Custom Private Equity Management

The Most Frequently Asked Questions About

PRIVATE EQUITY INVESTING

Custom Private Equity Managers & Developers
558 Ambler Avenue
Abilene, Texas 79601
Paul Anthony Thomas, Principal
325-695-1329

Question:	Answer:
What is Private Equity?	Private Equity investing is when an investor with available cash (or other assets) makes an investment in a private company or venture to provide capital for startup, growth, expansion or operations.
What are the most common ways that people invest in private equity?	These investments can be grants, equity ownership or debt. This investment can be a on a micro-scale, say lending $500 to a Ethiopian woman to buy a sewing machine, Or On a macro scale, say providing equity and debt financing for a $100,000,000 solar energy or highway project or perhaps to take a public company private. These equity investments are also often tied to the purchase of assets or an operating company (providing the equity for a syndicator to be able to borrow money to buy a company or an asset).
Why would anyone want to invest in Private Equity?	Without equity, there would be no business. Private Equity is how business starts. Someone has an idea or a plan, someone else has money or assets that need to go to work, they join together to execute the plan. Significant research has proven over the past decades that a portfolio made of stocks and bonds can be dramatically enhanced (increased cash returns with less financial risk) by adding private investments such as: real estate, energy, metals, leasing, collectibles & private company ownership to the portfolio structure. The more diversity, the better.
What is the Yale Model of investing?	David Swensen was the guiding hand investing the Yale University endowment funds beginning in 1985. His model of investing was to divide an investment portfolio into 6 or 7 equal portions, investing each portion in a different asset class, avoiding traditionally low yielding asset classes such as fixed income (bonds) while embracing alternative assets. This model resulted in over 65% of the investment dollars being placed in Alternative Assets. The implementation of this model of investing, called the Yale Endowment Model, resulted in an increase in asset value 10 times in 20 years ($1000 in 1995 became $10,000 in 2015). The basis of the model was contrary to traditional belief that good investments require instant liquidity options. The Yale Model's premise was that tying capital up for a long time with the right manager and the right investment was not a bad thing, as the public markets would have the average investor believe. This strategy continues to prove its superior value in today's investing world.
Who can invest in private equity?	Anyone can invest in a private deal or asset. When you, as an investor, begin to provide money to a syndicator or private equity manager, it is generally the rule that you will need to meet the criteria of an "Accredited Investor".
What is an Accredited Investor?	Under Securities and Exchange Rules in the United States, an accredited investor must meet the following criteria: 1) Make gross income of $200,000 per year individually or $300,000 per year with their spouse, OR 2) Have net worth, excluding the primary residence, of $1,000,000 or more. In the new rules of a 506C offering under Regulation D, the sponsor of the program (syndicator) must verify that an investor is *Accredited* by examining their tax returns or having a professional attorney or accountant provide written verification of the investor being Accredited.

What are "Alternative Assets"	Alternative Investments are any investment that are not public stocks, bonds or cash. Alternative assets include, but are not limited to: Real Estate, Energy, Metals, Hedge Funds, Venture Capital, Forestry, Film Production…anything that is not traded on the public markets.
How does Private Equity fit into the "main stream" asset allocation or investing model that my broker uses?	Stock and bond brokers, as a general rule, do not like for the client to invest in private deals because private transactions do not pay commissions to the Broker or Registered Representative and the money falls outside the control of the Broker. Brokers like to keep all of your money in assets that pay <u>them</u> commissions when bought or sold. If a broker was providing the best investment advice available in the marketplace for his clients, he would continually identify and research alternative investment opportunities for his clients and help them invest a portion of their investment dollars in stable, cash-flowing assets that make profits at a reduced tax rate, regardless of market conditions, economic conditions or sentiment.
Do I need to participate in Private Equity?	The answer to this question depends on your *"Personal Investment Philosophy"*. Many investors will ONLY invest in public markets, publically traded stocks, bonds and mutual funds. On the other side of the coin, many investors will not invest in the public markets, because the public markets are too risky. In this investors mind, public markets have a poor track record and rarely provide adequate investment returns.
How do I invest in a Private Equity deal or portfolio?	The best way to invest in Private Equity is to find an asset manager you can trust, get to know and who understands your *Personal Investment Philosophy*. Someone who you can understand and will work with you to put their experience and track record to work building your portfolio. Most private equity managers manage large amounts of money and have very high minimum investment levels. There are asset managers who do not have high minimum investment levels and who will customize alternative asset programs to your needs.
What are some common pitfalls when investing in Private Equity?	Many new Private Equity investors do not fully research and understand the risks of the investment. Also, the investor will frequently miss the step of research on the investment manager. It is extremely important that the person who manages the investment have all parties best interest in mind, be aligned with the investor and do the right thing for all parties concerned. Another common pitfall is to invest in a program that is undercapitalized. Nothing hurts an investments success more than undercapitalization.

You can learn more and ask questions here.

CustomPrivateEquity.com
Call Paul Anthony Thomas, Principal
Custom Private Equity
325-695-1329 phone
325-665-7818 cell