Enjoying the Ride: A New Year Brings New Opportunity

BY SCOTT BROWN
SPONSORED CONTENT

There's nothing like the debut of a new product to get a consumer's adrenaline going. This is true whether it's a new bike, a set of skis, an iPhone release, or an IPO or initial public offering.

An IPO is the process of a private company selling its stock to the public for the first time and is a very exciting moment for the company. Depending on the company, an IPO can cause quite a buzz and draw attention from retail investors and financial experts alike. Some examples of this include Uber, Zoom, and a decade ago Facebook, now called Meta. Facebook, Inc. [a] held its initial public offering (IPO) on Friday, May 18, 2012. The IPO was the biggest in technology and one of the biggest in internet history with a peak market capitalization of over $104 billion.

Companies often "go public" to raise capital for continued growth and expansion. Investing in an IPO can seem like an exciting opportunity, especially when the company going public is one you like and use and in general has a lot of buzz around it. But there are serious risks, and even the most buzz-worthy companies can perform poorly after an IPO.

"Take Facebook for example," says Brian Seay, a CFA and the founding partner of The Capital Stewards. "The IPO price was 38 dollars. After the initial price spike to $45, the stock declined significantly on the first day and closed the week around $26. Facebook eventually went on to trade in the low teens before recovering years later."

With these inherent risks in mind, most experts recommend investing in many stocks at once, rather than relying on one single company. For example, a mix of different investments that are appropriate for your situation gives broad diversification. Diversification is an investment method used to help manage risk. It does not guarantee investment returns or eliminate risk of loss including in a declining market.

For companies to offer an IPO, they first hire investment banks to underwrite their IPO. The underwriters help the company determine the initial security price, buy the securities from the issuing company, and then sell the securities on behalf of the company. Most major IPOs don't just involve one investment bank. Some of the largest IPOs have had teams of many investment banks.

Interestingly, unlike some other investments, there are some regulations around who can invest in an IPO. Being the first to invest in an IPO may require having a connection to the company or access to a broker who's been allocated stock.

Many IPO investors are institutional investors such as mutual funds, pension funds, insurance companies, and more. They could also be high-net-worth retail investors who have a relationship with one of the underwriters or selling groups.

There are generally two ways to invest in an IPO. Most individual investors don't have access to IPO shares. As a result, your only option to participate may be to buy shares at the opening price in the secondary market. In this case, you aren't technically buying them from the company. Instead, you're buying them from another investor.

But if you do have a relationship with an investment bank or broker involved in the IPO, then you may have a chance to buy the stock at the offering price. Before participating in an IPO, do your research. You can read the company's prospectus to learn about the business, its stock, and what it plans to do with the proceeds of the IPO. See if you're eligible with your account at a brokerage firm or perhaps through your connections to the company. If you have access, request your shares by submitting an indication of interest (IOI). Please note, your broker may require IOIs to be for a minimum number of shares and even so, you may not receive all of the shares you request. Last, confirm your order and place your buy order for the IPO.

Of course, a new fishing rod or bike isn't necessarily an investment that potentially earns you money or achieves gains, but I believe it does add value to the fun factor in life. As we all embark on this new adventure known as 2023, don't forget to make time for those people and things you love, and enjoy the ride!

Scott L. Brown is the CEO and Founding Partner of Shore to Summit Wealth Management. His wealth management career spans more than 25 years and he currently works and lives in Bozeman, MT with his wife and two sons.

All investing involves some degree of risk, whether it is associated with market volatility, purchasing power or a specific security, including the possible loss of principal. Stocks offer long-term growth potential but may fluctuate more and provide less current income than other investments.