

## IPO's Don't Fit in Your Financial Plan - Transcript

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**Tom Mullooly:** Welcome to the Mullooly Asset Management podcast. This is episode number 260. Thanks for tuning in. I'm one of your cohosts, Tom Mullooly. Along with me today is my other cohost, Brendan Mullooly.

**Brendan M.:** Yeah. Do you have any hot IPOs for me? Have I got a hot IPO for you? Sorry.

**Tom Mullooly:** What about some Blue Apron at \$10 a share.

**Brendan M.:** Read a headline recently that was talking about Blue Apron, which is a company that went public very recently and this has been the case for a lot of these IPOs over the last couple of years. It seems that they don't really get that first day pop that they're looking for for whatever reason, in terms of the price going up a lot. And then they begin reporting earnings and companies like Blue Apron or a Lyft or some of these startup tech kind of companies are reporting profits or earnings and like those numbers aren't necessarily making people feel better after not seeing great price action right on the IPO.

**Tom Mullooly:** I know that the day that we are recording this, Uber, probably one of the largest IPOs that has been talked about for the last couple of years, will be announcing their first quarterly earnings ever and there's a lot of anticipation about what kind of numbers are they going to report and what's their forecast for how much cash they're going to continue to burn through. Because here's a company, Uber, pretty large. They are still not profitable and still burning through cash.

**Brendan M.:** Right.

**Tom Mullooly:** So then I know we don't want to talk specifically about Blue Apron, which by the way now trades for less than a price of a newspaper.

**Brendan M.:** Yeah, in this article they were saying that it's a dollar and 5 cents a share now and that if it dips below a dollar for 30 days or more, it gets delisted.

**Tom Mullooly:** Delisted.

**Brendan M.:** Not a great thing to be talking about. But to your point, I don't really have strong feelings about whether Blue Apron can turn this around or whether they're a profitable business or not, or Uber or Lyft or they named some of these other ones like Pinterest or a chewy.com, which I know that I use for pet supplies. They deliver things to my house.

**Tom Mullooly:** Chewy is being carved out of PetSmart?

**Brendan M.:** Yeah, it's PetSmart or Petco, one of the big two there. They actually own-

**Tom Mullooly:** I didn't know that they owned them. Pretty smart.

**Brendan M.:** I only knew because a, we get cat food from chewy.com it's very convenient. It's great, but that doesn't mean it's going to be a profitable company or that I know what direction the IPO is going in. And I think that that's ... at least with these big name ones, people fall victim to this like with with an Uber or a Lyft too, or even a Blue Apron.

**Tom Mullooly:** Even a couple years ago.

**Brendan M.:** It's meal prep stuff. So people use these products and people want to invest in stuff because they use it and Uber is convenient. I mean that's like ... I don't even think about getting a cab anymore. Why would I get a cab?

**Tom Mullooly:** Last week I met with an 83 year old client and I told her that I came to this meeting in Uber in a minivan basically, and she was like, "My friends have been telling me to use Uber, but now that you're using it, I know that it's okay."

**Brendan M.:** It's got the Tom Mullooly stamp of approval.

**Tom Mullooly:** That's right.

**Brendan M.:** So we're not recommending or unrecommending any of these names that are being mentioned in this podcast. We have no opinion one way or the other on Uber, Blue Apron, Lyft or any other company that we're talking about. What we want to talk about is a lot of companies today are going public and they don't have earnings. Even if they did, we don't know necessarily what they've been because they've been a private company and they can tell you whatever they want when they're a private company-

**Tom Mullooly:** Pretty much.

**Brendan M.:** ... for the most part. And I don't think that people are making decisions to invest. I don't think people get feelings about investing in an IPO based upon earnings. It's about familiarity. And so people are familiar with these companies and because you pay to use them or you've seen other people using them, you wonder, is this something worth putting money into? Is this a good idea? It sure seems like it. People use Uber all the time. Shouldn't that mean that the stock price is going to go up? That's not the way that this works? And to do that with a serious amount of money is a really, really dangerous game to play. And it's not one that we would ever recommend to anybody doing with any real amount of money. That's the important part, I think.

**Tom Mullooly:** Not the serious money. So I want to go back to what you were just talking about. How a lot of these companies ... we don't know what their pre-public numbers looked like. We just don't know. We have to go on their word. And then you think about, "Hey, if ..." You

know one of the biggest internet memes or on Twitter at least is, "Hey, if you invested blank dollars in this company when they went public, this is what you would have today." So I can only imagine that if you invested a certain amount of money in Blue Apron at \$10 when they went public and now it is ... I don't even know where they went public. But even if you bought them a year ago and it was \$10, now it's a dollar. You feel like an idiot.

