

IPO Underpricing (US)

Introduction to Investments
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IPO Pricing

- In short-run there is underpricing on average perhaps because: hard to price, no history, no pure play, new space, or are investors overoptimistic (winner's curse).
- If price is set too high, investor rejects, if set too low, firm gets too little.
- Do Investment Banker's underprice deliberately? Loss of repeat business versus Investment Banker-IPO's underpriced too !!!
- Long-run there is underperformance. Several can and have traded below offer prices, many not even alive.
- Notion of hot and cold IPO markets (PETCO, Jet Blue, came out in "cold" times but performed decently).
- Groucho Marx Rule : If you (individual) can get an ipo allocation, you probably don't want it!!!
- One can also buy an index or fund that invests in IPO s – Renaissance IPO Index fund.

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