



Investor Beware: IPO Investing Can Be Dangerous!

Description

For many investors, an IPO is one of the most exciting events that could happen, especially if you're familiar with the company that's about to go public. While many IPOs surge by ridiculous amounts in the first few trading sessions, the possibility of a nasty sell-off is also likely once the hype settles and investors start becoming more realistic about the company's valuation.

IPO investing can be rewarding, but it's not for the faint of heart, because of the volatility and the lack of financial information or guidance from the management team that's available to investors. Ideally, more than five years' worth of financial data should be preferred for an investor who's seriously contemplating initiating a long-term position in a company. In addition, investing in companies that have been public for at least five years gives investors a good gauge of how the management team operates and if it's trustworthy and able to deliver on promises.

For many cases, IPOs ride on the guidance of a management team that the general public hasn't really had a chance to get to know. A lot of these executives like to drive the hype prior to an IPO by being overoptimistic on guidance or overpromising, only to underdeliver a few months down the road.

Personally, I'm not a fan of IPO investing because of the huge amount of risk that's involved.

Consider **Freshii Inc.** ([TSX:FRII](#)), which had a strong first few trading sessions, only to crash ~64% in the months that followed.

What happened here exactly?

Freshii CEO Matthew Corrin emphasized the incredible growth that his newly listed company was capable of. The company was supposed to triple its store count through 2019, which would have implied a huge amount of upside over a short period of time.

Fast forward a few months later, and the company scaled back its ambitious expansion plans. Mr. Corrin and Freshii shareholders were left disappointed following a very underwhelming announcement, which caused most investors to throw in the towel and lose all faith in Mr. Corrin's and management's credibility.

It's not just Freshii that has promised a huge amount of growth prior to an IPO. **Canada Goose Holdings Inc.** ([TSX:GOOS](#))([NYSE:GOOS](#)) also had extremely ambitious growth plans, but, unlike Freshii, it's still capable of delivering on pre-IPO promises.

When it comes to management statements and overly ambitious growth plans prior to an IPO, be skeptical. Be very skeptical. Take executive comments with a grain of salt.

Unless you've got a reason to be bullish on an IPO, it's better to skip buying the IPO game completely, at least until the dust settles and the volatility dies down in the months or years that follow. Many folks buying and selling shares of newly listed companies in the first few months are only in it for the short-term gains, so be very careful when treading into IPO territory. Know the risks.

Stay smart. Stay hungry. Stay Foolish.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:GOOS (Canada Goose)
2. TSX:GOOS (Canada Goose)

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