Quarterly Booklet

Summer 2026



Initial Public Offerings: A Primer

Summer 2026

ONE DAY IN JULY

Issue XXXVI

A Note from Our Founder

This quarter, plenty of news has focused on initial public offerings (IPOs) of securities. SpaceX and coming IPOs from Anthropic and OpenAI dominate the headlines, but as of the mid-year point there have been about 180 IPOs in 2026.

This is important for public market investors and indexers. IPOs provide a funnel of new businesses that all Americans can own. In addition, the process of going public generally leads to inclusion in the indexes. A problem in markets today is that the number of public firms is declining: it is down roughly 50% from its peak of 7,300 firms 30 years ago. Increased regulatory burden, legal scrutiny, and short-term expectations from investors encourage management teams to keep corporations private. Business failures, mergers and acquisitions, and private buyouts steadily chip away at the available pool of public firms.

In this quarter's booklet, we step you through some of the mechanics, benefits, and challenges of the IPO world.

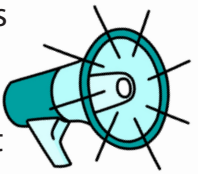
~ **Dan Cunningham**
Founder, One Day In July

Source: eqtgroup.com, "Why Is the Stock Market Shrinking?" 2/12/2025

The Basics

IPOs allow companies to raise capital from the public, rather than a smaller number of private investors. As part of this process, the Securities & Exchange Commission (SEC) requires preliminary information before a company is allowed to list its shares on a centralized U.S. stock exchange. This standardized reporting helps the public analyze the potential and risks of companies.

A company must present many details to the SEC, including its business functions, financial statements, and potential risk factors. It generally hires at least one investment bank to underwrite and distribute shares. The banks then present to institutional investors during a "road show," gauging interest and determining the price at which shares will first be sold on the public exchange.



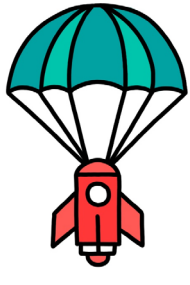
Institutions typically purchase the majority of shares in an IPO; retail investors are a minority. Because institutions and insiders purchase their shares before the general public, they are subject to a lockup period (usually 90 – 180 days) before they can sell.

Source: sofi.com, "What Is the IPO Process?" 9/4/2025

Performance Over Time

Going public is a significant milestone for a company. It lends an air of legitimacy and provides the firm with new capital. The excitement behind an IPO also affects investors, as they are finally able to access a company that was previously off-limits to anyone without substantial assets. The buzz around an IPO can lead to a significant increase in share price on the first day of trading. From 2012-2024, the average return on the first trading day for IPOs in the U.S. was 25.4%.

However, the initial excitement and jump in share price often are overstated. Over the same 13-year period, the average 3-year cumulative return following an IPO falls to just 14.1%. When you adjust for the size of the IPO, the numbers worsen to a cumulative -18.7%. Those blockbuster IPOs tend to retrace their day-one gains as prices drift back down.



Source: Jay R. Ritter, "Initial Public Offerings: Updated Statistics," 6/18/2026

Chasing Headlines vs. Balanced Asset Allocation

Media coverage of mega-IPOs sometimes suggests that the downside is limited. However, it's important to remember that investing directly in newly public companies represents a different philosophy relative to a disciplined, long-term asset allocation strategy.

Growth speculation drives IPO investing. Enticed by the allure of future profits, investors often overlook negatives such as net income losses, high initial valuations, or dual-class shares that restrict public voting power. This dynamic can create price volatility, especially around insider lockup expiration dates.

A balanced investment strategy focuses on proven fundamentals, broad diversification, and strategic risk control. Rather than guessing which individual company will succeed, diversified portfolios leverage broad market exposure. As index providers absorb new companies over time, diversified index investors naturally capture the growth potential—minus the day-one volatility. Strategic investing is designed to build enduring wealth, not chase headlines.

