What's an Initial Public Offering (IPO)?

An IPO is the very first sale of a stock by a company that had been privately held.

In our earlier example, when Amanda and Jessica decided they would expand their clothing business by selling stock, their stock was offered for sale in an IPO.

An IPO is an exciting time for both the company and investors.

For the company, it means it is getting a large influx of cash.This money can be used to reward employees who were critical to a company's success, pay off loans (retire debt), invest in the company, or some combination of each.

For investors, it is a new opportunity to invest in. There are many stories of investors who invested early with a company and made millions of dollars as a result.

IPOs - An Investment Opportunity

There is often a lot of excitement with an IPO. In July, 2011, Dunkin' Donuts (NASDAQ: DNKN) had an IPO with an initial price of $19. By the end of the first day, it closed at $27.85, a gain of $8.85 per share, or 47%! Someone investing in 1,000 shares would have a profit of $8,850 in just one day!

Some IPOs go one to a long history of success. In March, 1986, Microsoft (NASDAQ: MSFT) had an IPO with an initial price of $21. By the end of the first day, it closed at $27.75, and while not as much of a single-day gain as Dunkin' Donuts, over time each share is worth many times that amount. In fact, just ten shares purchased in 1986 for $210 would now be worth approximately piss!

During the event, an IPO may be announced. If this happens, you or a member of your team should get a prospectus (a document containing information about the company to prospective investors) to review from the information desk.

IPOs - No guarantees

While there have been many headline-grabbing IPO success stories, an IPO is not an automatic money-maker for investors

Consider these recent real-life IPOs :

Facebook (May 2012)	Facebook (NASDAQ: FB) is the largest social media company in the world with over 845,000,000 users, how could it miss? It set its IPO price at $38 a share, raising 16 BILLION dollars. Despite some technical glitches, the stock quickly rises to $45 - an 18% return in just a couple hours! However the excitement began to wear off, and by the end of the day, the stock was down to $38.23 - a profit of just 23 cents per share. But more bad news was to follow. The stock continued to fall, and 9 days later, was selling for just $27.72 per share - a loss of $10.28 per share, more than 25% of its value.
Zynga (December 2011)	Zynga (NASDAQ: ZNGA) develops online games like CityVille, FarmVille, CastleVille and Mafia Wars which reach hundreds of millions of users every month! It is quickly on its way to being one of the fastest high-tech companies to earn over $1 BILLION dollars annually. How can it miss?

	Launching their IPO on December 16, 2011 at $10 per share, within hours it had dropped 12% in just three hours! A brief rally brought the price back up to $9.00 by the end of the day. Yet just 7 months later in July, 2012, Zynga was trading at just $3.00 a share - a 70% loss! Will Zynga recover, will someone buy it out, or is it game over? Time will tell.

IPOs - Things to look for

It's easy to get caught up in the excitement surrounding an IPO. That is what the company is trying to do - encourage investors to buy the stock - they want your money!
Here are a few things to consider when deciding if an IPO is for you:

Profitability	Warren Buffet, one of the most successful investors in history says, "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price." - and by wonderful, he means profitable. If a company has a history of profitable operations, how likely is it to become unprofitable with more money?
Long-term Growth Potential	Is a company able to continue to grow? For example, one recent IPO had already signed almost 10,000 customers, which is exciting! However further analysis showed that there was only a total of about 25,000 to 30,000 possible customers in the country, which means that if the company was able to sell to every single customer, it could only triple in growth. Compare this to a company like Starbucks (NASDAQ: SBUX) or Dunkin' Donuts (NASDAQ: DNKN) which can open many more locations, or Walmart (NYSE: WMT) which can expand and offer a wide array of products.
How is the money to be used?	What is the company going to be using the money for? Typically companies use the influx of money (in some combination) to reward employees and executives, pay off loans (retire debt), invest in operations, acquire other companies. A company that is using more investor's money to retire debt and pay employees and executives is paying for past performance, compared to a company that is using the money to fund future growth (and hopefully, revenue!)
Company Management	Some people are better at starting small companies than running big ones. Steve Jobs is an excellent example - an innovator second-to-none, but he had difficulty in his first tour at Apple. Is management up to the task of handling a large company? What is the reputation of its management (a brash CEO may make for exciting headlines - until he gets

	sued). A good company has a good management team.

