

Why three IPOs could force every index fund to dump your favourite tech stock

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Note: the original article is provided as a separate file (attached to the email or downloadable from the website).

1. Reading Passage

Three of the most valuable private companies in the world – SpaceX, OpenAI and Anthropic – are preparing to sell shares to the public in what bankers are calling a once-in-a-generation IPO wave. SpaceX's listing alone, expected next month at a valuation of roughly \$1.75 trillion, would be the largest IPO on record. OpenAI is filing paperwork within days, and Anthropic is not far behind. Between them, the three companies will raise tens of billions of dollars from investors who are unusually hungry for anything connected to artificial intelligence.

But the story is not really about the companies. It is about a small rule change that turns these IPOs into a market-wide event. The Nasdaq exchange recently introduced 'fast entry' rules that allow giant new listings to join the Nasdaq 100 – its flagship index of the 100 largest non-financial companies – after only 15 trading days, down from a traditional waiting period of three to twelve months. Nasdaq also waived its usual requirement that at least 10% of a company's shares be publicly available, a condition SpaceX could not have met. The exchange tweaked these rules partly to beat its rival, the New York Stock Exchange, in winning the SpaceX listing.

Here is why that matters. Trillions of dollars sit in passive funds that mechanically replicate the Nasdaq 100. Once a stock joins the index, those funds must own it – at whatever price the market happens to be charging. JPMorgan estimates that if half of SpaceX's shares eventually float at a \$2 trillion valuation, passive investors would need to sell roughly \$95 billion of Wall Street's eight biggest existing tech stocks just to make room. Smaller members of the Nasdaq 100 face a different threat: many are likely to be bumped out of the index entirely, and hedge funds are already betting against these 'marginal' names in anticipation.

The mechanical nature of this buying creates a strange incentive. One strategist noted that if SpaceX rises 100% in its first week, passive funds still have to buy at the inflated price – 'they can't discriminate.' Critics worry that 15 days is too short for genuine price discovery, meaning index investors could be locked into whatever volatile valuation the first two weeks of trading produce. Investor lock-ups, which traditionally prevent insiders from selling for 180 days, will also begin to expire, adding another wave of supply.

For Elon Musk personally, the listing is transformative. He holds roughly 5.1 billion vested shares – about 41% of SpaceX – which could be worth around \$700 billion, potentially making him the world's first trillionaire. A special class of stock also gives him 85% of SpaceX's voting power, meaning that even after going public he retains nearly total control. Combined with his existing grip on Tesla, the IPO would hand one person dominant influence over two of the most valuable companies in America – a concentration of corporate power without modern precedent. Whether ordinary savers, whose retirement accounts will quietly absorb SpaceX shares the moment the index updates, end up benefiting or losing depends on a question no one can yet answer: what is a company that lands rockets and aspires to colonise Mars actually worth?

2. Explanation

Three private giants – SpaceX, OpenAI and Anthropic – are about to crash onto Wall Street under a brand-new rulebook that could turn one company's IPO into the most disruptive index event in modern history.

What's Going On?

SpaceX is preparing what's expected to be the largest IPO ever, with OpenAI filing paperwork as soon as this week and Anthropic close behind. Nasdaq just rewrote a key rule so that giant new listings can join the Nasdaq 100 index after only 15 trading days – down from a roughly three-to-twelve-month waiting period.

Because trillions of dollars sit in passive funds that mechanically copy that index, the rule change forces those funds to buy the new stocks almost immediately. To make room, the same funds have to sell other tech stocks already in the index. JPMorgan estimates that if half of SpaceX's shares eventually float at a \$2tn valuation, passive investors would need to dump roughly \$95bn of Wall Street's eight biggest existing tech stocks.

How To Think About It

Index funds aren't really 'investors' in the picking-winners sense – they're rule-followers. When the rulebook changes, they don't think, they just trade. The interesting question is who benefits and who gets squeezed.

- Imagine a varsity team with a fixed 100-player roster. The coach suddenly announces that any transfer student ranked in the top 40 nationally joins the starting lineup after 15 days of practice – no tryouts. Existing benchwarmers get cut to make room, and the new arrivals haven't yet proved they can play at this level.
- Or think of a Spotify 'Top 100' playlist that auto-updates: the moment a new mega-release qualifies, every algorithmic playlist on the platform has to add it, which spikes its streams artificially while bumping a smaller artist off the list – regardless of whether the song is actually any good yet.

Key Things To Know

- SpaceX is targeting a valuation around \$1.75tn; Elon Musk holds about 41% of shares (roughly 5.1bn vested), potentially worth \$700bn – enough to make him the world's first trillionaire.
- Nasdaq's 'fast entry' rule (effective May 1) drops the seasoning period to 15 trading days and waived the usual 10% minimum free float, so even a thinly traded mega-IPO can join the index.
- Musk will keep 85% of SpaceX voting power through a special share class, meaning public shareholders get exposure to the upside but almost no control.
- Nasdaq tweaked the rules partly to beat the NYSE in winning the SpaceX listing – a reminder that exchanges compete for IPOs the way airports compete for airlines.
- Most people assume 'forced buying' guarantees a price pop. The catch: traders are already shorting weaker Nasdaq 100 names likely to be kicked out, so the disruption ripples across the whole index before SpaceX even trades.

