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IN BAD COMPANY

By GREGORY BRESIGER

May 21, 2006 -- Sometimes an apparent bargain isn't such a bargain.

Say your employer is offering you a chance to buy company stock for your 401(k) plan at a discount. What a bargain, some may think. Should you grab as much as you can?

Probably not, say most financial advisers.

"Generally speaking, owning company stock is not a good idea," says Robert Wander, a certified financial planner with his own advisory firm in Manhattan. He usually tells clients not to purchase company stock.

"Most people buying company stock are taking too much risk. Then they buy too much and feel emotionally tied to it as they do to their company," adds Raymond Mignone, a certified financial planner with his own advisory practice in Little Neck.

Mignone doesn't want company stock to be more than a small piece of an investment portfolio. So he tries to persuade clients to cut their emotional ties to a company.

"The employer wouldn't think twice about downsizing your job," Mignone tells clients who have lots of company stock. And, even if they have done well with the stock, it's still risky, he adds.

That risk became all that more real this past week as the markets tanked in the face of inflation concerns. With too much of your portfolio weighted toward one equity, you risk too much.

However, if clients insist on buying company stock, Wander advises them that they should purchase very small amounts. Ten percent of a portfolio in company stock would be tops, he says.

"One's compensation is already tied up in your job, and now some of your investments, such as company stock in the 401(k) plan, are in the same place," he warns.

Here is the potential disaster scenario: You lose your job at the same time your company's fortunes plummet. Indeed, you lose your job precisely because your company is suddenly in trouble.

This is a scenario that blindsided former employees of WorldCom, Enron and at several airlines - they lost their weekly paycheck at the same time the bulk of their retirement assets vanished.

Yet - despite the endless publicity about these horrific outcomes - the problem persists.

Employees' biggest investment in their 401(k) plans is company stock, according to a new study by Hewitt Associates, a human resources firm that looked at how employees invest their retirement assets.

Some 27 percent of average 401(k) balances are in company stock, the study said.

"With such little evidence that many employees understand or appreciate the risk of owning large amounts of company stock, diversification remains an issue in many plans," according to Lori Lucas, director of participant research at Hewitt Associates.