Investors Club: December 2022 Challenge

This lesson is intended to be a short, engaging activity for students to dig deeper into the world of finance and investing. It is meant as a way to keep students engaged in their learning around the Investors Club, especially when they are not making daily trades within their portfolio.

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<tr><th colspan="3">Lesson objectives:</th></tr>
<tr><td colspan="3">Students will learn what an IPO is
Students will practice with scenarios to understand whether IPOs are good investments</td></tr>
<tr><th colspan="3">Assessment:</th></tr>
<tr><td colspan="3">Classwork
Class Discussion</td></tr>
<tr><th colspan="3">Key Points:</th></tr>
<tr><td colspan="3">Students will learn about IPOs, how they work, and whether they make good investments</td></tr>
<tr><th>Component:</th><th>Teacher & Student Actions</th><th>Materials</th></tr>
<tr><td>Do Now [5 min]</td><td>Do Now: Why might a private company become public and sell stock through the stock market?
Ask students to think to themselves or write down on a piece of paper their response to the above questions</td><td>Student journal or piece of paper</td></tr>
<tr><td>Mini Lesson & Introduction [15-20 min]</td><td>Discussion of timing the market
Ask students how they answered the Do Now question
Discuss how companies become public so that they can bring in money to expand their business. If needed, refer back to the Day 2 Investors Club Lesson about why companies sell stock
Introduce students to the lesson
Explain that private companies become public and start selling stock through what’s called an IPO: Initial Public Offering. An initial public offering (IPO) is the first sale of stock by a company to the public. Prior to an IPO process, a company is considered a private company, usually with a relatively small number of shareholders, and its stock is not traded on any public stock exchange. After issuing an IPO, a company becomes a public company meaning the general public can now buy shares of the company.
IPOs are often issued by companies looking to become public, to provide an exit for existing investors, and to raise capital to expand their business. The company sells</td><td>Article on IPOs (see below)

Video from CNBC (optional)</td></tr>
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	a certain number of shares to the public, and the money raised from the sale is used to finance the business's operations and growth. ○ Read about the current situation with IPO's using the provided article and/or additional news sources. ○ Optional: Watch 8-minute video on how the IPO market has declined in 2022	
Student Activity [20 min]	● Distribute handout ● As a class or as individuals, pull up the LA Times Beat the Market on Tech IPOs interactive site. Click through the interactive and play along, asking students to take note of their own purchase prices as well as the "day low" purchase prices on their handouts ○ Allow students to answer question prompts and discuss answers if time allows ● Move to Part III of handout ○ As a class look up current prices for stocks ○ Work as a class, in groups or individually to calculate the rate of return (ROI) of their investments. ○ Discuss student answers to final question prompt	Interactive Site Handout (see below)
Closing [2 min]	● Collect student work and wrap up the lesson ● NOTE: Submit student work for a chance to win the monthly challenge and win prizes! **Submissions due by Friday December 30, 2022 at 11:59pm**	Submission Portal

Initial Public Offering (IPO): What It Is and How It Works

By JASON FERNANDO
Updated November 03, 2022
Source: https://www.investopedia.com/terms/i/ipo.asp

What Is an Initial Public Offering (IPO)?
An initial public offering (IPO) refers to the process of offering shares of a private corporation to the public in a new stock issuance for the first time. An IPO allows a company to raise equity capital from public investors.

The transition from a private to a public company can be an important time for private investors to fully realize gains from their investment as it typically includes a share premium for current private investors. Meanwhile, it also allows public investors to participate in the offering.

How an Initial Public Offering (IPO) Works
Before an IPO, a company is considered private. As a pre-IPO private company, the business has grown with a relatively small number of shareholders including early investors like the founders, family, and friends along with professional investors such as venture capitalists or angel investors.

An IPO is a big step for a company as it provides the company with access to raising a lot of money. This gives the company a greater ability to grow and expand. The increased transparency and share listing credibility can also be a factor in helping it obtain better terms when seeking borrowed funds as well.

When a company reaches a stage in its growth process where it believes it is mature enough for the rigors of SEC regulations along with the benefits and responsibilities to public shareholders, it will begin to advertise its interest in going public.

Typically, this stage of growth will occur when a company has reached a private valuation of approximately $1 billion, also known as unicorn status. However, private companies at various valuations with strong fundamentals and proven profitability potential can also qualify for an IPO, depending on the market competition and their ability to meet listing requirements.

IPO shares of a company are priced through underwriting due diligence. When a company goes public, the previously owned private share ownership converts to public ownership, and the existing private shareholders’ shares become worth the public trading price. Share underwriting can also include special provisions for private to public share ownership.

Meanwhile, the public market opens up a huge opportunity for millions of investors to buy shares in the company and contribute capital to a company’s shareholders' equity. The public consists of any individual or institutional investor who is interested in investing in the company.

