KEEN ON
RETIREMENT

Could Investing in an IPO “Lyft” Your Nest Egg, or Cause “Uber” Problems?

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski: Hello everybody, and welcome back to another episode of Keen On Retirement. I'm your co-host, Steve Sanduski, and joining me today, Bill Keen and Matt Wilson. Guys, are you gearing up here as we're starting summertime?

Bill Keen: We are ready, Steve. I even spent a little time at the Lake of the Ozarks last weekend.

Steve Sanduski: That's where my wife and I spent our honeymoon many decades ago, and my wife never forgives me for it.

Bill Keen: I had some kind of a comment brewing, but you did it for me, so thank you there.

Matt Wilson: Did you get married in the winter, Steve?

Steve Sanduski: We got married-

Bill Keen: They were cheap. It's cheap down there at that time.

Steve Sanduski: We got married just outside of Peoria, Illinois, and then we spent the first night of our honeymoon in Saint Louis at the Adam's Mark Hotel. I don't know if that hotel is still there, in downtown Saint Louis, en route to Lake of the Ozarks, staying at Tan-Tar-A. Now, remember this was several decades ago. I don't know what Tan-Tar-A's like today or if it's still there, or under a different name. Linda has continued to remind me of our honeymoon, and maybe we should have a second honeymoon that might be a little bit of an upgrade.

Bill Keen: Well, Steve, I can give you a briefing on Tan-Tar-A. I have a couple of friends that have houses and boats at the lake. Since you know I'm an airplane guy, I figure

I'll let them do the boat thing, and I'll just be a guest on theirs. This last weekend, we did make a stop through what was formerly Tan-Tar-A. It is now Jimmy Buffet's Margaritaville.

Matt Wilson: Sounds like a good spot for a second honeymoon.

Bill Keen: Steve, you might mention that to Linda.

Steve Sanduski: There you go. There you go. Well, I know Linda gives me a hard time about it, but I thought it was great. I love Lake of the Ozarks. Was a lot of fun, and rented a boat, and played some miniature ... I actually played regular golf down there. I think it's a beautiful place. We just love being out at the lake, and so it was fun. Maybe we'll have to make a visit back to Lake of the Ozarks.

Bill Keen: Well, absolutely. I did have a good time. It does get pretty brutal out there as far as the roughness of the lake on the weekends. There are some pretty big boats down there, Steve.

Steve Sanduski: For sure.

Bill Keen: Big cabin cruisers and racing type boats and other things. It was interesting, because I'm so in the work mode that it's hard for me to turn it off a lot of times and just being there, even for just a couple of days, the pace down there, they call it lake time. Things just move slowly. It actually was pretty good for us to be there for a couple days. Back, glad to be at it here today and recording another one of our episodes. Glad to have Matt back.

Bill Keen: We've had several guests over the last few episodes, and Matt had a reprieve from being on the program.

Steve Sanduski: We had to bump you, Matt.

Bill Keen: Yeah. Now, we've got him back strong on the program today, so that's good.

Matt Wilson: Yeah. Excited to be here. I've got lots of market history, information stored up to share with you guys.

Bill Keen: You don't have one of your this day in market history again do you? Because we've missed that.

Matt Wilson: I know. We have. We missed some good ones too. We will, I guess, keep them from next year. So I thought this one was really interesting. This was just a few weeks ago, but there is a company that just went public back in March, but they've been around for 146 years. Any guesses for what this company could be?

Bill Keen: Well, we know it wasn't Uber or Lyft. I don't think they were operating 146 years ago.

Matt Wilson: No. The smart phone didn't exist.

Steve Sanduski: How about Morton Salt?

Matt Wilson: Well, a good guess. Levi Strauss, so the jeans maker.

Bill Keen: My goodness.

Matt Wilson: They got their patent for jeans 146 years ago. The company's been public before, was taken private in the 80s, and then now recently had another IPO, so to speak. It's kind of the topic of today's discussion is should you invest in an IPO, and how this whole process works. Because we have companies like Uber and Lyft that are getting the attention of investors. It's what's this process all about, and how do we get to where we're at, and all the hype around these different companies. I thought it is kind of interesting to see a company that's been around for as long as they have but kind of in and out of this public market game.

