



IPO Investing - A Word of Caution

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The most eye-catching news making the rounds currently is the initial public offering of the Newsmax channel, which took place when the bell rang on Monday. The stock rose an astonishing 735% on the first day of public trading and then rose another 60% on the second day. The investment bankers were asking for \$14 a share in the initial offering, but by the end of the second day, some investors were paying more than \$200.

This is the sort of headline that makes investors think about getting on the ground floor of newly issued stock shares. Who isn't envious of a 700% return on investment in one day?

The problem with initial public offerings is exactly what this implies: a segment of the investing public is eager to buy, sometimes at any price, and the result is a sugar-high price surge that eventually settles further than the initial share price. One only has to ponder for a moment: the investment bankers that took the company public valued it at \$14 a share. Were they that wrong about the realistic price? And would the company have voluntarily given up billions of dollars that it could have put in its coffers if they believed that the initial price matched the price on the second day of trading?

There might be a hint of an answer in the fact that none of the online valuation services are willing, at this point, to post a price/earnings ratio for Newsmax, possibly because the amount today's eager new Newsmax shareholders are paying for a dollar in earnings is stretched far beyond normal measures.

Looking more broadly at IPO investing, the curious investor can find a list of all 225 companies that went public last year, their IPO price and the price their shares are trading at today. Investors might have been eager to get in on the ground floor of Health in Tech, Inc., but if they did, they'd be experiencing an 83.45% loss as of today. Other IPO investments that weren't ideal for your portfolio include Linkers Industries, Ltd. (down 88.24%), New Century Logistics (-60.25%), Jupiter Neurosciences (-85.00%), Brazil Potash Corp. (-79.60%), Heritage Distilling Holding Company (-86.88%), Well change Holdings Company (-95.50%) and Kairos Pharma (-76.60%). In all, 122 of the 225 have been market losers, often by between 50% and 90%. Many of the exceptions basically broke even.

And who but an insider would have known to select, from this group, NANO Nuclear Energy (+561.50%), Invizyne Technologies (+106.25%) or NetClass Technology (+35.80%)?

In 2023, 106 out of 154 IPOs are currently under water, including 54 that are down more than 75%. And, yes, some of them spiked impressively before falling. Wang & Lee Group, which came out in May of 2023 at \$4 a share, saw shares touch the \$8.00 mark before falling to roughly 25 cents a share today. Chanson International Holdings came to market at \$4 a share, rose to nearly \$16 a share, and now trades at 23 cents. Galaxy Payroll Group's IPO shares were priced at \$5, rose to just under \$15 a share, and now trades at 58 cents.

The point here is that getting in on the ground floor of a company that is trading on the markets for the first time is extremely risky business. We can't see the future, but it's not hard to imagine that excited investors who were paying \$200 a share for Newsmax stock will be wondering what they were thinking a few months to a year down the road.

Sources:

<https://www.cnbc.com/2025/04/01/newsmax-stock-rises-after-ipo.html>

<https://stockanalysis.com/ipos/2024/>

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