High-Risk, High-Reward IPO Investing

Description

I've been toying around with an idea. It's based somewhat on the approach that Nassim Taleb put forth in his book, *The Black Swan*. The idea basically states that investors may do better if they lock up most of their money in extremely safe investments and take huge risks on investments with large payouts and theoretically unlimited upside with the remaining, relatively small amount of cash.

Positioning yourself in this way exposes your investments to positive black swans while keeping the majority of your portfolio safe from a major blow-up. To do so, Taleb explains that he bought options, especially out-of-the-money options. These options have a low probability of success, but if they pay off, they do so exponentially.

Keep the majority of your money safe

There are a few basic ways to keep your money safe. The first and safest method is to park your cash in GICs. This will definitely keep your cash safe and will have the added benefit of locking up your cash so that you cannot touch it for at least the GIC's duration.

The second method is to purchase bonds. In this case, government bonds are probably the best bet. They are safe, provide some yield, and can be sold if you need the cash. The only problem with these assets is the fact that you can access your cash early if you want to, making it possible to go off of the planned route if you suddenly change your mind. Corporate bonds are another decent choice for extra yield, although you need to be more careful when choosing your investment.

The third way is to buy a bond fund like the **Claymore Laddered 1-5 Year Corporate Bond**
. This offers a slightly higher yield than either GICs or government bonds at 2.68%, but it is exposed to more capital downside risk than either the GIC or government bond options. If interest rates rise, the fund will likely fall, leaving you with a capital loss. However, it is quite liquid, so you can sell the fund if you need the cash quickly.

Buy high-risk, high-return assets with the remaining 15% of your cash

For Taleb, this meant buying out-of-the-money options like long-dated options, calls, or puts on stocks or indices that will pay off massively if things go your way, all the time keeping the majority of your money absolutely safe in GICs.

If you are not into options, then you could also invest in high-risk, high-reward stocks like marijuana stocks, IPOs, venture stocks, or volatile tech names. These can pay off incredibly if they manage to catch, placing you in a position of unlimited upside for minor investments.

Just look at the returns earned by early investors in companies like **Canopy Growth**. Since Canopy went public, early investors are sitting on gains of around 35,000%. **Shopify** is another momentum all-star that has returned IPO investors over 1,000%.

Now I'm not recommending these stocks at the moment, as downside risk in each has increased dramatically. What I am saying is that if you take a risk on a variety of small companies at their IPOs, you could be rewarded massively.

But don't be fooled. The reason you take a massive risk with only a small amount of your capital is that many — more than likely most — won't work out. You stand to lose all your money on these high-risk gambles. But if one pays off, then you might more than make up for the losers.

This is a high-risk, high-reward strategy

This strategy has the potential to pay off in a big way if you manage to get lucky on one of your high-risk investments. While you do stand to lose the entire investment if you are wrong, the maximum loss is limited and known. You can only lose the money that you have put in, nothing more.

So, if you're looking at trying to score big, you might want to give this approach a try. You need an iron stomach, the discipline to lock up the majority of your capital, and the ability to eat the loss if you are wrong.

CATEGORY

1. Cannabis Stocks
2. Investing
3. Stocks for Beginners
4. Tech Stocks

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Cannabis Stocks
2. Investing
3. Stocks for Beginners
4. Tech Stocks

Date
2025/08/26
Date Created
2019/07/16
Author
krisknutson