Bill Keen: Kind of funny too, isn't it, Matt, because we have had a few of our clients, not many but a few ask us about Uber and Lyft, just because they were the most recent ones that were hyped. No one asking us about the Levi IPO, has there?

Matt Wilson: No. Guess that one's not as exciting.

Bill Keen: Right. That speaks to the hype of these things. Heck, we look up a couple of years from now, Levi may well have done better than those other two, huh?

Matt Wilson: It very well could be. That's what's interesting too especially about Uber and Lyft, those are products and services that people use pretty regularly, so their IPO definitely makes a lot of sense. Not that people aren't, they don't know about, I mean Levi, of course, but just not as exciting to talk about the unicorn, so to speak, in Silicon Valley all of a sudden being open to public investors, is going to be getting a lot more headlines.

Steve Sanduski: Matt, can I digress for a second?

Matt Wilson: Sure.

Steve Sanduski: You said earlier that Levi's got a patent for their jeans. Now, what are they patenting? Are they patenting just the concept of jeans, or is it maybe the fabric, the fiber that goes into the jeans? You may not know the answer, but now you've got me curious. What did they actually patent?

Matt Wilson: What they did was they added rivets, and that's what they patented.

Bill Keen: Wow. He knew the answer. I'm impressed.

Steve Sanduski: I'd have never guessed that. Rivets, okay, that's good.

Matt Wilson: That's where it all came from. They initially did not call them jeans. They were called waist overalls.

Steve Sanduski: Well, I'm glad they changed it to jeans.

Matt Wilson: Yeah. The baby boomers didn't like that name, so in the 60s they started calling them jeans. At least that's the story I heard.

Steve Sanduski: That's the myth there, I guess.

Bill Keen: Steve, you're a baby boomer. You probably remember that. Were you put off by the name? What was it?

Steve Sanduski: Well, I'm a very young baby boomer, so if the name changed in the 60s, I probably would not have been paying attention to it at that point.

Bill Keen: We're sitting here saying already we have all these other podcast episodes that we talk about, RMDs from QCDs and all these different acronyms. We've been saying IPOs. We probably should define what we're talking about here and just tell folks what IPO even stands for.

Matt Wilson: An IPO is the process of offering shares of a private corporation to the public for the first time. Essentially, what a company does is it will raise capital by selling its stock to the public. That's really the basics behind what an IPO is. It's a private company and owned by essentially the founders. Then eventually those founders say, "Hey, we can only do so much with the access to capital that we can get. We want to sell shares of the company to the public, and we're going to use this initial public offering process to do so."

Bill Keen: In some cases, I would suppose there might be some venture capitalists or other investors those founders allowed into the company to grow it to a certain point.

Matt Wilson: That's right. From founding the company to IPO, there's a lot of moving parts involved. What we're familiar with, or at least the concept is to think about, well, you get a company where it's viable and it's generating some revenue, and it's really got some history behind it, and some very good growth prospects. At that point they would now go to the public and say, "We want to raise capital," and sell their shares. Really what a company goes through is this life cycle where they're trying to raise money in the interim before they go public. There are access to different types of capital.

Matt Wilson: You don't just go to a bank and show them your business plan and they loan you the money. Banks generally don't do that. You've got to get with maybe other people where these venture capitalists and these other types of investors come along, and they fund your company up until it goes public. Then at that point is when the shares get offered to the public. The venture capitalists and these other people get cashed out, so to speak. That's when they make their big payday too.

Bill Keen: What's interesting is there are still some very large companies that are private as well.

Matt Wilson: That's right.

Bill Keen: That choose to be private as well. I believe Ikea is private, Publix Supermarkets, Mars candy, and one, a big company right here in Kansas City is Hallmark cards has remained private as well. What about Koch Industries? Is Koch Industries-

Matt Wilson: That's right. One of them.

Bill Keen: Largest private companies anywhere, right?

