

THE CURRENT IPO WAVE

- After years of high interest rates and market volatility, IPO activity is picking back up
- When one major company goes public successfully, others tend to follow
- Two big ones so far this year: **SpaceX** and **Cerebras** (a semiconductor company)
- Next in line: **Anthropic** and **OpenAI**—the two biggest AI companies—have announced plans to go public

IPO DAY ONE VS. LONG-TERM PERFORMANCE

- **Day one:** Most new IPOs tend to be positive on their first trading day—driven largely by hype and demand
- **Over time:** Many IPOs underperform compared to their initial offering price as reality sets in
- A small number of big winners often account for most of the gains—the majority may not live up to expectations
- The excitement is often the driving factor early on—then fundamentals take over

UNDERSTANDING LOCK-UP PERIODS

- When a company goes public, insiders (employees, early investors) **cannot immediately sell** their shares
- Lock-up periods typically range from **90 to 180 days**
- Different groups may have different lock-up terms depending on when they invested
- **Why it matters:** When lock-ups expire, a flood of shares can hit the market and push prices down
- We recommend waiting until after the lock-up period expires before considering an investment

PRIVATE VALUATIONS VS. PUBLIC PRICING

- Private valuations are based on what investors agree to pay in funding rounds—not what the public market will pay
- There can be a **significant disconnect** between private valuation and public market pricing
- A company valued privately at one amount may go public at a very different number
- Selling to a room of investors is very different from selling to the open market

DUAL-CLASS SHARES

- Many large companies issue different classes of stock
- Some shares come with **voting rights**, others do not
- This lets founders raise money while keeping control of the company
- For most investors, this distinction doesn't change how you invest

EVALUATING PROFITABILITY

- Many new companies are **not yet profitable**—that's common
- What matters is whether they have a **clear path to profitability**
- Look at price-to-earnings ratios and compare to peers
- Extremely high P/E ratios (300+) signal high expectations and high risk

ESSENTIAL TAKEAWAYS

- ✓ Most IPOs are positive on **day one**—but many underperform over time
- ✓ Wait for the **lock-up period** to expire before considering an investment
- ✓ Minimum **2 quarters** of earnings—ideally a full year—before investing
- ✓ Private valuations don't always match **public market reality**
- ✓ Look for a **path to profitability**, not just hype
- ✓ New stocks can swing **15-20% in a day**—expect volatility
- ✓ If you invest, keep it a **small percentage** of your portfolio
- ✓ **Stay diversified**—don't chase the next big thing at the expense of your plan

Bottom Line: Getting in halfway up the mountain is often better than trying to catch the ground floor. Let the hype settle, then evaluate.

Risks of Buying Newly Public Stocks

- **Volatility:** Newly public stocks can swing 15-20% in a single day
- **Limited history:** Before going public, companies don't have to disclose detailed financials—you're largely going off what they tell you
- **No track record:** You can't see how they perform through different market conditions
- Once public, quarterly earnings reveal whether the hype was justified

OUR RECOMMENDATION

- Wait a **minimum of two quarters** of earnings reports—ideally a full year
- Let the lock-up period expire and see where the price settles
- Let the hype die down and evaluate based on actual performance
- **If you do invest:** Keep it a small slice of your overall portfolio
- We never recommend selling everything to chase an IPO—stay diversified

FITTING IPOs INTO YOUR PLAN

- It's your money—if you want to invest, we'll help you do it
- But the goal is to **keep everything diversified** and maintain a long-term plan
- A disciplined, long-term approach has historically been effective for many investors—though all investing carries risk, including the potential for loss
- Getting in halfway up the mountain is often better than trying to catch the ground floor

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