16.49	\$ 14.02
7/1/2003	\$ 16.70	12/31/2003	\$ 17.73	\$ 16.70	\$ 14.20
1/2/2004	\$ 17.60	6/30/2004	\$ 23.81	\$ 17.60	\$ 14.96
7/1/2004	\$ 23.59	12/31/2004	\$ 29.79	\$ 23.59	\$ 20.05
1/3/2005	\$ 29.95	6/30/2005	\$ 15.98	\$ 15.98	\$ 13.58
7/1/2005	\$ 15.74	12/30/2005	\$ 13.84	\$ 13.84	\$ 11.76
1/3/2006	\$ 13.85	6/30/2006	\$ 12.18	\$ 12.18	\$ 10.35
7/3/2006	\$ 12.14	12/29/2006	\$ 15.75	\$ 12.14	\$ 10.32
1/3/2007	\$ 15.47	6/29/2007	\$ 14.13	\$ 14.13	\$ 12.01
7/2/2007	\$ 14.36	12/31/2007	\$ 8.58	\$ 8.58	\$ 7.29
1/2/2008	\$ 8.53	6/30/2008	\$ 9.82	\$ 8.53	\$ 7.25
7/1/2008	\$ 9.96	12/31/2008	\$ 1.84	\$ 1.84	\$ 1.56
1/2/2009	\$ 2.07	6/30/2009	\$ 1.85	\$ 1.85	\$ 1.57
7/1/2009	\$ 1.97	12/31/2009	\$ 2.02	\$ 1.97	\$ 1.67
1/4/2010	\$ 2.24	6/30/2010	\$ 3.70	\$ 2.24	\$ 1.90
7/1/2010	\$ 4.11	12/31/2010	\$ 5.07	\$ 4.11	\$ 3.49
1/3/2011	\$ 5.43	6/30/2011	\$ 4.70	\$ 4.70	\$ 4.00
7/1/2011	\$ 4.87	12/30/2011	\$ 3.61	\$ 3.61	\$ 3.07
1/3/2012	\$ 3.73	6/29/2012	\$ 2.33	\$ 2.33	\$ 1.98
7/2/2012	\$ 2.32	12/31/2012	\$ 4.25	\$ 2.32	\$ 1.97

Stock Returns selling after allocation			
Sell Date	Sell Price	Gain/(Loss)	% Return
1/5/1991	\$ 12.12	\$ (0.21)	-1.7%
7/3/1991	\$ 11.50	\$ 1.09	10.4%
1/5/1992	\$ 7.75	\$ 1.90	32.5%
7/5/1992	\$ 5.25	\$ 0.47	9.9%
1/5/1993	\$ 6.25	\$ 1.58	33.7%
7/5/1993	\$ 11.25	\$ 5.94	111.8%
1/5/1994	\$ 15.37	\$ 5.60	57.2%
7/5/1994	\$ 13.50	\$ 1.92	16.6%
1/4/1995	\$ 15.25	\$ 3.99	35.4%
7/5/1995	\$ 27.13	\$ 14.17	109.3%
1/3/1996	\$ 32.50	\$ 9.23	39.6%
7/3/1996	\$ 30.50	\$ 5.00	19.6%
1/5/1997	\$ 20.87	\$ 2.70	14.8%
7/5/1997	\$ 31.75	\$ 13.69	75.8%
1/5/1998	\$ 27.88	\$ 3.54	14.6%
7/5/1998	\$ 19.31	\$ 2.36	13.9%
1/5/1999	\$ 29.56	\$ 12.72	75.6%
7/5/1999	\$ 25.56	\$ 3.41	15.4%
1/5/2000	\$ 13.94	\$ 0.77	5.8%
7/5/2000	\$ 15.00	\$ 2.41	19.2%
1/3/2001	\$ 20.00	\$ 6.83	51.8%
7/4/2001	\$ 24.11	\$ 8.60	55.4%
1/5/2002	\$ 18.85	\$ 4.23	28.9%
7/3/2002	\$ 23.05	\$ 8.60	59.5%
1/5/2003	\$ 27.28	\$ 5.93	27.8%
7/5/2003	\$ 17.99	\$ 3.97	28.3%
1/5/2004	\$ 17.71	\$ 3.52	24.8%
7/5/2004	\$ 23.08	\$ 8.12	54.3%
1/5/2005	\$ 28.73	\$ 8.68	43.3%
7/5/2005	\$ 16.33	\$ 2.75	20.2%
1/4/2006	\$ 13.75	\$ 1.99	16.9%
7/5/2006	\$ 12.03	\$ 1.68	16.2%
1/3/2007	\$ 15.47	\$ 5.15	49.9%
7/4/2007	\$ 14.43	\$ 2.42	20.1%
1/5/2008	\$ 7.73	\$ 0.44	6.0%
7/5/2008	\$ 9.07	\$ 1.82	25.1%
1/5/2009	\$ 2.05	\$ 0.49	31.1%
7/5/2009	\$ 1.74	\$ 0.17	10.7%
1/5/2010	\$ 2.19	\$ 0.52	30.8%
7/5/2010	\$ 3.70	\$ 1.80	94.3%
1/5/2011	\$ 5.27	\$ 1.78	50.9%
7/5/2011	\$ 4.79	\$ 0.80	19.9%
1/4/2012	\$ 3.74	\$ 0.67	21.9%
7/4/2012	\$ 2.37	\$ 0.39	19.7%
1/5/2013	\$ 5.29	\$ 3.32	168.3%