Matt Wilson: It is. Yeah. A lot of advantages to both. Typically you're going to raise the most amount of capital when you go public. Of all the choices you have, that's going to raise the most amount of capital. There's a balance to it. You want to wait till you're ready to go public. It's not just about going public as quickly as possible. There's a cost to go public, so you have to be ready for it and you have to have your books in order, and you have to go through the underwriting process.

Matt Wilson: You have to get with an investment bank, and do all these different things to be able to do so. Then you have to be ready now for what follows. Once you go public, you are now subject to the scrutiny of Wall Street. Wall Street is not always kind to public companies.

Bill Keen: They want their information at least.

Matt Wilson: Well, that is true. It's not what have you done for me in the past. It's what are you going to do for me going forward here. It's quarterly estimates and quarterly earnings reports and all of the above.

Bill Keen: I mentioned some other privately owned companies, but even potentially more interesting to our listeners is the engineering firms that we deal with.

Matt Wilson: That's right.

Bill Keen: A good portion of these engineering firms have decided to stay private. Again, what does that mean? Well, it means their stocks don't price every day on the market. They're privately held. They get priced maybe once a quarter or once even a year. There are engineering firms that are publicly traded as well.

Matt Wilson: There are.

Bill Keen: To your point, there is upsides and downsides to both ways of going about it. Don't necessarily know that it has to do with all size and revenue. Probably some influence there, but it's other factors as well.

Matt Wilson: That's right. Control is one of the big factors. If you've got a founder and maybe a group of founders that don't ever want to lose control, well, not going public will definitely prevent that from happening in most cases. When you go public, you have shares outstanding, and now there's votes and board members, and you may not have control anymore. You may lose control.

Matt Wilson: For example, one of the most famous founders who was fired from his company is Steve Jobs. Then he was brought back and he turned around the entire company, but he was fired from Apple in his own company. Those are I think some of the main reasons, especially some of these very large private companies don't go public, because they don't want to lose control of the business, and lose some of the ability to make the decisions that they want to make.

Bill Keen: They don't want to find out Carl Icahn's accumulating shares, do they?

Matt Wilson: They do not.

Bill Keen: We have a story in Kansas City about TWA with Mister Icahn back in the day, but we'll save that for another episode.

Matt Wilson: We get a lot of questions, especially around Uber and Lyft and it was, well, is that a good investment? Should we be purchasing IPOs or how do we get involved with these IPOs? Is there a way to even invest before they go public? There's a lot of different answers for that. There's some good data out there, and there is a professor who has done some research on IPOs.

Professor Jay Ritter with the University of Florida has done a lot of research with IPOs, and what he's found is that on the first day a company goes public, so there's kind of two things happening. A company goes public, and it has one price that the public shares are basically sold to the investment bank at. Then they have a price that they open at. Once they actually go trade on the exchange, that's a different price almost all case.

Matt Wilson: When people think about, "I want to get in on that IPO," really they want the price that the investment bank is offering those shares to their clients at. They don't want the opening price, because the opening price is typically a lot higher. On average the first day return going back to about 1980 is about 18%.

Bill Keen: 18% higher from the time that it priced. If you were one of the lucky, if we say it, or privileged, we can talk about that more too, here, investors that were able to secure a few shares of these things on the initial offering, you're saying that Doctor Ritter's work says that on the first day the average increase has been 18% on that day.

Matt Wilson: On the day. That's right. That's why maybe these get a lot of attention. They're like, well, if you can get shares at the investment bank price, then you can get a nice gain that day. Now, what happens now going forward? Part of his research as he looked at then forward return, so if you bought the IPO and then held it for three years, IPOs underperformed the market by about 18%.

Bill Keen: There's no correlation between those two 18% numbers. It just so happened that over that three year period you were 18% less than owning just a broad index, broad market.

Matt Wilson: That's right. First day you get a nice bump, but then going forward usually you actually underperform the market. That hot trading that first day, some of that's supply and demand and those other things that are driving that price up going forward, but then what happens after the fact? It doesn't just keep going straight up. Because it's easy to think about, or we tend to think about it as, well, all IPOs are going to be like the next Amazon or the next Netflix.

Matt Wilson: Amazon IPOed for $18 in the 1990s. It's at $1,800 a share today. It actually split three times throughout that process.