Why It Matters

If your parents own an S&P 500 or Nasdaq 100 fund inside a 401(k) or ISA — and most working adults do — they're about to become involuntary SpaceX shareholders at whatever price the market sets in the first two weeks. Todd Sohn of Strategas put it bluntly: if SpaceX is up 100% the week after the IPO, passive funds 'have to buy it... They can't discriminate.' That mechanical demand affects retirement balances, college-savings accounts and the broader AI bubble debate you'll hear about for the next decade.

The Bigger Picture

This is the moment passive investing — long sold as a boring, neutral way to own 'the market' — collides with an era of giant, founder-controlled private companies finally going public. Expect louder debate about whether index rules should bend for individual listings, more scrutiny of dual-class voting structures, and a wave of copycat behaviour from NYSE. The second-order effect to watch: if the SpaceX trade goes badly, regulators may force longer seasoning periods back into the rulebook — and the next AI mega-IPO could look very different.

3. Key Terms Glossary

IPO (Initial Public Offering)

The first time a private company sells shares to the general public, listing them on a stock exchange so anyone can buy and sell them.

Nasdaq 100

A stock market index tracking the 100 largest non-financial companies listed on the Nasdaq exchange – heavily weighted toward tech.

Passive investing

A strategy where funds simply mirror an index (like the Nasdaq 100) instead of picking stocks. Trillions of dollars are managed this way.

Free float

The percentage of a company's shares actually available for the public to trade, as opposed to being locked up by insiders or early investors.

Lock-up period

A contractual window (typically 180 days after an IPO) during which insiders and early investors are barred from selling their shares, to prevent a flood of supply crashing the price.

Seasoning period

The old waiting time (3–12 months) before a newly public stock could be added to a major index, intended to let the price stabilise and reflect true demand.

Index weighting

How much a single stock counts inside an index. A bigger weighting means index funds must own more of it, amplifying its market impact.

Dual-class share structure

A setup where founders hold a special class of shares with extra voting power, letting them control the company even while owning a minority of total stock.

Valuation

The estimated total market worth of a company, calculated by multiplying its share price by the number of shares outstanding.

4. Reading Comprehension Quiz

Circle the best answer for each question.

Q1. The passage primarily argues that the upcoming SpaceX, OpenAI and Anthropic IPOs will:

- A) Cause a permanent collapse in the share prices of older technology companies
- B) Trigger large, rule-driven reshuffling of money across the US stock market
- C) Mark the end of passive investing as a viable strategy for ordinary savers
- D) Be blocked by regulators worried about Elon Musk's growing market power

Q2. According to the passage, the Nasdaq changed its rules in part because:

- A) Federal regulators ordered it to shorten the seasoning period
- B) Passive funds had complained about being excluded from new listings
- C) It was competing with the NYSE to win the SpaceX listing
- D) Index investors demanded protection from volatile new IPOs

Q3. Which choice best states a central idea of the passage?

- A) Elon Musk's wealth will soon make him the most powerful CEO in history
- B) Mechanical index rules can amplify the market impact of a single IPO
- C) AI companies are overvalued and their IPOs will likely disappoint
- D) Retail investors should avoid buying SpaceX shares at the IPO price

Q4. As used in the passage, the word 'float' most nearly means:

- A) Drift slowly across a surface
- B) Issue or make available for trading
- C) Suggest an idea for discussion
- D) Stay solvent during a downturn

Q5. As used in the passage, the word 'discriminate' most nearly means:

- A) Treat people unfairly based on identity
- B) Recognise subtle differences in taste
- C) Choose selectively based on price or quality
- D) Distinguish legally protected categories

Q6. It can most reasonably be inferred from the passage that smaller Nasdaq 100 companies are likely to:

- A) Experience downward pressure on their share prices around the IPO
- B) Be acquired by SpaceX or OpenAI shortly after listing
- C) Voluntarily delist from the Nasdaq to avoid forced selling
- D) See their valuations rise as investors rotate into smaller stocks

Q7. The passage suggests that Elon Musk's special share class:

- A) Gives ordinary investors equal voting rights at SpaceX
- B) Will be eliminated as a condition of the IPO
- C) Lets him control SpaceX even while owning a minority of shares
- D) Mirrors the structure used at every major US tech company

Q8. The author's tone when describing the new fast-entry rule is best described as:

- A)** Openly celebratory of Nasdaq's competitive ambition
- B)** Analytical and attentive to ripple effects across markets
- C)** Alarmed about the imminent collapse of passive investing
- D)** Dismissive of concerns raised by index fund managers

Q9. Which statement about passive investors can most reasonably be inferred from the passage?