Overall, the number of shares the company sells and the price for which shares sell are the generating factors for the company’s new shareholders' equity value. Shareholders' equity still represents shares owned by investors when it is both private and public, but with an IPO, the shareholders' equity increases significantly with cash from the primary issuance.

History of IPOs
The term initial public offering (IPO) has been a buzzword on Wall Street and among investors for decades. The Dutch are credited with conducting the first modern IPO by offering shares of the Dutch East India Company to the general public.

Since then, IPOs have been used as a way for companies to raise capital from public investors through the issuance of public share ownership.

Through the years, IPOs have been known for uptrends and downtrends in issuance. Individual sectors also experience uptrends and downtrends in issuance due to innovation and various other economic factors. Tech IPOs multiplied at the height of the dotcom boom as startups without revenues rushed to list themselves on the stock market.

The 2008 financial crisis resulted in a year with the least number of IPOs. After the recession following the 2008 financial crisis, IPOs ground to a halt, and for some years after, new listings were rare. More recently, much of the IPO buzz has moved to a focus on so-called unicorns—startup companies that have reached private valuations of more than $1 billion. Investors and the media heavily speculate on these companies and their decision to go public via an IPO or stay private.

What Is the Purpose of an Initial Public Offering?

An IPO is essentially a fundraising method used by large companies, in which the company sells its shares to the public for the first time. Following an IPO, the company's shares are traded on a stock exchange. Some of the main motivations for undertaking an IPO include: raising capital from the sale of the shares, providing liquidity to company founders and early investors, and taking advantage of a higher valuation.

Can Anybody Invest in an IPO?

Oftentimes, there will be more demand than supply for a new IPO. For this reason, there is no guarantee that all investors interested in an IPO will be able to purchase shares. Those interested in participating in an IPO may be able to do so through their brokerage firm, although access to an IPO can sometimes be limited to a firm's larger clients. Another option is to invest through a mutual fund or another investment vehicle that focuses on IPOs.

Is an IPO a Good Investment?

IPOs tend to garner a lot of media attention, some of which is deliberately cultivated by the company going public. Generally speaking, IPOs are popular among investors because they tend to produce volatile price movements on the day of the IPO and shortly thereafter. This can occasionally produce large gains, although it can also produce large losses. Ultimately, investors should judge each IPO according to the prospectus of the company going public as well as their financial circumstances and risk tolerance.

Beat the Market on Tech IPOs

You might have heard about companies announcing an IPO and seen the excitement and buzz that is generated around these events. But, what exactly does it mean for a company when it has an IPO? And how does this relate to you as an investor? In this activity, we'll be answering these questions by playing an interactive from the LA Times!

Part I: What is an IPO?
Let's first take a look at what an IPO is and why it generates the excitement it does.

1. In your own words, explain what an IPO is and why it can be exciting.

2. As an investor, would you want to buy shares of a company on the very first day of its IPO? Or would you want to wait a while? Explain your reasoning.

Part II: Become a Tech Investor
It's time to become an investor by playing the LA Times' Interactive! In this interactive, you'll be deciding when to buy the shares of seven companies that have announced an IPO.

A few things to remember as you play:

- Be sure to fill out the table in question 3 **after each round** so you can capture the information you'll need.
- Remember the cardinal rule of investing: Buy LOW and sell HIGH. In this interactive, you are **ONLY** choosing when to BUY, which means you're trying to get the LOWEST price possible. Good luck!

3. For each company, record the price YOU bought a share at as well as the Best Price (the lowest price). The interactive will give you these values after each round.

Company (ticker)	IPO Close-of-Day Price	Your Price	Best (lowest) Price
Snap (SNAP)	$24.00		
Facebook (FB)	$42.05		
LinkedIn (LNKD)	$83.00		
Twitter (TWTR)	$45.10		
Pandora (P)	$20.00		
Workday (WDAY)	$48.05		
GoPro (GPRO)	$28.65		

4. How many times did your share purchase price “beat” the IPO price?

5. For which company did you get **closest** to the Best Price? How close were you?

6. Would you describe your stock purchases as a success? Why or why not?

Part III: Now, Let's Sell
It's been a while since you bought your shares and you've decided to sell them today. Remember, you can make money in the stock market through dividends AND by selling your shares at a price higher than what you paid. Use [Yahoo! Finance] to look up the current stock price for each of these tech companies, and then calculate your ROI (return on investment) using the formula below.

Note: *Since the time this interactive was created, LinkedIn and Pandora were acquired by other companies, so we will be skipping these two companies in our calculations below.*

$$ROI = \frac{Today's\ Price - Your\ Price}{Your\ Price} x\ 100$$

7. Record Your Price, Today's Price, and your ROI for each company.

Company (ticker)	Today's Price	Your Price	ROI (Return on Investment)
Snap (SNAP)			
Facebook (FB)			
Twitter (TWTR)			
Workday (WDAY)			
GoPro (GPRO)			

8. Based on the ROI for the shares above, would you describe your stock purchases as a success? Why or why not?