Company insiders who have been waiting for the opportunity to cash out may have the most to gain from an IPO. The higher the price set on IPO shares, the more money the company and its executives, employees and early investors stand to make.

Nevertheless, the IPO process is important to the financial markets because it helps fuel the growth of young companies and adds new stocks to the pool of potential investment opportunities.

**IPO market trends**

Newer, smaller companies have traditionally used IPOs to raise capital for expansion.

However, some companies are relying on private capital to fund their early growth and development, so they can wait longer to test public markets. These companies often become larger, more mature and more valuable before they are publicly traded.

This trend may help explain why the amount of money raised through IPOs has increased over the past decade, even as the number of new IPOs has waned. From 2007 to 2016, the number of corporate IPOs averaged 164 per year, down 47 percent from the previous decade. But according to Bloomberg, average annual IPO proceeds rose 82 percent over the same period to $284 million.

A privately held company with an estimated value of $1 billion or more is often called a “unicorn,” and it’s estimated that there are now more than 200 of them in the technology sector alone (Bloomberg, Sept 11, 2017).
Since the term was first coined in late 2013, unicorns have received most of the media's attention, even though they still make up a relatively small part of the IPO market. Ernst and Young reports that the proceeds of 18 unicorn IPOs accounted for 5 percent of the capital raised from 2014 through 2016.

**Pop or fizzle**

When IPO share prices shoot up on the first day of exchange trading, it’s referred to as a “pop.” A significant first-day gain may suggest that investor demand for the company’s shares was underestimated. Of course, this doesn’t mean that the company will outperform its peers in the long run.

One catch is that it is often difficult to obtain “allocated” stock. Investors who don’t have the opportunity to buy shares at the offering price—the price at which insiders are selling to the market—can buy the stock after it starts trading on the exchange. However, much of an IPO’s pop can take place between its pricing and the first stock trade. This means investors who buy shares after trading starts often miss out on a large part of the appreciation.

Investors who buy IPO shares on the first day might even pay inflated prices because that’s when media coverage, public interest and demand for the stock may be greatest. Share prices often drop in the weeks following a large first-day gain as the excitement dies down and fundamental performance measures such as revenues and profits take center stage.

**Back to reality**

A young company may have a limited track record, and an established one may have to disclose more information to investors after it becomes publicly traded. If you’re interested in the stock of a newly public company, you should have a relatively high risk tolerance because shares can be especially volatile in the first few months after an IPO. You might even consider waiting until you can evaluate at least two quarters of earnings.

The return and principal value of all stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Investments offering the potential for higher rates of return also involve a higher degree of risk.

**HYBRID FUNDS: BALANCED, LIFESTYLE OR TARGET?**

Holding a mix of stocks and bonds is fundamental to building a portfolio that can pursue growth while potentially remaining more stable than a stock-only portfolio during market downturns. Many investors approach this goal by owning a mix of individual securities, a mix of funds or both. However, some hybrid funds try to follow the same strategy in a single investment.

Although the goal of these funds is simplicity, they are not as simple as they may appear, and different types of hybrid funds have very different objectives.

**Balanced funds**

Balanced funds typically strive for a specific asset mix—for example, 60 percent stocks and 40 percent bonds—but the balance might vary within limits spelled out in the prospectus. Theoretically, the stocks in the fund provide the potential for gains while the bonds may help reduce the effects of market volatility.

Generally, balanced funds have three objectives: conserve principal, provide income and pursue long-term growth. Of course, there is no guarantee that a fund will meet its objectives. If you are investing in a balanced fund or considering whether to do so, you should understand the fund’s asset mix, objectives and rebalancing guidelines as the asset mix changes due to market performance. Rebalancing is typically necessary to keep a balanced fund on track, but could create a taxable event for investors.

**Lifestyle funds**

Lifestyle funds, also called target-risk funds, include a mix of assets designed to maintain a consistent level of risk. These funds may be labeled with terms such as conservative, moderate or aggressive. Because the targeted risk level remains consistent over time, you may want to shift assets from one lifestyle fund to another as you approach retirement or retire. A conservative lifestyle fund might be an appropriate holding throughout retirement.

**Target-date funds**

Target-date funds contain a mix of assets selected for a specific time horizon. The target date, usually included in the fund’s name, is the approximate date when an investor would withdraw money for retirement or another purpose, such as paying for college. An investor expecting to retire in 2035, for example, might choose a 2035 fund. As the target date approaches, the fund typically shifts toward a more conservative asset allocation to help conserve the value it may have accumulated. This transition is driven by a formula called the glide path, which determines how the asset mix will change over time. The glide path may end at the target date or continue to shift assets beyond the target date.

