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Caveat emptor in the IPO market.

Initial Public Offerings (IPOs) are certainly not the rage they were when your humble author was a much younger man during the explosive Internet boom. In terms of dollars raised and raw numbers, today's IPO market pales in comparison to the heydays of 1999. However, from time-to-time a high-profile IPO, like Snapchat, presents itself on the scene and begins to capture consumers', journalists' and investors' attentions. To that end we must remind clients of the importance of caveat emptor, or *let the buyer beware*.

Investors are sometimes quickly enamored with statistics of first-day returns in the IPO market. And to be sure, *IF* an investor is able to get shares at the actual *offering price* (no easy feat), it is true that the average first-day return has been in the low double digits since 2001*. But intuitively we know that a robustly performing portfolio cannot be built in such a haphazard way, hoping for IPO allocations.

What about longer term? What returns can investors expect to receive by buying IPOs and holding them for more than a few hours?

Despite what your gut (and Sam Wainwright in *It's a Wonderful Life*) may tell you about the potential profit of getting in on the ground floor, the numbers are not encouraging. Since 2001 (the numbers are worse going further back) the average return for IPOs over the following three years has been slightly *worse* than the market in general. For every Google, there are dozens of Shake Shacks and Potbellies with prices that wallow ever-lower, proving it is not hype, rather fundamental results that matter in the long run.

Snap Inc. the parent of the ubiquitous Snapchat application completed its IPO at $17 on March 2. However, the cheapest price most investors could have paid on its opening day was $23.50. Subsequently, the stock has hit a low of $18.90 and today sits at $22.35. We aren't discussing the merits of or concerns about SNAP per se.

Our claim is that many of these young companies, should investors wish to purchase, are available at lower prices in the weeks and months to come. And to top it off, by then, more information that may help in the buying decision is available.

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A few rather random examples:

1. Facebook went public at $38. It could be bought for < $20 months later, < $25 over a year later.

2. It took over two years for Apple stock to rise above the price at which it traded in its opening days back in 1980.

3. Microsoft could be had for nearly the same price as its 1986 offering over six months later.

4. On 9/30/2016 Nutanix soared from its offering price of $16 to $37. Today, the company trades at $19.

5. Shake Shack jumped from its offer price of $21 to $45.90 on its first day in 2015. After some upward volatility it quickly dropped into the low $30's. It remains there today.

We are not out to disparage new companies coming to market. After all, every public company, from Amazon to Zillow, once had its IPO! We merely suggest to readers that there are ample opportunities to purchase and accumulate shares in terrific companies well beyond their IPOs. In fact, the data proves that on average it is better and safer to wait several months before making any purchase of a company with newly minted public shares.

Stirling Bridge Wealth Partners, LLC remains committed to providing customized investment solutions and robust financial planning wrapped in an exceptional service package for our high net worth clients throughout the country. We thank each of you for your dedication to us, for your trust, and for the referrals you've sent our way.

Sincerely

Jason Born, CFA
President

**We are indebted to the lifetime of work on IPOs from Professor Jay Ritter, currently the Joseph B. Cordell Eminent Scholar Chair at University of Florida, for many of the terrific IPO statistics in this letter.*

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