

We've seen a string of well-known companies do an initial public offer in the past couple months. Pinterest, Lyft, Zoom, and Jumia just to name a few.

In each of these IPO's there is a common theme and methodology behind trading the initial first few days it goes public. As momentum based day traders, we always want to be in the most explosive stocks but want to refrain from taking on risk and buying parabolic runs or FOMO trades.

In this trading lesson video and article, we will go over some tips for how to trade IPOs this year, how to build sentiment around the direction it's moving, and how to effectively trade it on the days following its public release:

<https://www.youtube.com/watch?v=xkpwcvzbnLE>

### **Why Trade IPOs?**

Patterns and setups tend to work the best on IPO stocks. Why? Because they have so little price history. There are very few levels of resistance or support to stop a stock once it begins a trend. We have seen some IPO stocks like JMIA recently explode to the upside after a breakout. I use [IPOscoop.com](http://IPOscoop.com) to keep track of upcoming IPOs, and gauge sentiment around them.

However, IPOs can also do the opposite. Once they break a key support level, they can have huge pullbacks. Look at LYFT's daily chart as a recent example of this. Do not be like most investors and buy a stock just because it is an IPO. Just because it just went public does not mean that it is a good investment. All it means is that the company shares can be purchased on the public markets.

### **Look At The Float**

Given that there is no price history, how do you know how it will trade when it opens? A stock's [float](#) is a strong indicator of how it will be trading. Low float IPOs will tend to be the most explosive, while higher float ones, with over 100 million shares in their float, will tend to be slower moving.

### **Our Favorite Setup for Trading IPOs**

It can be risky to buy IPOs the day they open because there is no clear trend formed yet on the daily chart. A stock's daily chart is usually the way we gauge a stock's trend, but with IPOs it is different. We have so little price history that we have to go off their intraday trends. A great way to get a low risk, high reward trades on these stocks are to wait for it to pull back to the VWAP once it has formed an obvious intraday trend.