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Investors take stock of GM offering

Written by Brian J. O'Connor
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Are shares of the new General Motors Co. a good buy — or should smart investors say "goodbye"?

There are plenty of investors taking either side as the rehabilitated car company brings its initial public stock offering — or IPO, in Wall Street-speak — to market Thursday, a scant 17 months after stiffing earlier GM shareholders, rolling through a quick-rinse bankruptcy and emerging as a smaller company to post its first profit in six years.

One thing is clear: The stock offering itself is going to be big.

"It's going to be a hot IPO," says Richard Rysiewski, an investment expert and certified financial planner in Shelby Township. By the time investors can buy GM shares on the open market, "It wouldn't be unheard of for it to jump 10 percent," he says.

Some of that heat already has some investors feeling a bit singed by the decision to offer initial shares at up to $33 — possibly more, when the final price is set today — instead of the $26-$29 range initially set by underwriters. While that move increases the payback to the U.S. Treasury, it's taking initial profits away from IPO investors, notes Alan Lancz, president of investment advisers Alan B. Lancz & Associates in Toledo.

"In the $26 to $29 range, we were definitely more likely to hold it, but now at $33 they've taken off some of the potential gains," Lancz says.

"We still think it's going to be strong on the opening, even at that price."

Lancz expects that the stock could go to the high $30s in initial trading, and says IPO shares are worth taking and flipping for a short-term gain. His firm will be receiving IPO shares for clients, and had expected to buy more shares after they began public trading. Now, he'll skip buying after the IPO.

"We're definitely not going to participate in the after-market now," he says. "It's just a question of when we're going to sell it. They've taken a lot of the juice out already with the increase in price."

Taking the long view

Individual investors also have to answer the question of when they're going to buy. Most small investors won't get shares of the IPO, although about 20 percent of the shares have been allocated for GM employees and retirees. Some of those investors are taking a much longer view, explains Bert Herzog, a certified financial planner and president of Executive Financial Planning in Brighton.

"I have about a dozen General Motors clients and most of them are participating," Herzog says. "Most of the employees feel that General Motors is in a good position to do very well in the next five to 10 years."

For his clients, GM is a long-term investment. "If you are going to buy, you need to have a longer-term horizon," he says, but understand that any IPO is a risky bet.

"You have to look at it as a moderately aggressive to aggressive play, and plan for it accordingly in your portfolio."

That leaves anyone else having to scramble for shares in the open market Thursday. Anyone with an online account at E*Trade or TDAmeritrade can trade new GM shares as soon as they start moving on the market, but can't put in advance orders, representatives said.

Most IPO shares don't trade for the first hour or so that the market is open, and then tend to "gap up," jumping in price as they move on the open market. Investment experts say they expect GM shares to gap by $2 or $3, meaning the first shares available to the public could go for as much as $36, if the IPO price is $33. A final decision on the price will be announced late today.

Piggy-backing on Ford

Even closing in on $40 a share, that still sounds like a good long-term stock to many of his clients, says David Aquilina, senior vice president of investments for Leonard & Co. in Troy. And he can give you the reason in one word: "Ford."

"For two years now, my clients have seen this big share increase in Ford and people are holding out hope that GM is going to do the same thing when it hits the market," Aquilina says. "It's been the whole array of my clients, from the small investors to large investors, because everybody is holding out hope it'll go up like Ford."

Ford stock is selling at levels it hasn't seen since 2004. With Tuesday's close of $16.51, Ford shares are up 62 percent from where they opened the year, at $10.17.

In fact, some investors say their GM stock play consists entirely of Ford stock. After an IPO, shares remain volatile, climbing and then often falling below the IPO price about a month after the debut. Then, after a few months, the shares stabilize as the market's view of the company's performance stabilizes. Instead of living through those ups and downs — and investing in a company whose future isn't entirely clear — some investors are putting their money on Ford.

The fact that the company has avoided bankruptcy and a government bailout gives investors a lot of faith in management, despite the much larger debt load Ford carries compared with GM, which had most of its debt wiped out in bankruptcy. And the IPO spotlight on GM has focused attention on Ford's accomplishments and given its stock a significant "halo effect," investors say. Since September, as chatter about the GM IPO has picked up, so has Ford stock, climbing from less than $12 a share.

"If GM does what it's expected to do, stock in Ford, which is already a proven company, would rise, too," says Rysiewski.

Bankruptcy specter lingers

The debate over which car company to back puts the focus more squarely on the fundamentals of GM, rather than the buzz — or even hype — over the IPO.

Detractors note that GM is still largely unformed after emerging from a drive-through bankruptcy, still hasn't gotten a good handle on managing its finances and remains entangled with millions of shares still held by the governments of the U.S. and Canada, as well as the United Auto Workers. GM won't be able to pay a dividend while the U.S. still holds shares, and most of those will go to preferred stockholders, such as the union.

Meanwhile, the worldwide economic turmoil continues to roil the markets.

Troubles in the Irish banking system had European investors on edge Tuesday, along with worries about interest rates in China. GM is losing money in Europe and its huge successes in China are likely to prompt competition there, including from some of its current Chinese partners.

Meanwhile, other upstarts in India and other emerging economies would join Chinese imports in tackling the U.S. market as their Japanese and Korean counterparts already have done.

"We have not let any clients participate and we haven't sought to participate at all," says Jonathan Citrin, CEO of investment advisers the CitrinGroup in Birmingham, and an adjunct professor of finance at Wayne State University.

He points to an unsettled stock market that makes IPOs particularly shaky now, as well as questions about government involvement with GM, the auto market and the overall economy.

"I'm very glad for GM and for Detroit, but I don't want my clients on the front lines," Citrin says. "The IPO market is very speculative, particularly right now."

On the plus side, GM has remade itself to be profitable with an auto market of a scant 11.5 million units, and the market is expected to expand well above that level in coming years. GM shed debt and constricting union contracts, has turned over top management and managed to retain a $45.4 billion tax break based on losses of old GM, meaning GM will pay no taxes on its profits for what may be years to come.

"The stock should move forward just on that alone," says Aquilina.

Given GM's performance already this year, the stock is likely to head higher, says Warren Browne, a former GM executive who now heads his own firm, WP Browne Consulting LLC.

"Given that they're going to make just under $6 billion this year, and that GM's global production is expected to rise next year, it's reasonable to assume that GM would hit $40 a share during the first quarter of 2011," Brown says.

"When the market kicks back to 12-13 million in annual sales, the share price could go even higher."

Investors have options

It all adds up to plenty of options for the individual investor: Take the IPO shares and hold them or flip them; jump into the open market and hold on for a long-term gain; wait and see, and go bargain-hunting after the IPO hype dies down; ride the IPO wave with shares of Ford or other auto-sector stocks; or just sit this one out.

Investors will find out which one is right — at least initially — after Thursday, maybe right away and maybe not for months or years to come. There are millions of shares of GM stock coming out and, it seems, nearly as many opinions of just how they'll perform.