Bill Keen: Here's the question that I would have. You're putting some capital into a security how much of your total portfolio would you want to commit to one new offering, initial public offering? And it would be interesting to see data on this. I'm not sure if there's data to be seen on this, but how many people that actually got the Amazon offering at, what was the price, 38 you said?

Matt Wilson: 18.

Bill Keen: Okay, 18. I would have to say how many people actually still held that stock. Because it's always easy to go back and look and say, "Oh my goodness. If I brought 100 shares then, it would be worth X millions of dollars today," or what have you. I wonder how many people sold it at 20. Steve, what would you have done if you would have got some Amazon?

Steve Sanduski: Well, you know the answer to that. You never go broke taking a profit, which unfortunately I think that too much, and so my big problem has always been I sell too soon. The reality is you never get rich taking a profit either, because you always end up selling too soon. You got to let those big winners run and cut your losses short is kind of the old saying.

Steve Sanduski: I can tell you I know at least one person who has owned Amazon when it went public and still owns it today.

Matt Wilson: Well, I can say I think I know two.

Steve Sanduski: I think I know two, as well, and they both have the same last name. Although, maybe one of them is changing their last-

Bill Keen: They're not necessarily married.

Steve Sanduski: Maybe one of them is changing that last name now. Jeff Bezos and his ex-wife MacKenzie. I'm confident that they still have their shares of Amazon from day one.

Bill Keen: Other than the founders.

Steve Sanduski: Other than the founders, yes.

Matt Wilson: It's a very short list, if ...

Steve Sanduski: Yes. For sure.

Matt Wilson: ... anybody besides the founders still own those shares.

Steve Sanduski: That's right. Yeah.

Bill Keen: I've been at this now in this investment business for 27 years, and so I went through the dot com bubble, if you will, and seen all these things happen, gosh, 18 years ago, 19 years ago, play out with IPOs coming out. Anything that said dot com, folks just wanted to get shares of. The issues back in those days, and probably still today were if you're not a large investor or an institution, you really can't even get shares anyway. You might get allocated 100 shares or something.

Bill Keen: Very difficult to even get shares. Secondarily, we talk about how great it did on the first day, but in most cases you're really, really strongly discouraged from selling those shares typically within, what, six months or so, I think 180 days? I do believe some of the institutions and some of the hedge funds, now we're talking a little different lingo here, but actually do flip those stocks on day one. Just imagine if you were one of the individual investors who were strongly encouraged not to flip the stock, meaning sell the stock day one, and here you are holding the bag 180 days later when things have not worked out so well, or longer. It's not as flashy and as exciting as it might seem, in my opinion.

Matt Wilson: Well, that's right, and you don't know which one's going to be the next Amazon at the get go. I mean no one knows that ahead of time. You're gambling if you want to go this IPO route, because for every Amazon, there's also a Blue Apron. Blue Apron-

Bill Keen: Tell us about Blue Apron. Because I actually use Blue, I eat some of the Blue Apron food, but what about the stock?

Matt Wilson: They're still a public company, but they went public about two years ago, and right around $10 a share. It's at 60 cents right now. They went public, and, again, it was to cash out to the founders and cash out the venture capitalist firms and everything else. Maybe this company should have never gone public, but they wanted to get paid a multiple on their initial investment, and so they pushed for this. Then they get with an investment bank that underwrites this.

Matt Wilson: Then the investment bank sells this IPO to their clients, and now their clients are the ones actually left holding the bag, so to speak.

Bill Keen: The investment bankers, whether it's Goldman, Morgan Stanley, many others, not to pick on them or anything, just many others, they charge a pretty hefty fee for all the analysis and the review, the things that have to go into bringing these to the public market. Really they look at their retail customers, in my opinion, as just a distribution channel to offload these things. They charge a very hefty fee to the companies they're taking public. Then there's a commission that gets charged to the public investor that these shares get placed with as well.

Bill Keen: Again, in many cases there's minimum investments that are pretty high, we've seen. In my opinion, the public investor gets caught holding the bag on most of these. The investment bankers get paid. The founders get cashed out, and the end investor is left hoping that it works out. I think some of the numbers that we'll look at on some of these other companies, if you have a few others, Matt, that some of our listeners might recognize tell us that, to your point, it is somewhat of a crapshoot for lack of a better term.

