Newsletter | Investing

Bloomberg Wealth: How to Invest in an IPO

By Charlie Wells
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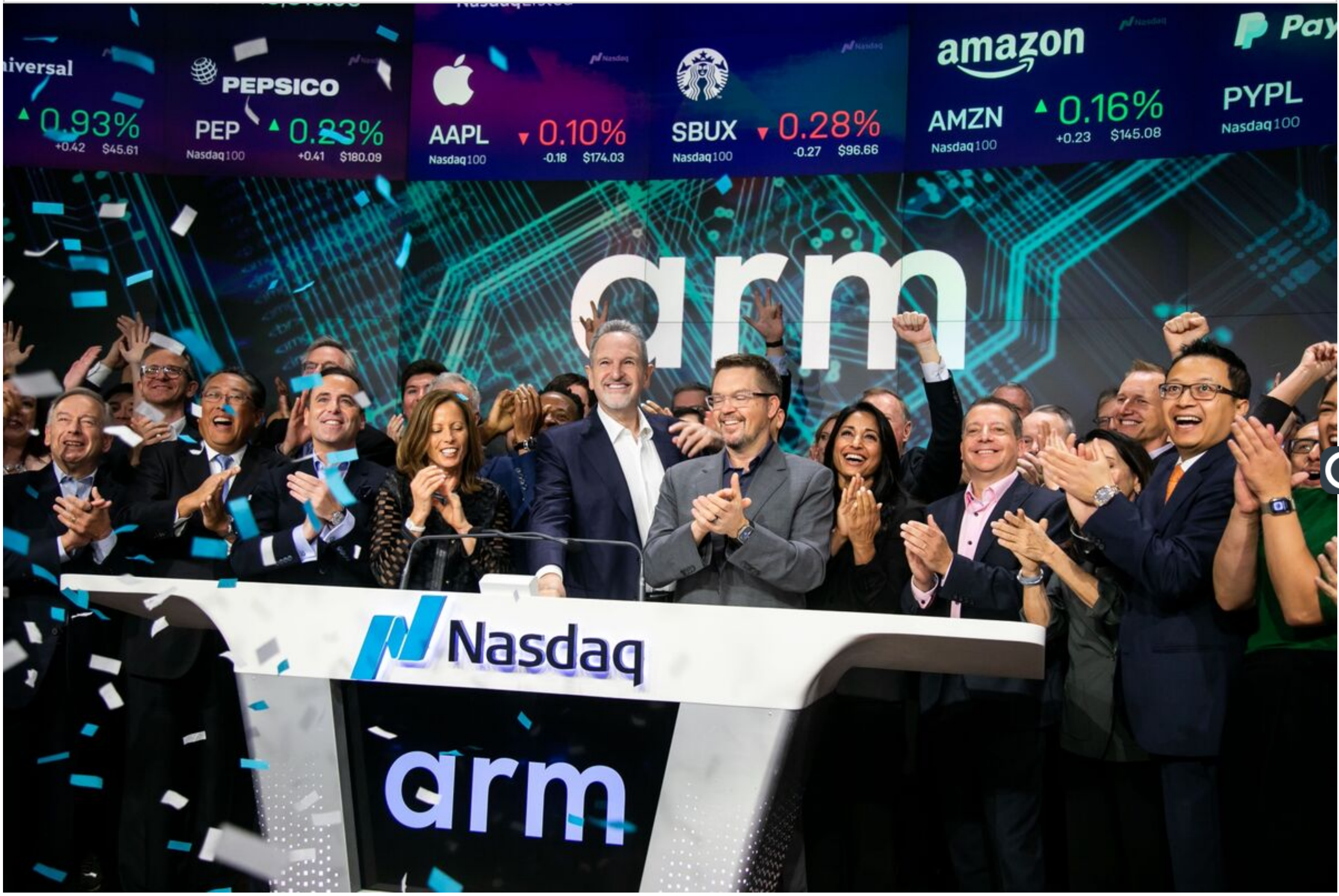


Rene Haas, chief executive officer of Arm, center, rings the opening bell with guests during the company's IPO. *Photographer: Michael Nagle/Bloomberg*

Forget the bulls and the bears. It's the bells this season that may make the most striking sounds in the stock market. But first…

Three things you need to know:

- Lionel Messi buys a $10.8 million waterfront mansion in South Florida
- Rich Norwegians are fleeing fjords for Swiss exile in a rage about taxes
- Home prices in Canada are so stretched even owners want them to fall

And now to the biggest stock-market story of the week: The IPO bells are back. This week, executives at Arm took the (very important!) chip designer public, clanging that iconic Nasdaq bell. Instacart set the stage for its initial public offering. Plus, footwear maker Birkenstock, marketing and data automation provider Klaviyo, and car-sharing business Turo pushed forward with their own IPO plans.

