



FINANCIAL PREPAREDNESS

"One of life's most painful moments comes when we must admit that we didn't do our homework, that we are not prepared." ~ Merlin Olsen

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IPOs

In recent weeks, there's been a lot of talk and excitement in the [financial media](#) and among investors about the upcoming IPOs for SpaceXAI, Anthropic and OpenAI. Several people have asked me what I thought about them, so here we go.

First, you should know that IPO stands for Incredible Profit Opportunity. It's incredible because the founders of high profile companies that provide an impressive and innovative new product or service (as well as the early investors who took a great risk with their capital by funding a new, unproven company that had never earned a profit, and whose capital has been tied up for years, unable to sell and without having received a dime of dividends) are now offering to sell their creation with a very bright future to the general public at a deep discount to its intrinsic value.

As an investor, all you have to do is listen to the [stories](#) that the financial media (and the brokerage firms that are underwriting the IPO) feed you, allow your dopamine, animal spirits and greed to flow freely, and don't ask any questions (other than "How much can I buy?").

If you thought AI was sexy, wait until they strap a rocket to it and shoot it into space! SpaceXAI and its stock is literally going to the moon! You'll be able to brag about your

investment prowess to attractive young women at cocktail parties and live happily ever after on the dividends and capital gains. The End.

OK, back to reality. Sorry, the investment world doesn't work that way. Of course, IPO stands for Initial Public Offering. That's where the founders, insiders and early investors (who are Smart Money) sell their shares to the general public (which, in the case of IPOs, are overwhelmingly Dumb Money) when valuations and investor sentiment are extremely high.

The founders and other insiders have spent years working on the company so have a near complete understanding of its current condition, prospects and risks. The early investors also benefit from the founders' unparalleled insight into the firm. In contrast, the general public knows virtually *nothing* about the company other than the breathless stories they've been told by the financial media (who are trying to sell advertising space) and the underwriting brokerage firms (who receive a lucrative fee for flogging the new shares to “the muppets” as [Goldman Sachs employees refer to their own customers](#)).

Back in the early 1980s, only about 20% of companies were unprofitable at their IPO, but according to [this study from 2021](#), in recent years, about 80% of companies were unprofitable at their IPO. The only other time that happened was during the Dot Com bubble.

You may have heard about how new, privately held companies have to monitor their cash “burn rate,” because if they're not profitable (more specifically, if their free cash flow is negative), they have to rely on equity capital from *someone* to fund their continuing operations, because no one is willing to lend money to an unproven and unprofitable company (the money to make periodic interest payments has to come from somewhere).

An IPO is a great way for a struggling new company to raise a lot of cash when the price is relatively low (due to investor enthusiasm). It's also pretty much the only way for the founders/insiders and early investors to cash out from a richly valued company that (unbeknownst to the general public) also faces a challenging future.

