

## Accredited Investors

There are many investments that require participants to be accredited investors. Individuals with a net worth of more than \$1 million (excluding primary residence) or an annual income of \$200,000 or \$300,000 for married couples are considered accredited investors by the SEC.

The idea behind requiring this threshold is to limit certain investments that are more sophisticated to investors with greater financial acumen while shielding less experienced investors from investments that they don't understand. While it seems like an inexact method of determining one's financial acumen, those are the current rules that were established in 1982.

The good news is that back in 1982 only 1.81% of investors qualified as accredited investors, meaning that most investors were limited to cookie cutter portfolios consisting of stocks, bonds and mutual funds. In 2022, because of inflation, 18.5% of American households qualified. This means that many investors now have access to a wide range of alternative private investments like private equity, private credit, and private real estate that were previously reserved for the ultra-wealthy or institutional investors.

The three private asset classes that I just mentioned have all outperformed stocks and bonds over various time periods. Some investments are considered even more sophisticated and require investors to be qualified purchasers.

Qualified purchasers are defined under Section 2(a)(51) of the Investment Company Act of 1940, and the requirements are generally more stringent than those for accredited investors. Individuals must own at least \$5 million in investments, either individually or jointly with a spouse. Trusts and other entities not formed for the specific purpose of acquiring securities must own at least \$25 million in investments.

The higher thresholds for qualified purchasers reflect a greater level of financial sophistication and capacity, making them eligible for more exclusive investment opportunities, such as certain private investment funds that are exempt from registering as investment companies under the Investment Company Act.

In summary, while both accredited investors and qualified purchasers represent sophisticated investors, there are many attractive investment opportunities available to investors in both groups that weren't available even 5 to 10 years ago.

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