IPOs and Indexes

Indexes and IPOs have a mutually beneficial relationship. Indexes rely on companies going public to accurately reflect the market, and public companies desire index inclusion to increase their liquidity and provide legitimacy. Because publicly traded companies within indexes can be privately acquired or shrink below index size limits, new additions keep indexes relevant. At a high level, an index's role is to remain representative of the market it tracks; an index is dependent on the healthy turnover of member companies as the competitive landscape evolves.

Index funds don't participate directly in IPOs. Instead, they typically include a new public company after it has met the index provider's requirements. This year, several major index providers loosened inclusion rules to capture investor demand for a few mega-IPOs.

These methodological changes will impact index fund investors in 2026 and for the foreseeable future. Faster inclusion may make the indexes more representative of the overall investable universe, but it will also expose them to the volatility that comes along with newly traded securities. For instance, increased selling following the expiration of insider lockups isn't necessarily a judgement of valuation fundamentals, but it does put pressure on share prices.

To better understand some of the changes, let's look at the Nasdaq-100 index:

	Previous Methodology	New Methodology
Reconstitution Events (dates when new firms are added to the index)	New constituents added during annual reconstitution in December	Any top 40 company by market cap can join any time of year
Seasoning Period (length of time firms must be listed on an exchange until they can be added)	At least 3 months	At least 15 days (for a top 40 company)
Free-Float Rule (shares available for public trading on the open market)	10% minimum float	Dropped float floor entirely

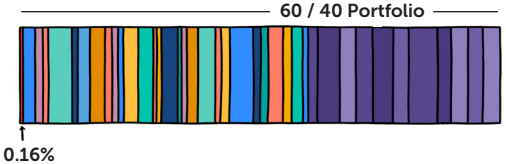
A notable exception to the shifting methodologies came from Standard and Poor's. After review, the firm decided to keep its 12-month seasoning period, profitability requirement, and minimum free-float rules for inclusion into the S&P 500.

Sources: Nasdaq Global Indexes, "Nasdaq-100 Index® Methodology Changes," 5/2026
S&P Global, "S&P U.S. Indices Methodology," 6/2026

SpaceX's Impact May Be Relatively Small

SpaceX won't be included in the S&P 500 this year. Standard & Poor's, the owners of the S&P 500 index, stuck by their "seasoning" process, requiring companies to be publicly traded for at least one year before index inclusion. While other requirements will need to be met, including profitability and free-float minimums, it's still worth considering the hypothetical impact SpaceX could have on the index once it becomes eligible.

At IPO, SpaceX raised $75 billion at a $1.77 trillion valuation. This means that the free float, or percent of shares available to buy on the open market, was just 4.24%. To be included in the S&P 500 index, SpaceX will need to raise its free float to at least 10%. If the valuation were to stay at $1.77 trillion, and the free float increased to 10%, its weight in the S&P 500 would be a meager 0.26%. In the context of a 60% equity and 40% fixed income portfolio, the SpaceX percentage drops to just 0.16%.[1]



1. For the purposes of this discussion, this assumes the S&P 500 represents the entire equity position.

Sources: slickcharts.com, "Total S&P500 Market Capitalization," 7/20/2026
bloomberg.com, "SpaceX IPO Raises $75 Billion in Biggest Debut of All Time," 6/11/2026
spglobal.com, "S&P U.S. Indices Methodology," 7/20/2026

The Power of Patience

Public debuts test investor discipline. While headlines urge immediate trading, market history generally demonstrates that the greatest financial rewards belong to patient investors. Staying invested for the long term provides several distinct advantages.

First, it allows you to capture a company's growth without having to time the market. Companies often are required to demonstrate years of operational maturation and financial screening before fully integrating into benchmarks like the S&P 500. Maintaining a disciplined portfolio ensures you are set up systematically to capture the growth of high-quality companies.

Second, patience helps you tune out short-term noise. IPOs often experience artificial price surges as investors rush in and drawdowns when insider lockups expire. Long-term shareholders look past these temporary mechanical fluctuations. By embracing patience, you can let structural market growth build your wealth quietly.

Source: schwab.com, "Does Market Timing Work?" 7/18/2025

"An IPO is like a negotiated transaction — the seller chooses when to come public — and it's unlikely to be at a time that's favorable to you."