**Brendan M.:** You feel like an idiot. That doesn't necessarily mean that 10 years from now it could not be \$2,000 a share.

**Tom Mullooly:** Okay, so-

**Brendan M.:** And then in hindsight it's like, "Well, if you only put \$10 into Blue Apron, it would be worth \$2,000 a share today. Well, why didn't you do that genius?" It's Because this is really volatile and it's really, really tough to hang onto this stuff because we don't know what's going to end up in the graveyard and what's going to be a good investment.

**Tom Mullooly:** Absolutely right. We just don't know. And so you look at things like Amazon didn't report positive earnings forever. I mean for years and years. And yet if you had the guts to buy that stock and hang on, it worked out great. On the other hand, in 2000-

**Brendan M.:** Instead of Chewy, talking about stick with the pet's theme, everyone uses this as a punching bag. Instead of Amazon or alongside Amazon you could have bought pets.com and if you decided to hang onto that one too, you lost your shirt. It's gone. So what's the difference? The only difference now in hindsight is that one worked and the other one didn't. There was no assurance at the time when they were both tanking during the tech bubble, that one was going to make it and the other one isn't. And so to say in hindsight that you would've known to hang on to Amazon and to get your money out of pets.com is absolutely ridiculous.

**Tom Mullooly:** It is ridiculous. And so another example we can throw in there is Priceline, which went public. Just kind of meandered, went public right before all the dot-coms exploded, it went crashing. It went to a dollar. Priceline, I haven't looked at the stock in a long time, but I know it's well over \$1,000 a share from a dollar.

**Brendan M.:** Yeah.

**Tom Mullooly:** So sometimes they work, sometimes they don't. Sometimes I think we should cover up the stock name or the stock symbol and just ask people, do you want red or black today? Because that's really what you're doing. You're gambling with this money.

**Brendan M.:** So I think that how does this fit into where we discussed this with clients? If clients call and ask us-

**Tom Mullooly:** This is part of the reason why we were talking about this today because clients do call periodically and will ask us, "Hey, this company is going public. What do you think?" It's a tough question because there's a lot of hot money in stocks when they first go public and there's

a rotation. Remember when a company goes public, it's going public because the insiders are selling their shares. Somebody is selling so you can buy.

**Brendan M.:** That's always the case, is it not?

**Tom Mullooly:** And you'll see that sometimes on these hot IPOs, the volume on the first day and in the first week is 10, 20, sometimes 100 times the float. And so that means that the shares are trading hands hourly. People are buying it at 11 o'clock and selling it at noon. And so this is just rapid fire trading.

**Brendan M.:** It's not trading based upon anything to do with the company or whether or not they're going to make it in the long run. It's all about feelings.

**Tom Mullooly:** So we have to bring up a name I think fits in with this Blue Apron story and some of these other stories that we're talking about, Facebook. So Facebook went public. It was a really hot stock. You know the first day or two this thing went way up and people were unhappy. "I didn't get any stock in the IPO allocation, this is terrible." And over the first quarter that they were public, people were filing lawsuits because they didn't get any shares in the IPO and they wanted it. And then they reported earnings and the stock went all the way down to 19.

**Brendan M.:** Right. And were any of them clamoring to buy then?

**Tom Mullooly:** No, and no one wanted to buy. In fact there were people saying, "The stock is going to zero. This is going to be Myspace." And now look at it.

**Brendan M.:** Right. And it's been everything in between since then. It's been the GOAT, it's been the hero, obviously.

**Tom Mullooly:** Scandal ridden. It's been everything.

**Brendan M.:** If you bought at the lows off of the IPO, then you've made tons of money. But who did that? More importantly, the way, at least that we approached this here when people call in to talk about these different companies is to just discuss this concept of them being gambles. And then you discuss everything that falls into the gamble or speculative bucket, we have a way that we like to handle that where with our clients obviously we've run a financial plan for them. We are handling their net worth in many cases in its entirety and they're relying upon this plan and this portfolio to support them in their retirement and to do what they want to do. And so this is all serious stuff. Things like IPOs don't belong inside of a serious investment portfolio.