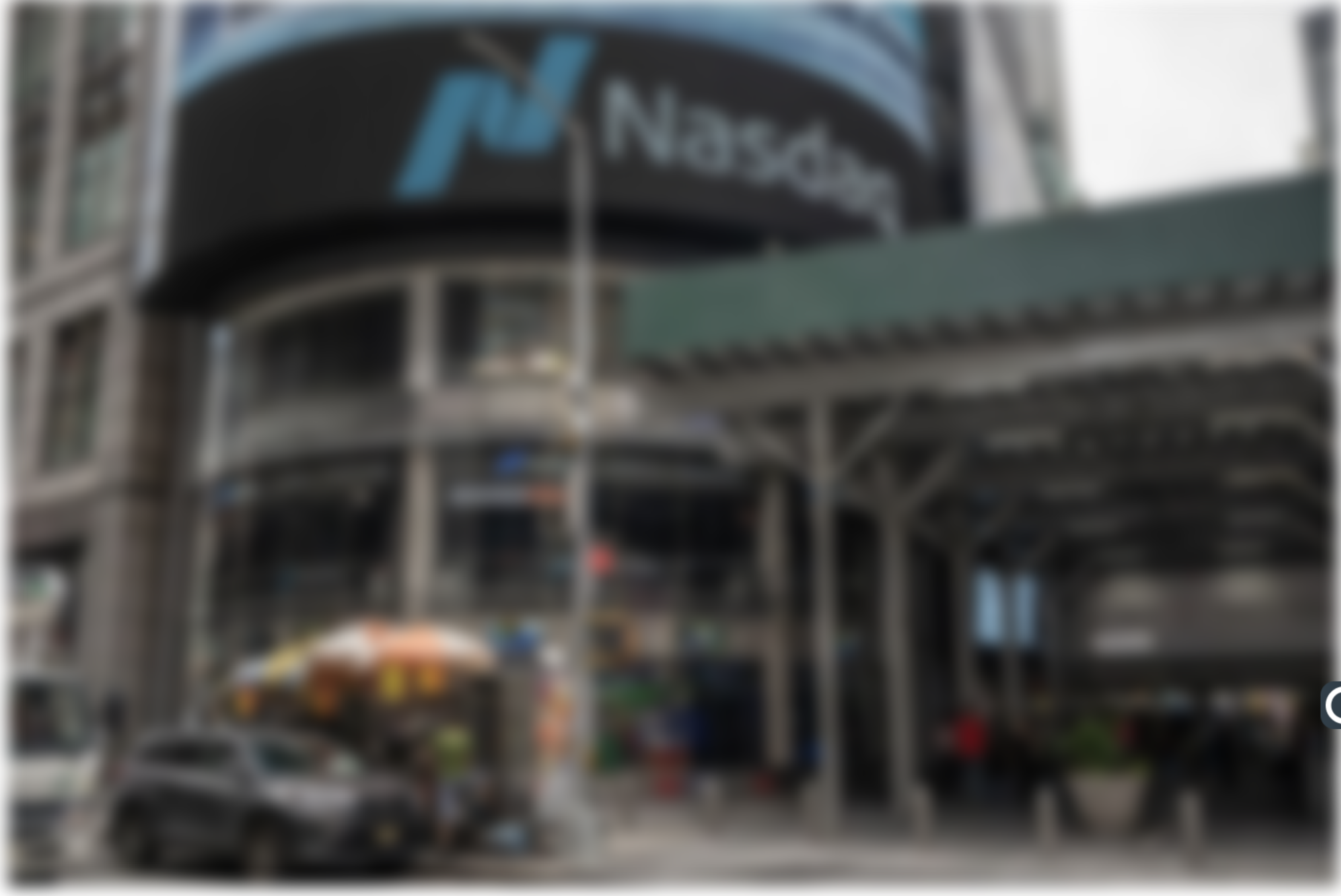
What does all this mean for the individual investor? There is an "I" in IPO – but should you invest in one? And if so, how? *Bloomberg Wealth* put these questions to financial advisers across the country, and this is what they told us:

First off, why are so many companies going public now?

