



SINGER WEALTH

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Private equity

According to the Economist, many large endowment funds and institutional investors earned 30% to 60% on private equity investments. This is not surprising as the private equity asset class has historically outperformed the public market in both good times and bad.

For the 20-year period ending on June 30, 2020, private equity investments have gained an average of 10.48% per year versus 5.91% for the S&P 500.*

Currently, there are about 2,800 publicly traded companies that have more than \$100 million in annual revenue but there are about another 18,000 companies that have more than \$100 million of annual revenue that are not publicly traded.

Private equity funds invest in these nonpublic companies to collect distributions from corporate profits and to hopefully participate in the appreciation. Often the private companies use the fund's investment in them to finance additional growth. Companies that are the largest U.S. public companies were once private companies that received capital to finance growth from private equity funds.

For instance, Investors in Google's 2004 IPO (initial public offering) have made 58 times their money through September 2021. However,

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private equity investors who invested in Google way before it went public when it was a startup private company would have made 1,600 times their initial investment if they still held those shares.**

Another attractive feature of private equity is you can purchase shares of companies at a much lower multiple of earnings. Because they are highly liquid, publicly traded stocks command a high multiple – often more than 20 times earnings. In contrast, private equity investors are paying only six to 10 times earnings.

The less you pay for a company's earnings, the better your returns should be. Historically, most private equity funds had extremely high minimums in the \$5 million to \$25 million range with 10-to-12-year time commitments. The good news for accredited retail investors is that there are now several private equity funds that are allowing investments as low as \$100,000 for much shorter durations.

*Cambridge Associates

** PEI Insights