Matt Wilson: It is. There's a company GoPro, they make the cameras, the wearable cameras. Those, very hot IPO, actually came out around $50 a share, $40 a share, I believe, and went up to nearly $100. Now they're down to $6 a share. That's a tough business to be in with a high-priced camera like that, especially when you have your cell phone that you can do a lot of the same stuff with it.

Matt Wilson: There's also Groupon, the coupon site. Another big IPO. That was several years ago. That came out, and now it's down to about $4 a share. Came out around 10. Definitely some big hits. Facebook came out as an IPO. Definitely a very highly valued business today. Came out around $35 a share. Went down to 17. There was a glitch around their IPO, and there was lawsuits around it, and everything else, and then now it's recovered and up there since then. You just don't know with these businesses what's going to happen.

Matt Wilson: It might sound like, well, then all the money's getting made on the private side of things. These venture capitalists are the ones making all the money. Yes, they are in these cases where they're successfully taking these companies public, but a venture capitalist is kind of like playing the lottery for the wealthy. They're investing in whether it's tens or hundreds of these small businesses, providing funding to them in the early stages of their development, and they know one in ten are actually going to work. That's what they're betting on.

Matt Wilson: Those types of investment, highly speculative and not liquid at all. It's not like they have this free rate of return that's much better than everyone else. They are taking significant amount of risks for that, and doing a lot of due diligence, too, when they're making these decisions. Also, they don't have access to their capital while it's tied up in these companies. That's, again, why they push for this IPO. Once they see one that's very successful, they want out. They don't want it tied up for too long.

Matt Wilson: With Uber, the most recent probably hot IPO, and Lyft, I mean we're seeing actually some interesting dynamics with those. Uber came public cheaper than when it was at a private company a couple of years prior.

Bill Keen: Why do you think that that happened?

Matt Wilson: There was an article in Bloomberg around Morgan Stanley having access to private Uber shares for its high net worth clients at $48 a share. Because of this desire to be involved in this venture capital, in this unicorn strategy, all these tech companies are going to be worth all this money, and all these VC firms are taking all the profits before they go public, kind of hyped it up a little bit. They got a lot of demand for it. The company went public at, was it 45?

Bill Keen: I think it was 44, or 45, something along those lines.

Matt Wilson: Those investors thought they were getting a great deal at 48.

Bill Keen: Thought they were way early. The SEC and other underwriters have to scrutinize these numbers, so as their numbers became scrutinized, they realized maybe this isn't exactly what we thought it was. I think about Microsoft back in 1980, Microsoft went public and it was just under one billion of total value. The company was valued at one billion dollars. Since we're on Uber, and correct me if I'm wrong, Matt, but I think Uber had a valuation at the IPO of something like $85 billion or something along those lines.

Matt Wilson: Yeah. Something around that. Yeah.

Bill Keen: Yes.

Matt Wilson: These companies, they're going public later in their life cycle. As we've mentioned, some of the reasons for that is the access to capital is probably easier today than it was when Microsoft was going public. There are a lot more VC firms. There's a lot of that private money floating around that does provide these advantages that didn't exist before. Also, the costs of going public is very expensive, and then adhering to the regulations that the SEC has for a publicly traded company.

Matt Wilson: For example, publicly traded companies today have to abide by Sarbanes-Oxley, which was part of the aftermath of the tech bubble bursting in the late 90s, which is a very expensive accounting procedure. Companies just don't want to pay for that, which makes them essentially need to be bigger in size to be able to justify going public, which part of regulation is maybe causing this to happen. That wasn't probably part of the thoughtfulness of the regulation was that we're going to start to see companies not go public because of the regulation.

Bill Keen: Sure. There used to be prestige around being a public company 25 years ago or 20 years ago, and I don't know that that's necessarily the case today that it's prestigious to be public. There's a lot of hassle and headache in it, like you just said. A lot of expense. That might have been a thought process back in earlier days as well.