"The market across the board had such a miserable year in 2022," said Kristin McKenna, president of Darrow Wealth Management, who specializes in stock options and equity compensation. "There were a lot of companies that were waiting in the wings to go public and there just wasn't anyone on the other side of that to support it."

Some context: Until now, the US IPO market had been in its longest lull since the financial crisis in 2009.

McKenna's point gets at the heart of what an IPO even is: It's the first time a company's shares are sold to the public. Typically, companies want to make sure there's sufficient demand, and it's always good if the stock jumps when it starts trading. So with the S&P 500 up 17% this year and the Nasdaq 100 up 41%, it's generally looking like a much better year to sell shares. Plus, private debt financing is getting costly with higher interest rates.



Photographer: Victor J. Blue/Bloomberg

How do you even buy shares in an IPO?

The language here gets a little tricky. By definition, once shares are made public, the public – i.e. you – can buy them anywhere you'd normally buy equities.

But what people generally want is to buy shares before everyone else can. The hope is that they'll get in early, buying low, and ideally sell high later. But this has typically been difficult for retail investors in the US. (It is, however, somewhat different in some other parts of the world where early share sales are more common.) In the US, access goes to the big money: hedge funds, asset managers, institutional investors, and other high-net-worth wealth-management clients.

At some moments of retail mania, companies have allowed everyday customers early access to their pre-IPO stock. (Robinhood did this in 2021, Boston Beer – the Samuel Adams brewer – famously did so with coupons affixed to its six-packs in 1995.) The other avenue is by working at a private company, say a startup, that later goes public. Companies often offer equity as a form of compensation.

But buyer beware. Even though some shares "pop" amidst the excitement of the first day of trading, there is no guarantee the price will be sustained over time.

“The track record of most IPOs is dismal,” said Kashif Ahmed of American Private Wealth. “The allocation for an IPO that may be available to the retail investors is the ‘leftovers,’ after all of the institutional investors, and the clients of firms that are part of the syndicate, get theirs.”

So what are the pros and what are the cons of IPO investing?

Eric Roberge, founder of the financial-planning firm Beyond Your Hammock, breaks it down pretty clearly.

“An IPO can be a great opportunity for people inside the company who have access to shares at the offering price,” he says. “It may be less of a good opportunity for all other investors, because there’s going to be this mad rush to grab stock…which drives the price up, making it not a great deal for buyers.”

McKenna of Darrow Wealth Management says even employees should tread carefully.

“There’s a real tendency for people to anchor to an IPO price or all-time high,” she says. “So if the stock drops, there’s often a hesitancy to diversify until the stock price ‘recovers.’ The problem is that there’s simply no way to know when or if it ever will.”

As the IPO market enters a more active but still uncertain time, that point rings true. – *Charlie Wells*

Send us questions about your own financial dilemmas to bbgwealth@bloomberg.net.

Question of the Week

Where's the best place to put my cash savings right now?

Don Martini, owner of Envision Financial Planning in San Francisco, writes:

> We recommend putting your cash savings in a high-yield savings account. The current rates for high-yield savings accounts are approximately 4.3% to 4.5%. Some of the names we recommend are SoFi, Ally Bank and Marcus by Goldman Sachs. All of these choices have no minimum deposits, no maintenance fees and are FDIC insured up to $250,000 per individual account and $500,000 for a joint account. These institutions also offer slightly higher rates if you lock up your money for a defined time period, usually six to 12 months.
>
> Since interest rates are variable, we recommend using a familiar bank name. Some banks will advertise high rates to attract deposits to later lower rates to a less competitive yield later. High-yield savings accounts offer much higher rates of return than traditional savings accounts allowing you to earn a competitive return while waiting until your money is needed.

For more ideas on where to invest cash right now, check out our latest "Where to Invest" feature

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