- A)** They prefer volatile IPOs because they generate higher returns
- B)** They will probably buy SpaceX shares at prices they would not otherwise pay
- C)** They have successfully lobbied Nasdaq to slow the IPO process
- D)** They typically avoid any stock added to the Nasdaq 100 in its first year

Q10. Which choice provides the best evidence for the answer to the previous question?

- A)** The reference to SpaceX's expected \$1.75tn valuation
- B)** Nasdaq's decision to waive its 10% minimum free float requirement
- C)** The strategist's claim that funds 'have to buy it... They can't discriminate'
- D)** JPMorgan's estimate of \$95bn in forced sales of rival tech stocks

My Score: _____ / 10

5. Answer Key with Explanations

Q1. The passage primarily argues that the upcoming SpaceX, OpenAI and Anthropic IPOs will:

Answer: B

The passage centres on how Nasdaq's new fast-entry rule will force index funds to buy the new listings and sell others – a mechanical reshuffling. A is too extreme (the passage suggests pressure, not permanent collapse). SAT Tip: When a question asks about the passage's primary argument, pick the option that captures the whole article's mechanism, not a dramatic side-claim that only appears in one sentence.

Q2. According to the passage, the Nasdaq changed its rules in part because:

Answer: C

The passage states Nasdaq loosened its rules as it battled to win the SpaceX listing over its rival NYSE. D is a Trap C distractor – true-sounding in the real world but the passage actually says fast entry exposes passive investors to more volatility, not less. SAT Tip: 'According to the passage' questions are open-book – locate the exact sentence before choosing, and reject any option that requires you to add reasoning the author didn't supply.

Q3. Which choice best states a central idea of the passage?

Answer: B

The passage's analytical core is that rule-following index funds, not stock pickers, will drive enormous buying and selling around the IPO. A is a Trap C distractor – mentioned in the article but a side detail, not the central idea. SAT Tip: Distinguish 'central idea' from 'a true detail.' The central idea is whatever the most paragraphs are building toward, not the flashiest number in the piece.

Q4. As used in the passage, the word 'float' most nearly means:

Answer: B

In context, 'free float' and 'float its shares' refer to shares being released into public trading. A is the common everyday meaning – the classic vocab-in-context trap. SAT Tip: On vocab-in-context, plug each option into the original sentence and reject any that changes the sentence's meaning, even if the word 'feels right' in isolation.

Q5. As used in the passage, the word 'discriminate' most nearly means:

Answer: C

The strategist's quote means index funds cannot pick and choose – they must buy SpaceX whatever the price. A is the everyday social meaning and the obvious trap. SAT Tip: Words with charged everyday meanings (discriminate, exploit, manipulate) almost always appear on the SAT in their neutral, technical sense – pick the boring definition.

Q6. It can most reasonably be inferred from the passage that smaller Nasdaq 100 companies are likely to:

Answer: A

The passage describes traders betting against 'marginal Nasdaq 100 names' that could be deleted – implying selling pressure on those smaller stocks. D is Trap A – right scope, wrong direction. SAT Tip: For inference questions, the answer is the smallest logical step from what the passage actually says. If you have to invent a new cause to justify your choice, it's wrong.

Q7. The passage suggests that Elon Musk's special share class:

Answer: C

Musk owns about 41% of SpaceX but his share class gives him 85% of voting power – control without majority ownership. D is a Trap C distractor: dual-class structures exist elsewhere but the passage doesn't claim it's universal. SAT Tip: Watch for distractors that overgeneralise with words like 'every,' 'always,' or 'never' – the passage rarely supports absolute claims.

Q8. The author's tone when describing the new fast-entry rule is best described as:

Answer: B

The author lays out mechanisms, dollar estimates and competing perspectives without cheering or panicking – a neutral, analytical voice focused on consequences. C overstates the alarm the passage actually expresses. SAT Tip: For tone questions, look at the author's adjectives and verbs – neutral verbs like 'estimates,' 'said,' 'will' signal analysis, not advocacy.

Q9. Which statement about passive investors can most reasonably be inferred from the passage?

Answer: B

The passage notes a 100% price pop is plausible and that passive funds 'have to take that price.' A reverses the relationship – passive funds don't prefer volatility, they're trapped by it (Trap A). SAT Tip: On inference questions, restate the answer as a 'because' sentence – if you can't trace the 'because' back to a specific line in the passage, the answer is wrong.

Q10. Which choice provides the best evidence for the answer to the previous question?

Answer: C

The strategist's quote directly supports the inference that passive funds will pay whatever price is set. D is about selling other stocks, not buying SpaceX – the Trap B 'right vocabulary, wrong combination' error. SAT Tip: On evidence-pairing questions, find the sentence that supports your previous answer first, then match it to an option – never pick the most impressive-sounding quote.