BEYOND PUBLIC EQUITY

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All investment information admonishes that "past performance is no guarantee of future results." Despite the warning, investors often heavily rely on past information and performance for guidance (and it has been fairly reliable over long time periods). But there are moments when things shift drastically, and we are experiencing one of those moments now.

For decades, investors have used a combination of traditional stock and bond investments to balance their portfolios between more conservative and more aggressive investments. Since stocks and bonds have tended to be uncorrelated, they served as diversifiers to one another: when one did poorly, investors could expect that the other would provide some balance.

But markets today are showing that this doesn't always work. We have seen both stocks and bonds struggle at the same time. Fortunately, the investable universe is much broader than traditional public stocks and bonds, and that larger universe of alternative investments is becoming ever more accessible to investors.

In 1996, at its peak, the number of U.S. stocks available on the public equity market was 8,025. Now, the NASDAQ lists fewer than 4,000 companies, a decrease greater than 50%. And those 4,000 companies represent fewer than one percent of the total companies in the U.S.

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As the market of publicly traded stocks narrows, private companies have proliferated. The costs of going public can be very high, and many companies find it more efficient to avoid the regulatory burdens, particularly as it has become cheaper and easier to raise capital without going public. Staying private also means having to contend less with share price fluctuations from market volatility.

So-called "alternative investments" encompass not only private equity, but also other vehicles like private real estate and hedge funds. Because many alternative investments are less correlated to public stocks and bonds, they can serve as a strong diversifier, helping to mitigate risk in a portfolio.

Historically, alternatives have been difficult for investors to access, with stringent investment minimums, added complexity, and reduced liquidity. But the industry has worked hard to find creative ways to make these markets more accessible to investors in ways that meet their needs for ease, transparency, and liquidity. The emergence of interval funds is one such access route, providing a vehicle with significantly improved liquidity that is nearly as easy and straightforward as investing in a mutual fund.

Investors seeking to go beyond public equity may find that the possibilities are opening up, and that alternative investing offers diversification benefits that are becoming more difficult to implement in public markets. And given the relative size, the opportunities for growth potential are expansive.

It's important to note that some alternative investments require qualification or accreditation of investors; this helps ensure that investors are equipped with adequate experience to understand the risks and what they can expect as an investor in these strategies. Working with an investment advisor who has specialized expertise in these areas — such as Arnerich Massena — is important for investors who want to go beyond public equity.