Funds with the same target date may vary not only in their glide path but also in the underlying asset allocation, investment holdings, turnover rate, fees and fund performance. Variation tends to be greater as funds near their target date. If you own a target-date fund and are nearing the target date, be sure you understand the asset mix and whether the glide path extends beyond the target date.
**All in one?**

Traditional balanced funds typically contain a mix of individual securities. Although these funds may be an appropriate core holding for a diversified portfolio, they are generally not intended to be an investor’s only holding. However, some balanced funds and most lifestyle and target-date funds include a mix of other funds. These “funds of funds” are often intended to offer an all-in-one portfolio investment. You may still want to hold other investments, but keep in mind that investing outside of an all-in-one fund may change your overall asset allocation. Asset allocation and diversification are widely accepted methods to help manage investment risk; they do not guarantee a profit or protect against investment loss.

**Additional considerations**

The principal value of a target-date fund is not guaranteed before, on or after the target date. There is no guarantee that you will be prepared for retirement on the target date or that any fund will meet its stated goals. The return and principal value of all funds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

**WHAT IS THE EMPLOYMENT SITUATION REPORT, AND WHY IS IT IMPORTANT TO INVESTORS?**

Each month, the Bureau of Labor Statistics publishes the Employment Situation Summary report based on information from the prior month. The data for the report is derived primarily from two sources: a household survey of approximately 60,000 households, or about 110,000 individuals, and an establishment survey of over 651,000 work sites.

Results from each survey provide information about the labor sector, including:

- Total number of employed and unemployed people
- Unemployment rate (the percentage of the labor force that is unemployed)
- Number of people working full- or part-time in U.S. businesses or for the government
- Average number of hours worked per week by nonfarm workers
- Average hourly and weekly earnings for all nonfarm employees

According to the Bureau of Labor Statistics, when workers are unemployed, they, their families and the country as a whole can be negatively affected. Workers and their families lose wages, and the country loses the goods or services that could have been produced. In addition, the purchasing power of these workers is lost, which can lead to unemployment for yet other workers.

Investors pay particular attention to the information provided in this report. For instance, a decreasing unemployment rate may indicate an expanding economy and potentially rising interest rates. In this scenario, stock values may rise with expanding corporate profits, while bond prices may fall for fear of rising interest rates. Advancing wages may also be a sign of higher inflation and interest rates, as well as greater economic productivity.

Generally, the Employment Situation Summary report provides statistics and data on the direction of wage and employment trends—information that can be invaluable to investors.

**QUIZ: FINANCIAL FACTS THAT MIGHT SURPRISE YOU**

**Questions**

If you have a penchant for financial trivia, put your knowledge to the test by taking this short quiz. Perhaps some of the answers to these questions will surprise you.

1. The first organized stock market in New York was founded on Wall Street under what kind of tree?
   A. Maple  
   B. Linden  
   C. Buttonwood  
   D. Elm

2. Who invented the 401(k)?
   A. Congress  
   B. Ted Benna  
   C. The IRS  
   D. Juanita Kreps

3. Which three U.S. bills together account for 81 percent of the paper currency in circulation?
   A. $1, $20, $100  
   B. $1, $5, $20  
   C. $1, $10, $20  
   D. $1, $10, $100
4. Small businesses comprise what percentage of U.S. businesses?
   A. More than 39 percent
   B. More than 59 percent
   C. More than 79 percent
   D. More than 99 percent

5. Which U.S. president signed Medicare into law?
   A. President John F. Kennedy
   B. President Lyndon B. Johnson
   C. President Richard M. Nixon
   D. President George W. Bush

Answers

1. A. Buttonwood. On May 17, 1792, 24 New York City stockbrokers and merchants met under a buttonwood tree outside of what is now 68 Wall St. Their two-sentence brokers’ agreement is known as the Buttonwood Agreement.¹

2. B. Ted Benna. A 401(k) is a tax-deferred, employer-sponsored retirement savings plan. Although the name comes from section 401(k) of the Internal Revenue Code, this type of retirement savings plan was created by Ted Benna in 1979. At the time, he was a co-owner of The Johnson Companies, a small benefits consulting firm.²

3. A. $1, $20, $100. The $1 bill represents about 29 percent of the total paper currency in circulation. The $20 bill represents about 22 percent and the $100 bill represents about 30 percent.³

4. D. More than 99 percent. Despite their size, small businesses are a big part of the U.S. economy. According to the U.S. Small Business Administration, small businesses (independent businesses with fewer than 500 employees) comprise 99.9 percent of all firms and account for 62 percent of net new jobs.⁴

5. B. President Lyndon B. Johnson. President Kennedy recommended creating a national health insurance program in 1961, but it was President Johnson who signed the Medicare bill into law on July 30, 1965. President Nixon extended Medicare eligibility to certain people under age 65 in 1972, and President Bush expanded Medicare to include prescription drug benefits in 2003.⁵

¹ NYSEData.com.
² 401kbenna.com.
⁴ U.S. Small Business Administration, August 2017.
⁵ Centers for Medicare & Medicaid Services.

rsmus.com

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