Matt Wilson: That's right. As these companies come up with their strategy and do end up having a product that they believe is worthwhile and can afford it, they do go public like Uber. Maybe Uber went public and it shouldn't have, or the pricing was way off. It sure seems like it could have been off if they were pricing it at $48 a share, and then they go public at a lower rate. It kind of makes you think that they got a little ahead of themselves.

Matt Wilson: Lyft is another example. They went public and their price is down 30% from their offering price.

Bill Keen: Already. Could you imagine if you had an account with one of these investment banks and they said, "Hey, congratulations. You've been one of the lucky few. We've gotten shares for you."

Matt Wilson: Hyping it up the whole time.

Bill Keen: Congratulations, you're down 35%.

Matt Wilson: Exactly.

Bill Keen: Meaning that you could go to the public market right now and just buy the shares. Anyone can go to the public market and buy them 35% cheaper. That's how special those original investors actually ended up being. Go ahead, Steve. Sorry.

Steve Sanduski: I was just going to say, it makes me think that is there any data that shows what percent of the companies that go public eventually have their public share price drops down below their initial public offering price. For example, Matt, I think you said that the average IPO pops 18% on the first day, according to the data from Doctor Ritter. I wonder what percentage of all companies that go public eventually have their share price go below the IPO price.

Steve Sanduski: While we might feel like, "Oh, I got to get in on the IPO. I got to buy it on the IPO." It's like, well, no, because eventually, I'm picking a number, 75% of all companies that go public within a year or two years their share price drops below the IPO price. Facebook is a great example. It went public at the mid to upper 30s, but within a few months it was below 20, as you mentioned. You could have gotten it dramatically below. Same thing with Lyft, you just mentioned. I don't know if you've got any data on that.

Matt Wilson: I don't, but that is interesting to see. We did talk about underperforming the market. Now, this is a basket of IPOs that if you held them for three years that you'd have been better off just investing in the market over that three-year period, because you've underperformed by 18%. Which doesn't necessarily answer did they go below their IPO price, but it does maybe hint at that enough of them have that you did have the opportunity. Again, it's which ones do you think are going to do the Facebook, about face where it takes off, or are going to be the Groupon, GoPro, Blue Aprons of the world.

Steve Sanduski: My guess is Facebook is the exception, the company that went public.

Matt Wilson: It is.

Steve Sanduski: Then it went way down, and then it went dramatically higher. I'm going to say that's probably the exception to the rule. I'd say some of the learnings that I'm picking up from you guys as you're talking about this is when we're talking about this IPO market, the way the environment seems to have changed here over the past 10 years is that many of these really popular companies that we hear about, the Lyfts and the Ubers and those kinds of companies, they're staying private longer. Much of the value creation of those companies is being captured by the investors who are investing in them in the private market.

Steve Sanduski: Then by the time they become public, they're much bigger companies. You gave an example about Microsoft. When it went public, its market size was just under a billion. Facebook when it went public in 2012 was about 80 billion. 79 billion of value compared Facebook versus Microsoft was captured by those private investors. That's one thing. A lot of the value is being captured by the private investors. I think a second thing I'm hearing from you guys is that when these companies do go public, sure, they might have an average pop of 18%, but many of them over time are going to underperform.

Steve Sanduski: I don't think as investors we need to get too excited about, "Oh, I've got to get in on this hot IPO. Because if I miss out on it, I'll never have another chance again." Well, I think the fact that a lot of these companies are staying private longer to me might suggest that the long-term gain of some of these IPOs might actually be less than it has been historically. Because, again, so much of the value is captured to the private investors. I guess that's a long-winded way of saying that if you're an investor, maybe you don't need to get too excited about these IPOs because, A, longer term they may not be that great. B, you may have an opportunity to buy them at a lower price down the road if you still want to own them.

Matt Wilson: That's right. Really there are just a handful of them that are the ones that are the stories, the next Amazon, the next Netflix, the next Facebook. There's not that many of those. For example, we've already had, because we're only talking about just a handful of names today. There's been over 50 IPOs this year, 2019. There was 190 IPOs last year. Now, that's been about the long-term average in terms of the number of IPOs.