What is a Dividend?

When a company makes a profit, it can do two things with the money. It can reinvest it in the business (such as buying new equipment, paying off loans, saving it for later uses, etc.) This is called retained earnings - money that the company is retaining for its use.

Another option is to share the profits among the stockholders. Stockholders receive these profits based on the number of shares they own. For example, a company sharing their profit of $3,000,000 among 1,000,000 shareholders will pay $3 per share. Someone who owns 1,000 shares will receive $3,000, while someone who owns 5,000 shares will receive $15,000.

Do all companies pay Dividends?

No. Some companies pay dividends while others do not.

For example, Coca Cola (NYSE: KO) pays dividends four times per year (Source: Coca-Cola's Dividend Schedule). Coca Cola has paid a dividend each year since 1920 (Source: Coca-Cola Owner's Guide)

Apple, Inc. (NASDAQ: AAPL) pays them VERY rarely (and never while Steve Jobs was in charge), instead opting to retain their earnings for future use. This strategy led to a point where during the summer of 2011 Apple, Inc. had more cash ($76.2 billion) than the United States government ($73.77 billion)! (Source: CNN, Wall Street Journal).

Other companies do not pay them at all. Berkshire Hathaway (NYSE: BRKA) has never paid a dividend, instead reinvesting their profits. It's hard to argue with Warren Buffet's plan however. In July of 2012, the stock of Berkshire-Hathaway was selling for over $125,000 FOR ONE SHARE.

Types of Dividends

The two most common types of dividends are cash dividends and stock (or scrip) dividends. Cash dividends pay the owner of shares a certain dollar amount per share owned, while stock dividends result in additional shares of stock.

This simulation uses strictly cash dividends. Teams receive a set dollar amount per share of stock owned.

Dividend Dates

There are three very important dates to consider with dividends.

The **Declaration Date** is date when a company announces it is paying a dividend. It announces the amount per share (for example $3), as well as the **Ex-Dividend Date** and **Payment Date**, both of which are typically at least a week or two later.

The **Ex-Dividend Date** is the day in which purchases of shares are NOT entitled to the declared dividend. Anyone purchasing stock before this date, and holding it until on or after this date, will receive the declared dividend.

The **Payment Date** is the date when shareholders receive their dividend.
Note: A stockholder does not need to own the stock at the time of the Payment Date in order to receive their dividend. So long they own the stock before the Ex-Dividend Date, they will receive the dividend!

Dividend Dates - Some examples

On February 2, XYZ Corp. announces a $2 per share dividend with an Ex-Dividend Date of February 9 and a Payment Date of February 14.
Adam already owns 1,000 shares. He keeps his shares and on February 14, receives $2,000.
Briana buys 500 shares on February 5. She keeps her shares and on February 14, receives $1,000.
Chelsea buys 2,000 shares on February 8 and sells them on February 9. Since she owned the shares before the Ex-Dividend Date (Feb 9), on February 14, she receives a dividend of $4,000 even though she sold them a day later.
David buys 1,000 shares on February 9. Since he purchased them on or after the Ex-Dividend Date, he receives no dividend on February 14.

Dividends at the Event

Some companies have fixed schedules. They announce their dates (turns) in the stock information page.
Others may offer a *Special Dividend*. These are unscheduled dividends, and will only be announced on the News ticker.
Whether a dividend is scheduled or fixed, be sure to note the per-share dividend as well as the Declaration Date, Ex-Dividend Date and Payment Date!
Tip: Stocks which pay a scheduled dividend have the letter "D" next to their price on the Stock Information page.

