

# ASK THE ADVISERS

The views and opinions expressed in "Ask the Advisers" are solely those of Keith Singer.



## Singer Wealth

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## Private Equity

Most people own public stocks directly or indirectly through mutual funds or ETF's. The stock market is comprised of publicly traded companies; currently there are about 2,400 publicly traded companies that have annual revenue more than \$100 million. The reality is publicly traded stocks only make up 17% of US companies of that size. There are approximately 18,000 private businesses that have over \$100 million in annual revenues.

Many great companies have decided they don't need to become publicly traded. Private Equity funds often seek to take a controlling interest in profitable private businesses and then attempt to grow the companies to increase their value. Since 2003, investors in private equity have seen 60% more growth in their capital than investors in the S&P 500 total return index.

Perhaps one reason private equity has outperformed the stock market is because private equity investors typically pay lower multiples for a company's earnings. When private equity funds buy private companies, they might pay 5 - 9 times annual earnings. Whereas when you invest

in the S&P 500 you could be paying 15-20 times earnings. When you buy Amazon (AMZN) you are paying 100 times earnings.

When the stock market is performing well the private equity's excess return is relatively small, only about 1.5% per year. However, during three-year periods when the stock market has averaged less than -5% per year, private equity has outperformed by almost 8% per year. Additionally, the value of the private equity investment is based largely on the fundamentals of the underlying fund assets and not the fear and greed of the stock market. Publicly traded stocks tend to have much more volatility.

Historically, private equity investing was the domain of large institutions, family offices, and pension funds with the minimum investment often starting at \$5,000,000. Today there are now private equity investments in evergreen funds available for as little as a \$50,000 investment. You may want to ask your advisor about which private equity funds they are recommending if you want to increase diversification of your portfolio.

Source: Hamilton Lane