



Warren Buffett Has Never Invested in an IPO: Should You Do the Same?

Description

Among the things Warren Buffett didn't do in 54 years of investing is to bet on an IPO. The legendary value investor made the revelation prior to the highly anticipated debut of a celebrated American company. He did not buy the shares of the recent **Uber** IPO, which is the most popular ride-hailing app, and has avoided buying new issues to this day.

Does it mean you should do the same? Buffett believe that investors should have a good reason to buy stocks not only of disruptive companies, but companies going public for the first time. Hype surrounds every new listing. Many investors think investing in IPOs can make you rich quick.

Rationale for going public

The primary basis for a company to go IPO is to raise equity capital. A company can source large sums of money by selling shares to the investing public. Funds generated from the IPO can be utilized for expansion, completion of ongoing projects, to pay off debts, or to have more cash on hand.

The roadshows that were conducted in the months leading to the big day have stimulated investors' appetites. However, the early gainers are usually company owners and employees who cash in on their holdings. Buffett said the idea of instant gains is not a solid basis for investing.

Contrasting IPOs

Let's look at the IPOs of **Jamieson Wellness** ([TSX:JWEL](#)) and **Lightspeed POS** ([TSX:LSPD](#)) to compare the [stock performances after going public](#).

Jamieson Wellness, a vitamin and natural health products company, debuted on the TSX on July 7, 2017. The objective was to raise \$300 million from the sale of common shares and use a portion of the proceeds to liquidate some outstanding debts.

With the global health and wellness trend plus the desire for a healthy lifestyle, the company expected

a successful IPO. True enough, the stock closed at \$17.30, which is 9.84% over the IPO price. As of July 16, 2019, JWEL is trading at \$20.88, or 20.7% better than the closing price on IPO day.

Lightspeed, a software maker for restaurants and retailers, went public last March 8, 2019. The company raised \$240 million on the trading debut and was regarded as [the biggest IPO by a tech firm](#) in Canada in nine years. The IPO price was set at \$16 and at the end of the session, the stock finished at \$18.90, or 18.12% higher.

As of this writing, LSPD is has gone up by 107.61% from opening day to \$39.24. Investors see the cloud-based POS and e-commerce software business to have greater potential for growth. Interestingly, Lightspeed continues to incur losses, while Jamieson has finally reported profits after three years of losses and a year after IPO.

Investing is a risk

Warren Buffett must be suggesting to “wait and see” as the company will show the real value months after the IPO. Success also depends on the timing and market environment. Understand that investing is a risk and IPOs are wild cards. You either hit or miss.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. TSX:JWEL (Jamieson Wellness Inc.)
2. TSX:LSPD (Lightspeed Commerce)

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