



Should You Buy a Hot Stock on Its IPO Day?

Description

A number of high-profile companies have gone public this year and investors often wonder if it is a good idea to buy the stocks when they make their initial public offering.

Traders often try to make quick gains, and the volatility that regularly occurs in the first few days or initial weeks of trading can deter potential long-term investors. However, good companies tend to reward investors who take a position when the business first becomes available as a publicly traded stock.

Let's take a look at two Canadian examples that have made some [investors](#) who bought the IPO quite rich.

Shopify

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) went public in May 2015. On the first day of trading, the shares closed above \$31 on the **TSX Index**. Today the stock trades at \$425 per share at writing, giving Shopify a market capitalization of \$47 billion. The stock is up more than 100% in 2019.

Shopify helps small- and medium-sized businesses sell their products online. Clients can choose from a full range of software and payment processing solutions that have made it possible for just about anyone to quickly make their products available to buyers around the world.

The company works off a subscription model where customers pay a monthly fee to use Shopify's products and services.

Canopy Growth

Formerly known as Tweed, **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) was the first Canadian marijuana company to go public. The stock finished its first day of trading in early April 2014 at about \$2.60 per share with a market valuation of less than \$100 million.

The early focus was to provide registered medical marijuana patients with reliable and safe supplies. Canopy Growth is the leader in the Canadian medical marijuana market and still sees the global medical marijuana market as a major opportunity.

Investors like to focus on the potential of the recreational market, including edibles and cannabis-infused drinks. In anticipation of the launch of the recreational pot market in Canada Canopy Growth attracted the interest of a major beverage player.

Constellation Brands, the maker of Corona, now owns a significant part of Canopy Growth after investing \$5 billion in 2018.

Canopy Growth is widely viewed as the leader in the emerging international [cannabis industry](#), and despite the recent departure of its founder, Canopy Growth appears to be on track to become a global marijuana giant.

At the current price of \$51 per share at writing, Canopy Growth has a market capitalization of just under \$18 billion.

The bottom line

Buying an IPO carries risk, as not all hot stocks continue to soar in the following years after they go public. However, those that are pioneers and show the potential to dominate their new industry can ultimately prove to be huge winners for buy-and-hold investors.

You have to be willing to stomach the volatility, but taking a small position in a top player in an emerging sector can give your portfolio a big boost in a relatively short period.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Cannabis

TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:SHOP (Shopify Inc.)
4. TSX:WEED (Canopy Growth)

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