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Facebook IPO shares tough task for small investors

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(AP) -- Hoping to get in on Facebook's hotly anticipated public stock offering? You'll need Facebook friends at very high levels - or a lot of money.

Most people who like the idea of owning Facebook's stock will have difficulty getting it at the offer price, currently expected at $28 to $35 a share. Unless you know the right people at Facebook, you'll likely need to have a large, active account with one of the big banks or brokerage firms directly involved in the stock sale.

Otherwise, you can take your chances by buying shares after the initial public offering is completed, when Facebook begins trading on the Nasdaq Stock Market under the ticker symbol "FB." That's likely to happen Friday.

Doing it that way typically means paying much more for the stock, however. And heavy demand skews the early stock price, leaving an investor vulnerable to the risk of a big drop.

Jerome Cleary isn't deterred. One of a legion of Facebook fans, he has never wanted to own a stock as much as he wants to buy this one. Cleary, a standup comedian in Los Angeles, says he has already signed up for an account with a discount online brokerage so he'll be ready.

"I know you should buy stock in what you know and like," Cleary says. "I feel that because they have an incredible mass of wealth and such growing popularity, the stock really may pay off."

Facebook Inc.'s IPO is expected to be the largest ever for an Internet company. It's expected to raise as much as $11.8 billion for Facebook and its early investors - far more than the $1.67 billion raised in Google Inc.'s 2004 IPO.

Analysts say there's so much interest in Facebook's stock that some underwriters are closing their books as early as Tuesday. This means they won't be taking any more orders from potential buyers. The IPO is expected to be completed late Thursday, with shares available for trading Friday.

Scott Sweet, the owner of advisory firm IPOBoutique, says the high demand also means that Facebook might raise the per-share price above $35, the high end of the range Facebook currently expects. Facebook and the IPO's lead underwriter, Morgan Stanley, declined to comment.

If you're thinking of investing in Facebook, here are some things to consider.

- IPO SHARES

Facebook and its early investors are selling more than 337 million shares, but those shares are parceled out very carefully, away from the public's eyes.

Typically individuals get to buy no more than 10 percent to 20 percent of shares sold at an IPO's offering price. The vast majority will go to company insiders, institutional investors, the underwriters selected by the company to handle the process and preferred clients of all of them.

Morgan Stanley leads the team of 33 underwriters selected for the

Facebook offering, followed by JPMorgan Chase and Goldman Sachs.

The inclusion of online broker E-Trade Financial Corp. as an underwriter was seen as a glimmer of hope that Facebook might make more shares available than usual for retail investors through discount brokerages. But chances of getting any are very slim regardless.

- ELIGIBILITY

The big online brokerages have been taking formal requests from customers for Facebook's IPO. They anticipate they'll get their own allocations from one source or another, such as one of the underwriters. E-Trade, Fidelity Investments, Charles Schwab and TD Ameritrade, among others, have been fielding abundant queries.

But the requirements they set on who gets them eliminate most small investors.

Fidelity, which will be getting an undetermined number of shares from underwriter Deutsche Bank, says customers should have $500,000 in their accounts and have made 36 trades in the past year to be eligible. Ameritrade's account requirements are at least $250,000 and 30 trades in three months. Schwab's are a minimum $100,000 or 36 trades in the past year, but the firm says it also has other requirements.

Even meeting the requirements is no guarantee of getting shares.

Joshua Freeman, an information technology professional in New York, knows investing in Facebook is risky, but he believes "it's got a pretty good shot to make some money."

He has been investing with E-Trade since the mid-1990s and has about $200,000 in his account. But he's pessimistic about his request for 100

Facebook shares at the IPO price, given the frenzy over the offering.

"I'm hoping to get some but I'm guessing that I won't," Freeman says. "I'm hoping it follows the trend and goes crazy and then dips a little bit. If it does that, I may buy some on the open market."

OPEN MARKET

If you strike out as an insider, it will still be easy, but expensive, to buy shares on the open market. Open and fund an account with a brokerage. Then for a transaction fee of as little as $7, you can buy Facebook stock at whatever price the market demand has driven it.

Be aware that the price could jump significantly by the time you place your order. Among last year's hottest IPOs, Groupon Inc. soared in the opening minutes and gained 31 percent on the first day of trading. Zillow Inc. jumped 79 percent and LinkedIn Corp. more than doubled.

Investors buying on the open market miss much or perhaps all of any first-day "pop."

The first-day market price of newly issued stocks during the past decade has been an average 11 percent higher than the offer price, according to University of Florida finance professor Jay Ritter.

For investors buying at the offer price, Facebook is likely to produce a gain on the first day, he says. But once it starts trading, investors should think of it as just another stock that's as likely to go down as up.

Consider this: Groupon, which went public at an IPO price of $20 six months ago, soared as high as $31.14 on the first day. It closed Monday at $11.73, 41 percent below the offer price.

As for the idea of buying the stock at a low point a few months from now, Ritter says that has not worked historically as a reliable strategy with IPOs. And this one's starting at a very high price, he emphasizes, with optimistic expectations of future growth built into it.

The only sure winners, he says, will be Facebook employees and venture capitalists who invested in the company when it was private.

James Breyer and his Accel Partners firm, investors since 2005, stand to make up to $1.34 billion from the 38.2 million shares they are offering. Zynga Inc. CEO Mark Pincus, a Facebook investor since 2004, stands to make up to $35 million on 1 million shares.

"The time to buy Facebook was five years ago," he says.