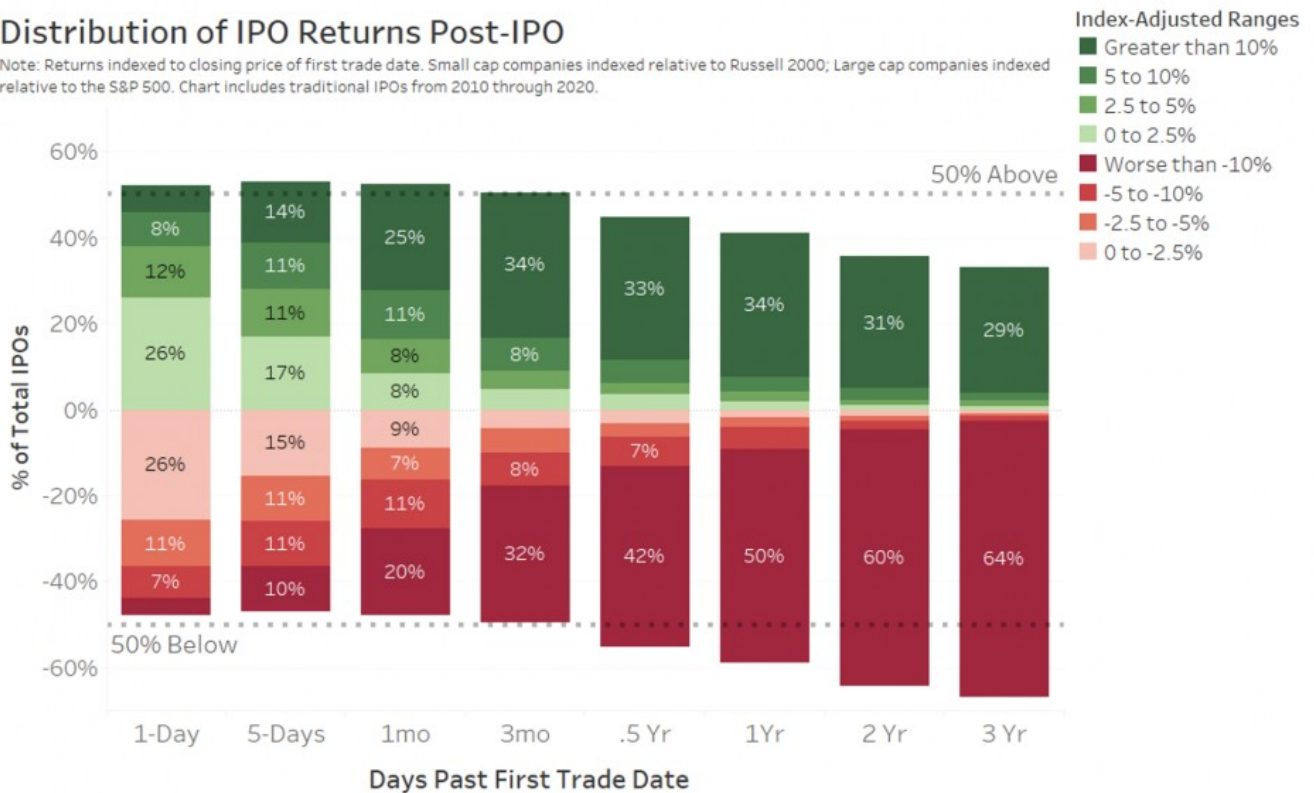
There's this common perception that the price of an IPO skyrockets immediately (and usually remains high). Is it possible to make a killing by buying an IPO? Sure, just like it's possible to do so by gambling. But check out the maximum one-year drawdown of some well-known IPOs below. Would you have been able to stomach those losses?

	1 Week	1 Month	3 Months	6 Months	12 Months	Year 1 Max Drawdown
Facebook	-17%	-18%	-45%	-42%	-31%	-54%
Twitter	0%	0%	11%	-32%	-10%	-58%
Alibaba	-4%	-6%	18%	-9%	-30%	-49%
Shopify	7%	38%	14%	9%	2%	-52%
Block	-9%	-6%	-24%	-28%	-7%	-44%
Twilio	27%	42%	125%	20%	3%	-66%
Snap	-7%	-8%	-13%	-39%	-26%	-56%
Okta	4%	1%	0%	18%	64%	-20%
MongoDB	-3%	-7%	-9%	20%	103%	-26%
Dropbox	10%	2%	18%	-7%	-24%	-54%
Spotify	4%	14%	13%	21%	-3%	-46%
Lyft	-5%	-23%	-16%	-46%	-65%	-79%
Zoom	5%	45%	54%	9%	142%	-40%
Pinterest	18%	9%	6%	5%	-28%	-70%
Uber	1%	3%	-4%	-34%	-21%	-68%
CrowdStrike	33%	22%	19%	-18%	64%	-67%
Cloudflare	10%	-13%	0%	6%	90%	-32%
Datadog	-14%	-16%	1%	-15%	128%	-42%
Snowflake	-14%	-5%	30%	-9%	27%	-52%
Palantir	5%	13%	164%	132%	153%	-53%
DoorDash	-17%	-19%	-28%	-28%	-13%	-47%
Airbnb	2%	3%	37%	0%	25%	-39%
Affirm	9%	44%	-29%	-40%	-26%	-65%
Roblox	10%	2%	31%	22%	-40%	-69%
Coupang	-11%	-7%	-23%	-36%	-65%	-64%
Coinbase	-5%	-19%	-30%	-24%	-55%	-57%
Robinhood	46%	35%	2%	-64%	-74%	-90%
Rivian	45%	15%	-36%	-77%	-67%	-88%
Arm Holdings	-18%	-20%	11%	106%	132%	-43%
CoreWeave	20%	5%	300%	217%	87%	-65%
Median	3%	1%	4%	-9%	-9%	-54%
Average	4%	4%	20%	1%	14%	-55%
% Positive	57%	57%	57%	43%	43%	n/a

