Make Money from IPOs without Buying an IPO

In late 2015, Ferrari (RACE) raced onto the market floor at a high of $60 a share.

Here was a $12 billion IPO rolling on to the showroom floor, oversubscribed 10 times over. Investors were excited. Anticipation was high. The press noted it could be a hot runner even though the company had just said net profits fell 34%.

Unfortunately, just as we had expected, the IPO was a flop.

Shares would plummet from $60 to $33 in days. Millions of dollars were wiped out.

But this is nothing new. Investors get sucked into the glitz and glamour of an IPO all the time.

Many think this is the stock that'll make them rich.

Unfortunately, many learn the hard way that's not the case.

When Twitter had its IPO, it was over-subscribed and over-hyped, as well.

Without a profit, it hit the market at 70x sales with a wild $35 billion market cap. But that didn't stop investors from crowding the stock out of the gate, though. After being priced at $26 the night before, the stock began trading at $45.10 a share before jumping to $50.09. Investors chased it, only to watch Twitter close the day at $44.90 – 73% above the IPO price.

While the stock would eventually be chased as high as $75, once the hype died, Twitter fell to $30 a share – another costly error.

When Groupon IPO'd in 2012, it was considered one of the hottest opportunities on the year. Analysts upgraded the stock left and right. Investors rushed to buy, sending the stock to $31.14 out of the gate. It would lose 50% of its value that same month.

Snap Chat was supposed to be the hottest IPO of 2017 with a highly engaged user base.

On it first day, it rocketed to more than $29 and died. By August 2017, it was at less than $12.

It happened to the Alphabet (GOOG), Visa (V), and Facebook (FB) IPOs too.

Granted, power stocks like Amazon.com (AMZN) did extraordinarily well out of the gate. But most times, it's safer to just avoid an IPO and its hype altogether.

That's because in many cases, in the end, IPOs are all about increasing value for owners, institutions and private investors. When it comes to any IPO, if it's overly hyped with a gargantuan valuation, stay on the sidelines and wait for the likely pullback.

In fact, had you waited for the disaster to wrap up with RACE, you stood to do quite well as it raced from a low of $40 to more than $126 a share.

However, if you truly want to participate in IPO excitement, you can own every new IPO's at $70 and stand to do much better than buying an IPO outright.

The First Trust IPO Index Fund (FPX) allows you to do just that.

The FPX tracks hot IPOs in their first 1,000 days of trading. By buying it, not only can you avoid paying gobs of money for IPOs that may or may not work out, but you're also being exposed to multiple hot IPOs at the same time at lesser cost.

Plus, as you can see, the FPX never once took a hit on any of the failed IPOs either.

In fact, even with some of the most obnoxious IPO failures, the ETF managed to run from a 2009 low of around $11 to a recent high of $70. It's a safer alternative than risking your hard-earned money to another potential flop, as SNAP-like stocks turned out to be.

With the FPX, it doesn't matter if the stock is hot or a dud, the excitement surrounding IPOs continues to send the FPX to new highs.