Matt Wilson: Now, in the late 90s because of the big tech boom, as Bill mentioned, there was 500 years a firm going public. Again, we're only talking about a handful of the ones because they do get a lot of the media attention. There are many firms that are going public. That's what this data and this research is based on is the myriad of public companies, especially a lot in the health care space, in the biotech space. A lot of different companies, obscure companies that you don't hear about or don't know much about that are going public for other reasons.

Matt Wilson: We're not seeing all this VC capital pushing the valuation so much higher. It's just these maybe special Silicon Valley companies where they're getting the bulk of the stories, and so we're thinking, "That's how it works in the majority of cases." I don't think that's still the case. It's just more those get the attention, and then we relate that back thinking that's how everything looks.

Steve Sanduski: Good. Well, that's probably a good place to be wrapping up here. Bill or Matt, do you have some final words?

Bill Keen: This discussion today is targeted toward the listeners of our program, and those would be folks that are stewarding a portfolio of capital that is designed and intended to support them for the rest of their lives in retirement, to be able to provide a reasonably consistent level of income that rises each year with the cost of living, to be diversified, in a specific risk tolerance. The idea of investing in these IPOs as they come, while it might feel sexy, and for someone to say, "Hey, I got some Uber on the IPO," I just don't think it has much of a place in a retired person's portfolio.

Bill Keen: For me, it will continue to come down to discipline in client portfolios. We talked earlier about the concept, Steve, of you never go broke taking a profit. I've heard that for 27 years in this industry, and you mentioned it today.

Bill Keen: What we see with folks that are trying to manage their own assets and make heads or tails of all this information we talked about just today, and all the other things, too, is that you've heard that. You never sell for a loss. You wait. You hold. You don't sell something when it's down, and then that you never go broke taking a profit. What I've seen in my career for folks that have managed their assets on their own, especially in individual securities, is the winners they sell way too soon.

Bill Keen: They buy five securities. They have three that are good and two that aren't so good. They sell the three that are up, and they hold the ones that are down. They do that a couple more times, and they've got a portfolio of losers. They've held all the securities that are down. They have no discipline, no way to look at how to evaluate those individual securities on a systematic basis. That's why I'll always come back to a discipline process, with asset allocation that takes the emotion out of this and the fanfare out of these investments, and really looks at them like the portfolios that they are designed to be.

Bill Keen: Finally, if someone really wants to invest in some of these, there are ways to set up accounts that are maybe 2% or up to 5% of someone's total net worth that they could make investments that are considered maybe their, I don't know, play account, Matt. You had another term for it earlier. We were talking offline. What'd you call it? Somebody's cowboy account or something.

Matt Wilson: Yeah. I've heard that before.

Steve Sanduski: Or their mad money.

Bill Keen: Mad money account. Yes. There's some people that do that, but, very respectfully, when someone has one of those accounts, when we're putting together financial plans we don't even account for it. We essentially assume that account goes to zero, because we know that it's the speculation is not what we're looking for, when we're planning someone's entire future, or their entire life.

Bill Keen: I think it's good to just close that loop today on our discussion. Interesting and fun to talk about these things. We talked a little bit about how and why initial public offerings exist, how they've played out over the years. Again, in my opinion as we tie it back to folks that are listening to our program, I think we wanted to just be clear that we're not big on these IPOs.

Bill Keen: Hey, if one of these securities hits all of the due diligence and analysis that we run our portfolios through, and one of them has the earnings and the discipline and the shareholder friendliness and all those things that make it attractive, maybe someday down the road they are in a portfolio. I can't ever see one being in the portfolios that we operate in the first year or two after they go public.

Steve Sanduski: Well, excellent summary there, Bill. I think we'll go ahead and wrap there. If you want to get all the details on what we've talked about here today, the show notes, please go to keenonretirement.com, that's K-E-E-N onretirement.com. We've got all the other podcasts and blogs that we've done on a wide variety of topics. It's just a great resource to help educate you on these important ideas. Guys, thank you as always, and we'll look forward to the next episode of Keen on Retirement.

Bill Keen: All right. Thank you, Steve. Thank you, Matt.

Matt Wilson: Thanks Steve.