Additionally, as the chart below (which covers IPOs from 2010 through 2020) shows, over time, the average return from IPOs becomes more negative. During that decade, by three years after the IPO, 64% of the stocks had a return that was worse than -10%, while only 29% had a return that was greater than +10%. You would have done better by just buying an index fund.

Distribution of IPO Returns Post-IPO

Note: Returns indexed to closing price of first trade date. Small cap companies indexed relative to Russell 2000; Large cap companies indexed relative to the S&P 500. Chart includes traditional IPOs from 2010 through 2020.



Source: FactSet, Nasdaq Economic Research

But [this time is different](#), right? (It always is.) AI is going to change the world! I don't doubt that AI will permanently transform technology, the economy and society, just like Internet-related stocks have done since the Dot Com bubble. But that doesn't mean that it will also transform your portfolio to the upside with huge, risk-free returns. Because those returns have already been earned by the founders of and early investors in companies like the three above. These people are smart and shrewd, and are not going to leave a \$20 bill lying on the sidewalk for you to come along and pick up.

The world's wealthiest man (Elon Musk) made his fortune in three different ways: (1) by finding a way to offer great and innovative products to consumers, (2) by winning lucrative government contracts and subsidies, and (3) by selling richly valued shares to the general public. Most people think they can become wealthy like him by buying shares in his companies from him (in an IPO). However, owning SpaceX didn't make him wealthy (it lost \$4.28 billion in the first quarter of 2026 alone), but selling shares in it to the public at a rich premium will make him much wealthier.

The recent sudden flurry of ginormous IPOs reminds me of retailers jockeying for business before Black Friday (only here the merchandise sells for a premium instead of a discount). They're trying to Hoover up investors' cash while they still have some, before their competitors can.

What really made my contrarian antennae stand fully erect was not when (mostly rank amateur) investors recently asked me about the IPOs above. That's just a sign of a garden

variety bubble, as the only other time I ever hear from them is when they want to know if they should sell everything (near what will eventually turn out to be the bottom). No, what really got my attention is when I heard about this (summarized, ironically, by Brave AI):

“Nasdaq and FTSE Russell have implemented fast-track inclusion rules that *significantly reduce the standard waiting period* for SpaceX’s stock to be added to major indexes. While typical new listings *require a three-month seasoning period* to allow for price discovery, Nasdaq’s new rules allow stocks among the top 40 by market cap to be included in the Nasdaq 100 *after just 15 trading days*. Simultaneously, FTSE Russell introduced a Fast Entry mechanism that permits inclusion in the Russell 1000 *just five trading days after listing....* These rule changes, effective May 1, 2026, are widely viewed as tailored to accommodate massive IPOs like SpaceX, ***forcing passive index funds to purchase shares at IPO valuations*** before traditional market stabilization occurs.” (emphasis added)

When they remove longstanding safeguards just to keep the game going a little while longer (e.g., repealing [Glass-Steagall](#) in 1999, the proliferation of [NINJA loans](#) before 2008, etc.), watch out because the end is nigh.

Note how these changes will essentially **force** (market cap-weighted) index funds (and thus all of their oblivious investors) to buy enormous quantities of these massive (\$1.77 trillion for SpaceXAI [which is [more than all of the VC-backed IPOs of the last decade combined](#)], \$1 trillion for Anthropic, as much as \$1 trillion for OpenAI) IPOs right when the valuation may be the highest. I wrote about the problems with index funds in [2022](#) and [2023](#) and about concentration risk in [2025](#) and [a few weeks ago](#). For years I've been describing index funds as a Doomsday Machine, but these changes will turbocharge that inevitable outcome.

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