Tips & Strategies - General

1. Keep most of your money "in the market" as much as possible. Money in the bank doesn't earn anything!
2. Know exactly what you own - the stock and how many shares and how much they are worth - at ALL times!
3. Know how much cash you have on hand - and which stock you'll sell to raise cash if you need it.
4. Watch for news and trading of stocks: both affect price.
5. Avoid investing in more stocks than you can easily keep track of.
6. Remember the COMMISSION! Once trading begins, you must pay a commission on every transaction. This means if you have $100,000, you cannot buy 2,000 shares of a $50 stock.
7. Don't panic the first time one of your stock drops, but ...
8. An underperforming stock not only costs you money, but time - remember there are only so many turns. Each minute waiting for a stock to turn around is one less minute you could be investing elsewhere.

9. Have an exit strategy - how much are you willing to lose on a stock before selling it? At what point will you sell a rising stock to bank your profits?
10. Get your rest the night before and don't skip breakfast - you'll need your energy!

Tips & Strategies - Placing Transactions

1. GET IN FRONT OF THE TRADER - it's loud and lots of people are trying to get his/her attention. The traders may not hear you unless you are in front.
2. Use the stock symbols. Traders know the stocks by their three-letter symbol, not by company name.
3. If you have more than one transaction to make, WRITE THEM DOWN. Traders will not wait for you to remember and will move on to the next person.
4. Give the Trader the transaction in order: BUY / SELL, Symbol, Amount
5. Always give SELL ORDERS FIRST so you have the money for your buy orders.
6. If you are selling all your shares, say, "SELL ALL" as the first words - it saves traders time.
7. Buy and sell in even amounts - it'll be easier to remember.
8. It's OK to buy and sell in dollar amounts instead of shares, but you must say "DOLLARS".
9. Be sure to find out how many shares your team has purchased.
10. After a trade, the trader can tell you how much free cash you have - get the information immediately!
11. Don't walk away until the trader has confirmed your trade!

Tips & Strategies - Teamwork

Once started, the pace of the event will overwhelm any team caught unprepared. The most important aspect of any team is clear, accurate communication. Teams must work together - and quickly - in order to succeed!

It is better to organize before the event. Your teacher and classroom volunteer can be a great help in this. Once the event starts, you won't have time!

Tips & Strategies - Handling Team Conflict

Even when faced with the same facts, interpretations and opinions can differ. It is inevitable that members of your team will disagree at times. An effective team must have a way to resolve differences of opinions. It has to be fast - remember than you only get 60 seconds in a trading day! Disputes must be resolved in seconds, not minutes, and in a way that's fair to all members of the team.

For example, your team agreed to buy 10,000 shares of a stock when it was at $12. When it reaches $20, it's high-fives and fist-bumps all around. $80,000 in profits!

Now what? When half the team wants to sell the stock to invest in something else and the other half wants to ride the wave, who gets their way and who doesn't? And while your team is arguing, time is passing and the "ride the wave" side wins while you debate because you still own the stock until you sell it.

Tips & Strategies - Conflicts can be Costly!

But it gets even worse when it's the other way around! Now imagine your team buys 10,000 shares of a stock at $20 and it drops to $10, frustration builds quickly. After all, you just lost $100,000!

You might have one person wanting to sell and reinvest in something else. You could have another person wanting to "ride it out", because they're sure the stock will rebound. You could have a third person saying, "I knew this was a bad idea!" while a fourth person begins pointing fingers to blame somebody.

Three minutes later, the stock is at $7 - you've lost another $30,000 while your team argued and you're still no closer to a decision!

At one event, while a team argued about whether they should sell a stock, they lost over $100,000 in value. At the closing bell, they finished in fourth place, missing third place by only $46,000. That argument cost the team a trophy!

To prevent this problem, your team should decide in advance how to resolve these issues, because they **will** arise.

Tips & Strategies - Delegation & Accountability

Imagine this: Your team is crowded together around a small table. It's so noisy you have to shout to hear each other. Everybody is staring at the screen and reads that a company just announced spectacular profits. This is a golden opportunity! Everybody immediately agrees, "We need to buy and buy now!"

Now the questions start flying - How much should we buy? How much money do we have? Should we sell stocks to raise cash? Which stocks should we sell? Who is going to run the order over?

While your team is figuring out what to do, time is passing and other teams are getting their trades in. When everybody else is buying for $25, you end up paying $32. When the stock hits $40, you've made a profit of only $8 per share while they made $15!

