BROADHURST
Financial Advisors, Inc.

The Risk in IPOs

November 25, 2022

The best time to buy a company's stock is when you can get in on the ground floor, at the initial public offering. Right?

Wrong. Very wrong. A research paper published this year looked at 1,611 initial public offerings from 2009 to 2019, measuring their return to investors over different time spans. They found that the offerings of smaller companies underperformed the market by 42.77% in the first year after the IPO, by 89.26% after two years and by 113.91% after three years. Larger companies underperformed by 14.59%, 27.74% and 25.57% one, two- and three-years' post-IPO.

The lesson, of course, is that many companies go public before they're fully mature; getting in on the ground floor tends to mean that you're buying (to stretch the analogy) an incomplete building that may or may not be built out the way you might have envisioned. This study may also tell us that companies tend to be overhyped after they've pay Wall Street brokers to sell those initial shares—but does anyone actually believe a wire house firm would try to inflate the value of something its brokers are paid handsomely to sell?

Sources:

https://deliverypdf.ssrn.com/delivery.php?ID=272102114078112023105001023119080105123053024093062045123075089065100092111002082100034017099032020059038025116118073079064070029027003086049108103006100025084079047040060104116071080027070091031088020064026000123027028020084102076071095069064106021&EXT=pdf&INDEX=TRUE

https://www.advisorperspectives.com/articles/2022/11/14/the-dismal-track-record-of-ipos

If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number (215) 325-1595 or you can click here to schedule a meeting.

Please feel free to forward this article and offer to anyone you know who might have financial questions or need some unbiased advice. Most financial advice is sales advice. In stark contrast, we are fee-only (non-commissioned) fiduciary advisors. We just provide truthful, unbiased advice to our clients.

Jeffrey Broadhurst
MBA, CFA, CFP
Broadhurst Financial Advisors, Inc.

*****PRIVACY NOTICE*****

Our physical and mail address:
1911 West Point Pike
P.O. Box 301
West Point, PA 19486-0301

Contact us:
Phone: (215) 325-1595
Email: jeff@broadhurstfinancial.com