Positive	44
Negative	1
Break Even	-

Max	168.3%
Min	-1.7%

Average	37.5%
---------	-------

As you can see from the above table, my data set included 45 6-month investment periods. The average return over the entire data set was 37.5%. And there was only 1 instance where you lost any money as long as you sold your shares immediately after distribution.

The 1 loss was minimal at -1.7%.

This meant that this program was profitable 98% of the time with a very low risk of losing money.

How my distributions worked out

My first distribution I sold returned almost 180% on my money.

My second distribution made produced a return of 120%.

And my last distribution before leaving the company returned 70%.

Note: I always maxed out my contribution to 15% of my salary.

Yes, I had to deal with short-term capital gains. I would argue that sometimes tax deferral is not always the best option. And taxes can be a good problem to have. At the end of the day it means you made money. I sold my shares immediately after distribution for the following reasons:

1. This company was responsible for my salary, and I didn't want to have all my eggs in one basket.
2. Nobody ever went poor taking a profit. You don't look a gift horse in the mouth.
3. Although this employee benefit was very lucrative to its employees, the company was and continues to be in a poor financial position. For example, I made my last stock sale at a price of \$8.54/share before I left the company...Today the stock is trading at less than \$2/share.

Conclusion

If your company offers a similar benefit, I highly recommend you take advantage of it. I would even go as far to say that this should be put at a higher priority than maxing out your 401K. There were a few employees that I worked with that were apprehensive to max this out because of cash flow issues. So I had them lower their 401K contributions for the first 6-months of the year, and divert those

funds to the ESPP program. Then after the first distribution in July they could sell their distribution and use that money as a pad in their bank account so that during the 2nd half of the year they could catch up on the 401K contributions and also continue participating in the ESPP.

I do miss my employee stock purchase program. The company I currently work for is private and has no such program.

Does your company offer an employee stock purchase program? Do you participate? How does the one your company offers work?

- Gen Y Finance Guy

Enter you email below for two free gifts:

1. Net Worth Tracking tool that I use to produce my [monthly financial reports](#).
2. Top 3 Financial tools to win the Freedom Fight and build your wealth (PDF).

* indicates required

Email Address *



Gen Y Finance Guy

Hey, I'm Dom - the man behind the cartoon. You'll notice that I sign off as "Gen Y

Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own [financial stats](#). I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! [Read More](#)