Warren Buffett



Mature Private Companies

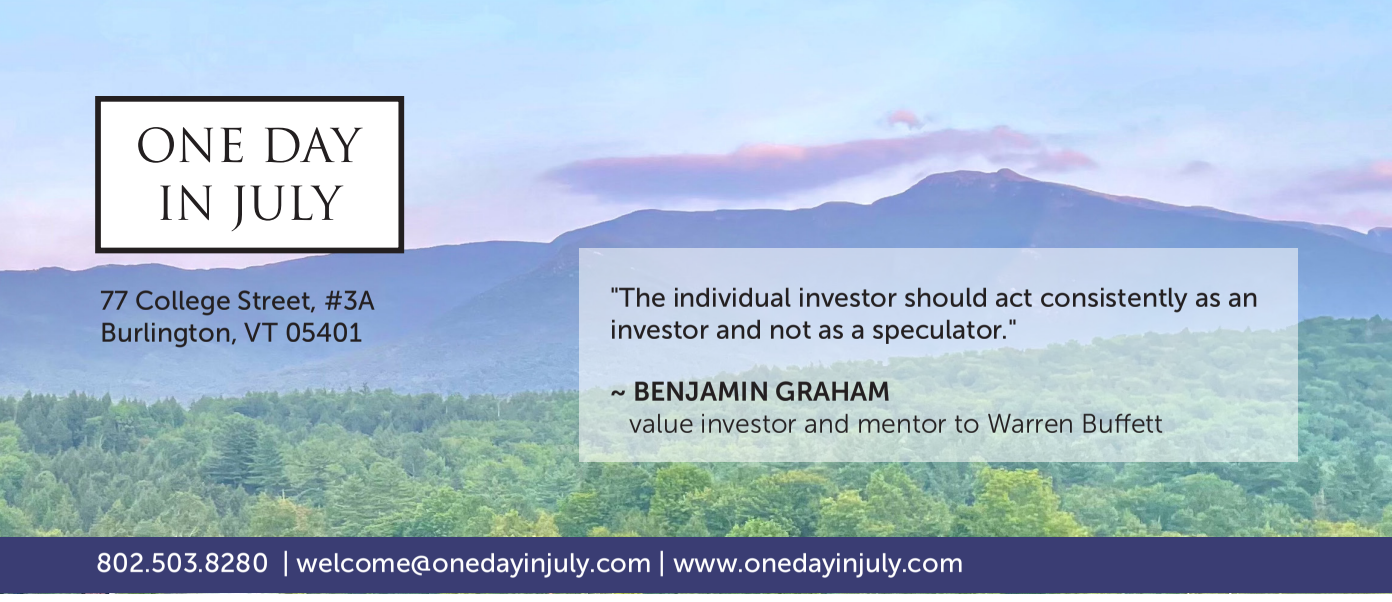
Amazon.com went public after three years, at a market capitalization of $458 million (in 1997 dollars). SpaceX went public after 22 years in business, at a market capitalization of $1.7 trillion. In Amazon's case, an individual investor had the ability to own part of the company and enjoy the bountiful returns (and sometimes losses), over decades. This pattern is being repeated: firms are staying private for long periods of time. What is driving this?

In the 1990s, rules changed around private investing, allowing companies to execute large private capital raises across state lines with less regulatory overhead. Roughly a decade later, after the global financial crisis, the regulatory burden increased on public firms, and litigation expenses soared. These changes led companies to delay the IPO process, instead using private investments to grow to a large size.

In 1980, the median age of a company when it was first offered to the public was six years. Last year, it was 12 years, and the year before that, it was 14. This did not favor individual investors, as they lost access to the high-growth, and often high-return, time periods. The Securities & Exchange Commission recognizes this problem and has several proposals under consideration that could simplify the IPO process and expand access to more investors.

Source: ir.aboutamazon.com, "Investor Relations FAQs," 7/20/2026

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"The individual investor should act consistently as an investor and not as a speculator."

~ **BENJAMIN GRAHAM**
value investor and mentor to Warren Buffett

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