Invest in Alibaba or Not

Should you invest in Alibaba or not? If you have not been paying attention the Chinese e-commerce company, Alibaba, is going public on Friday, September 12. The initial public offering (IPO) will be on the New York Stock Exchange as the Hong Kong Stock Exchange refused to list the stock. Why is that and what does the decision to refuse listing of Alibaba by the Hong Kong exchange have to do with whether you invest in Alibaba or not? First of all some folks are going to do very well with the Alibaba IPO.

Companies That Will Profit on the First Day from the Alibaba IPO

The *Wall Street Journal* published an article about a **bonanza for select firms** that invested in a 2012 public offering to raise cash for Alibaba.

The initial public offering of Alibaba Group Holding Ltd. this week will be a bonanza for a group of previously undisclosed investors who snapped up preferred shares in the Chinese e-commerce company that were sold in the run-up to its public debut.

Roughly two dozen investors bought convertible preferred shares in Alibaba through a little-noticed $1.7 billion private offering in 2012, including sovereign-wealth funds, Asian hedge funds, one of the banks that managed the deal and other big asset managers, people familiar with the matter said.

The money raised in 2012 largely went to pay off half of Yahoo's forty percent stake in Alibaba. The residual stake that Yahoo holds has become increasingly valuable as the IPO approaches.

Here the companies that will profit from their prior investment in Alibaba, rounded off to the nearest percent:

Shareholder	Ownership Percentage, Rounded
Softbank	34
Yahoo	22
Jack Ma, Alibaba Chairman	9
Joseph Tsai, Vice Chairman	4
Fengmao Investment	3
Yungeng Capital	2
Citic Capital Holdings	1
Boyu Capital Fund	1
China Development Bank	1

But, there is more to this picture that you need to know if you want to invest in Alibaba.

Where Are All of the Pieces?

A recurring issue with investment in Chinese companies is the lack of transparency. The *Financial Times* published their **familiar misgivings on transparency**.

Dual-class share arrangements that entrench the control of founders have become a feature of internet investing in the decade since Google went public.

But Alibaba, the leading Chinese ecommerce company, has gone one step further: it has separated ownership from control altogether. The controversial plan, which was rejected by the Hong Kong Stock Exchange, forcing the leading Chinese ecommerce company to seek a listing in the US, was detailed in Alibaba's hotly anticipated IPO filing on Tuesday.

This issue is why the Hong Kong Stock Exchange refused to list Alibaba. Investors who want to invest in Alibaba and make money should take notice.

Invest in a Gem or a Stinker?

Maybe you are not thinking of long term investment in Alibaba but rather cashing in on the hype making a short term profit. If so, remember the **Facebook IPO Flop**. Big investors are set to collect a nice paycheck as Alibaba goes public. But, will enough so-called retail investors join in to drive the price up or will it fall like a rock? A serious problem for many investors is that they will not invest in Alibaba, or Taboa, the company that runs Alibaba and not even own American Depository Receipts. Rather investors will invest in a Cayman Islands holding company according to the *New York Post* in their article, ***What's Alibaba*** *and Why Should You Care?*

Of course, owning Alibaba stock carries unique risks. One of the biggest is that US investors can't directly own the entity that operates Alibaba, Taboa and its other e-ecommerce websites.

Instead, they must invest in a Cayman Islands holding company, known as Alibaba Group Holding, which has contractual rights to profits from the Chinese businesses.

This has some investing pros shaking their heads over the Alibaba IPO hoopla, saying it's not worth the trouble.

This has left some investment pros referring to potential Alibaba shareholders as *stuckholders*. The basis of successful investing is seeing what a company will do to make money and seeing all of the pieces of the puzzle. This does not appear to be the case if you invest in Alibaba.

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