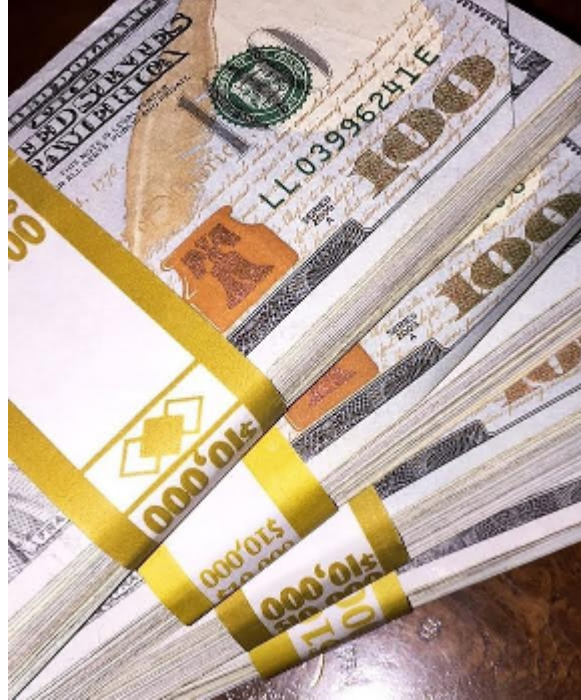


BABA IPO: The Craziest Hour of My Life



When you're an active trader, you love IPO's. They are great for cash-flow. They take a LOT of practice, because you have to react so quickly, but the risk/reward is astounding as stocks often have very dramatic price swings on its first day of trading. In the past 5 years, the IPO market has been a very good one for active traders giving us weekly opportunity to capitalize on these dramatic price swings. We had gotten our method down to such a science, by the time BABA came around, we were absolutely SALIVATING. This was the golden goose. This was the ONE. We're thinking this company is so established and has such great fundamentals that the momentum buying is going to be INSANE, it might go 50 points day one like LinkedIn!



"Am I going to make \$40,000 in an hour trading today?"

When preparing for an IPO, it is essential to have some background on the company. Besides knowing about the company's fundamentals, the price and float of the IPO have to shape your game plan. When companies have a small float, meaning they're offering a relatively small amount of shares to the public, you can expect this to be a risky IPO as the thin amount of stock will cause much more extreme price fluctuations. 1000 shares in an IPO with a 20 million share float is about 5 times as risky as those with a 100 million share float because of the simple equation of supply and demand. With much less supply, the demand is greater causing great price swings when large blocks of shares are traded.

We love the thin ones, that's fast money to us. Sometimes we only need to buy 500 shares and can make \$2,000 to \$3,000 while only having to \$350 or less risk if the IPO is a dog. No beating that. So BABA, was the perfect mix of both a thin stock while being thick enough to get a relatively heavy position without the crazy risk. We expected it to be the fastest one we've ever seen with the float being so thick but the demand so high that it's sure to have unreal price

fluctuations. I've never seen such hype and coverage around an IPO like BABA. EVERYONE was talking about it. My mother, who couldn't name one ticker, was calling me asking if I could get her involved in it. Sorry mom. We knew it was going to be way oversubscribed (meaning the demand tremendously exceeded the supply), but just how much was the question. We heard from our buddies on the floor it was going to be FIVE TIMES oversubscribed, which means there is demand for five times the amount of stock as being offered. This has 100 million shares being offered, how can that be possible?! With a price range of \$66-68 and 5x oversubscribed, where would this open? 90? 100? Over 100?? We were all taking our guesses.

Finally, it opens. My computer and level 2 is moving IMPOSSIBLY fast. You can't see one price except that it opened up above 90 and judging off the fast price action, it seemed 90 was holding off the bat. There was extreme selling pressure right away but there was a wall of buyers supporting it until they became too powerful. Seeing this, I scooped up 2000 shares long at 91.80 and put my stop at 89.99. You couldn't see a thing! We had the best internet connection possible and it wasn't close to being quick enough! This is one of the situations where you have to say to yourself, "I have to stay locked in, I cannot lose focus for one second because that can lead to a vital mistake which can mightily hurt my account."

So this bad boy starts to catch momentum. I've never seen my P&L move so quickly. All the guys are screaming about where the prices are at because it's moving so quickly, no one's sure whose computer is real time and whose is lagging. I threw out random offers to sell $\frac{1}{4}$ of my position between 96 and 97 and they IMMEDIATELY got taken. Where the hell was this stock really? My computer is showing me 97 but it could be at 100 for all I know. All of a sudden you hear someone scream, "IT'S FUCKING GOING FOR IT! IT'S GONNA DO IT!" Holy shit. This thing's gonna break 100. I can't sell one more damn share before that! I had offers to sell scattered between 100 & 110, it's about to be pay day.



All of a sudden, my P&L starts going the other way. It didn't break 100. The stock ran into a brick wall that put the Great Wall of China to shame. I was up 15k a second ago, now I'm up 8? Now 5?! I can't get out here! It HAS to rage back up. These sellers were just too strong. I watched it sink and sink and sink. I've taken many losses in my day, but never felt a pit so sharp in my stomach as this day. At this point, without a plan to sell, I could do nothing but watch this decline and decline until it finally took out 90 to the downside. In a 15 minute span I went from up \$15,000 to down \$2,000. It finally takes out 90 and stops me out confirming the losses. Unbelievable. How can that be? How can it change character so quickly?

Then, the worst thing happened. My \$89.99 stop ended up filling me at \$89.90 for the loss. The dead low. All this needed to do was take out lows and get the weak money like myself out. It RAGED up after that. I thought to myself, "I'm gonna be sick," as BABA quickly recovered back up to 96.

So I took my losses and watched some of my buddies do really well that day, while I learned much more valuable lessons about being greedy and having a game plan. Even though they're moving very fast, to capitalize on IPO's you need to be able to make a quick game plan on your feet in a split second or you're going to lose money. There is no such thing as a Golden Goose, stocks are going to move how they want to move. These are cash-flow trades not retirement packages, you can't just sit there holding stock thinking you're never going to sell it. What goes up, must come down. Even though it was a losing effort, I would never trade this day in for anything. Yes I lost some money, but it wasn't the end of the world. It may have felt like it in real time, but the lessons I learned have made me such a better trader that it was all worth it.