This scenario happens **all the time** because teams aren't organized.

The next few pages contain a sample of roles, their responsibilities, and the skills required. There is no requirement on how you organize your team. After all, this is your team!

Delegating - Asset Manager Role—This is the best Math person on the team.

The Asset Manager has the answer to the three most critical questions every team has:

1. How much cash do we have?
2. What stocks do we own?
3. How many shares do we own of them?

As prices change, a good Asset Manager can quickly tell the team how much (in dollars) is invested in any given stock. Since these prices change every 60 seconds, this is a lot of work!

Key Traits:
* Organized - accurately tracking every sale or purchase isn't easy
* Math skills - being able to quickly calculate the team's portfolio exposure (eg: a team owning 5,000 shares of a $20 stock has an exposure of $100,000)

Delegating - Market Analyst- this is the video gamer or visual learner on the team

The Market Analyst tracks the market and news affecting the market. They'll spend most of their time watching the screens. Did a pharmaceutical company announce a miracle drug? Did a company CEO resign unexpectedly? Are a lot of teams buying a particular stock which might drive the price up? Are they dumping a stock which might push the price down?

A good Market Analyst is on top of all this important information, and most importantly, **communicating it!**

Key traits:
* Multi-tasking - there's a lot of information to track in a short period of time.
* Market sense - being able to judge the impact of news or transactions.
* Memory - keeping track of information as it quickly scrolls off the screen, as well as remembering if this is similar to earlier news and its impact.

Delegating - Portfolio Manager- This is the CALMEST person on the team!

Every team must decide which stocks to buy, when to buy them, when to hold them, and when to sell them. This is the job of the Portfolio Manager.

While the Porfolio Manager makes these decisions, it isn't done alone. Without information from the Market Analyst and Asset Manager, the Portfolio Manager is doing little more than flipping a coin!

Some teams use a single Portfolio Manager making the decision. Some use a teamwork approach with the Asset Manager, Market Analyst and Portfolio Manager each having a vote.

Key Traits:

* Analytical - the ability to take information and arrive at a logical conclusion.
* Decisiveness - decisions need to be made quickly without rushing to judgment.
* Dispassionate - some decisions will be right, some will be wrong. Getting overly emotional for or against a stock can cloud judgment and hurt the team.

Delegation - Trade Execution Specialist- This is the person with the biggest mouth on the team!

Regardless of how your team decides what trade to make, it doesn't matter until it is handled by a floor trader. The Trade Execution Specialist's job is to make sure the team's trade is processed correctly.

It isn't an easy job. Each floor trader is surrounded by a sea of others trying to get their trades executed. Your Trade Execution Specialist must be able to get the trader's attention, give them the order clearly and concisely, and report the results back to the team.

Sometimes a trade cannot go through. Perhaps the price has risen and the team cannot buy as many shares of a stock as they thought. The Trade Execution Specialist must be able to adapt quickly to make sure the team is able to purchase the stock, even if isn't for as many shares as hoped.

Reminder: The floor traders are volunteers who've taken time off work (some without pay!) to help bring you this event. They deserve your respect at all times!

Key traits for Runners:
* Attention to detail - the runner must remember the order EXACTLY, communicate it to the floor trader, **and report back to the team**. Hint: Many teams find it helpful to write the order on a sheet of paper!
* Assertive - there will be a lot of people looking to get the trader's attention. The runner has to be comfortable in a crowd and not let others jostle him/her out of position.
* Clear and loud voice - the traders must be able to hear and understand the trading order above the noise.

AT THE EVENT

Have two designated team members bring cell phones – one phone should have the capability to scan QR codes- teams will be able to download portfolios using the QR code on their Team welcome Packet. They can still get printed portfolios- each team will get 5 tickets- but using the QR code will eliminate standing in line.

Also the Market Analyst should have a phone so he/she can text buy & sell information back to the team. I have been suggesting that if the team is far away from the screens that the Market Analyst might want to move closer.. The 5th team member could be a runner between the team and the Market Analyst and be in charge of getting portfolios.