And so what you can do when we run a plan for somebody is to say, "Based upon your situation and the plan that we put together, here's an amount that you can afford to take and put into your speculative account. And if you want to go in there and trade shares of IPOs and swing for the fences with this amount, it won't matter. It could all go to zero. And you're in your financial plan would still be fine." And to allow people that release valve, I think helps because people do want to be entertained and to gamble a little bit and that's great or they want to own shares in a company that they like and understand or use the product. That's terrific, but it's not ... don't

confuse that with the investing that you need to do to support your lifestyle in retirement because they're two totally different things. So you've got to make that distinction and figure out what can I afford to lose if you really want to play that game at all.

**Tom Mullooly:** Well said. I wish there were a way to stop these. Twitter memes. People continue to crank these things out. "If you invested \$1,000 in, fill in the blank, today you would have X." That is so not true because 99% of people who bought Amazon, fill in the blank, it could be anything on the IPO. Microsoft, 1986 on the IPO. You don't own it today.

**Brendan M.:** You got shaken out somewhere along the way. And maybe you made a nice profit and that's great, but to say that you've been in there the entire time, unless you're Bill Gates with Microsoft or Jeff Bezos with Amazon, like get real. Stop it. Maybe there are people out there that did that and that's great for them, but they've literally sat through like 90 plus percent drawdowns on their money and that is super human. If they should be lauded for anything, I don't think it was their foresight because they didn't know anything that we didn't at the time they just believed more and hung in there. So they have more fortitude than us, it doesn't mean they're smarter than us. They've got more money than us probably. I mean Jeff Bezos, but hey.

**Tom Mullooly:** He does okay.

**Brendan M.:** Right. That's the reward for him sticking in there. But the reward just as easily could have been him hanging onto a company that tanked and he would not be Jeff Bezos today and I wouldn't get boxes from Amazon Prime two times a week on my doorstep. I would get it from nothing. I don't know.

**Tom Mullooly:** Someone else.

**Brendan M.:** Something else. Right.

**Tom Mullooly:** It's sitting through the drawdown that most people can't handle because their name isn't Bill Gates. They don't own the companies-

**Brendan M.:** Or Bezos.

**Tom Mullooly:** ... because they're not tied into the company.

**Brendan M.:** Yeah. And I think you have more belief in something or more fortitude or you literally just don't have another option if you're that tied in with the company. That is your entire net worth regardless. I mean you got your salary from there and the stock is from there. So I mean do you really have a choice? I don't think there is a choice to sell.

**Tom Mullooly:** So, we talk a lot about giving our client our clients guidance and advice. And now the SEC is picking up this topic of how much advice do brokers give to their clients?

**Brendan M.:** Yeah. Well this is an interesting one and it stems from the way that advice has really been defined over time by the SEC. And they've made ... via the investment advisors act of

1940, there is an exemption that allows people basically to give advice, but not be an investment advisor or be licensed as one. It has to be ...

**Tom Mullooly:** The phrase is solely incidental.

**Brendan M.:** Right. And so this can apply ... This exemption can apply to people like accountants and lawyers in their practice, but it also applies to brokers. This is just a really cloudy issue, especially for people outside of our industry because people don't usually say, "I am an investment advisor representative or a broker," but that is what everybody is. And sometimes people wear both of those hats.

**Tom Mullooly:** That's even scarier.

**Brendan M.:** Right? But everybody under that umbrella largely refers to themselves as advisors in some capacity, whether it's a wealth advisor, financial advisor, investment advisor, financial planner, wealth manager, investment manager. All of these things, they don't mean anything different to anybody outside of our industry.

**Tom Mullooly:** However, the term investment advisor actually has a legal tone to it, for lack of a better term. So if you're an investment advisor, you have a fiduciary responsibility to your client. If you are anything else, you do have some modicum of fiduciary responsibility. You can't just rip people off.

**Brendan M.:** No, because then you'll be out of business.

**Tom Mullooly:** Right.

**Brendan M.:** But there is a line that you can toe in terms of ethics, let's say, and you can get away with it, I think. You can say that you're a financial advisor, advise somebody to do something. But then if you're actually a broker and you're operating under this financial advisor guise, if you're taking them to an arbitration hearing for wronging a client or if they think they've been wronged, you can then turn around and say, "Well, I actually am just a broker and that wasn't advice. It was just sales information that was solely incidental to my role as a broker in this transaction," and that kind of what you skirt from maybe giving poor advice. Whereas if you were an actual advisor, you would probably be held liable for that.

