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An initial public offering, or IPO, is the first time a company sells shares of its stock to the public.
2017 was the busiest year for the IPO market since 2007, and 2018 is on pace to be a robust year too.
IPOs frequently create a lot of buzz because investors are interested in trying to get in on the ground floor of a hot new company.
But companies don't have to be new, or small, to have an IPO.
"Unicorns," which are privately-held companies with an estimated value of $1 billion or more, can schedule IPOs and typically get most of the IPO attention, even though they make up a relatively small part of the overall IPO market.
Still, it's estimated that there are more than 200 unicorns in the technology sector alone, and the prospect of investing in one through an IPO is appealing to many investors.
But an IPO's market debut — for a unicorn or any other company — may not always live up to the hype.
Let's look at what can happen on the first day of trading and in the few weeks after an IPO.
If an IPO's share price shoots up on the first day of trading, it's referred to as a "pop."
But not every investor will benefit from this pop.
Much of an IPO's pop can take place between its offering price and the first stock trade.
But typically, the opportunity to buy shares at the offering price is dominated by institutional and large-scale investors, so investors who buy shares on the first day after the stock officially starts trading can miss out on a large part of this initial appreciation.
In fact, 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.
And a pop doesn't mean that a company will outperform its peers in the long run.
In the weeks following a large first-day gain, share prices of IPOs often drop as the excitement dies down and fundamental performance measures like revenues and profits take center stage.
This doesn't mean you shouldn't invest in an IPO.
It just means that as an investor, make sure you do your homework, and don't get caught up in the hype.
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