**Tom Mullooly:** Right.

**Brendan M.:** So that's the difference.

**Tom Mullooly:** I think most people, as you were alluding to earlier, most people outside of our industry don't understand the difference between brokers and advisors. And TD Ameritrade has done a lot of marketing in this space because they're trying to educate, as we are, that there's a vast difference between the responsibilities of an investment advisor and pretty much everyone else in the business. I know that when I look to get into the industry in the early '80s, your title if

you worked at Dean Witter, you were an account executive. If you worked at EF Hutton, you were also an account executive. Shearson was kind of cachet and so they-

**Brendan M.:** Vice President.

**Tom Mullooly:** No, they ... Well that's when you hit 200,000 in sales and commissions, you became a VP. If you worked at Shearson, you were a financial consultant. They blur the lines by using these phrases. Even the term financial advisor, it's nothing. You know, for years the old joke used to be people would say they're a financial planner and the next line would be, "So you sell life insurance?" And that's basically what a lot of people in the '70s, '80s, and even into the '90s ... If you hung out a shingle as a financial planner, you were a life insurance guy. That's really it.

**Brendan M.:** That's changed a lot with the CFP board becoming basically like the gold standard of the financial advisor designations. I think it usually means in the case that now this person has a CFP designation and probably isn't just an insurance salesperson. But you can't be sure about that either. But a decent filter if there is one.

**Tom Mullooly:** So can we just spend a minute talking about dual registrants?

**Brendan M.:** Yeah, I mean they're registered as brokers and advisors. Kind of ... I think that it's unclear when you're getting advice from the advisor or when you're getting just like a sales pitch from the broker. I'm not sure how you distinguish between the two. I can think of reasons for people to have both. Like if you do or have done in the past some kind of a business that would be still better served on their brokerage model, where people are just coming to you every so often and they want to buy bonds or something like that. And then maybe they're better served under a brokerage model than paying an ongoing fee for advice and investment management and venture. But it doesn't help to say that people can be in both camps.

**Tom Mullooly:** A red flag, in my opinion, when you'll read on a website or here on a commercial where they talk about, "Come visit us," and then they say, again in small print, "Services offered by this broker." And then, "Investment advice offered by this and the two companies are not connected." But they are, it's offered by the same person. So a little cloudy to say the least. So what's the SEC talking about now?

**Brendan M.:** So they want to take a look at what solely incidental means. And by the sound of things, it sounds like they're going to become more lenient with what that means as opposed to more strict. More strict would be my preference, or an elimination of this altogether would be my preference. But them getting more specific about what solely incidental means in terms of being able to be excluded from being an advisor and holding out giving advice. I mean like it ... I'm not sure that the exemption should exist at all, but I think that they're going in the other direction, unfortunately because that's where all the lobbyist's dollars are.

**Tom Mullooly:** It's too bad. It would be a great opportunity for the investment advisor community to finally have a fiduciary standard of care.

**Brendan M.:** That was thwarted last year though. There was a broader based effort to have that, an actual fiduciary standard put in. And you spoke on a panel about just that at Nasdaq.

**Tom Mullooly:** Right.

**Brendan M.:** That has been swatted down and this seems like it's going in that direction too. So none of these have been positive developments in my opinion, for the end receiver of investment services.

**Tom Mullooly:** I've also read ... I read a headline just today where the Department of Labor is talking about reintroducing the fiduciary standard before the end of the year. That means they'll have something in about 10 or 12 years, check back.

**Brendan M.:** Or it'll just get shot down again. Isn't it the same group of people that shot it down last time that it go to?

**Tom Mullooly:** We would be at episode 760 at that point?

**Brendan M.:** I honestly think that we could be at episode 500 and we could still be talking about a fiduciary standard. I'm just not sure that I ever see it happening with all the money that a stands to lobby or to be harmed by a fiduciary standard. I just think a lot of dollars will change hands to keep that from happening. And I think that's just me being realistic. I don't think that's cynical.

**Tom Mullooly:** So I think the marching orders for the investment advisor community is to just continue to get the message out so potential clients understand that there's a difference between working with a broker and working with an advisor. There are good brokers. There are great brokers that I know personally, great brokers and not so great brokers. There are great advisors and not so great advisors. You're going to get some in every bunch. That's just the way it is.

**Brendan M.:** It's tough because I agree with you, but if not that then like how are people supposed to know whether these people are good or bad beforehand and what does that mean?

**Tom Mullooly:** Hard to-

**Brendan M.:** Good or bad. I don't know. It's really tough. So I'm just thinking of a simplistic ... From a simplistic standpoint of what should people be looking for? I don't really know.

**Tom Mullooly:** Well, thanks for listening to episode 260. We appreciate you tuning in and we will catch you on the next episode.