

Economico Flash ⚡ #26

Investment strategy: (No) private market investments

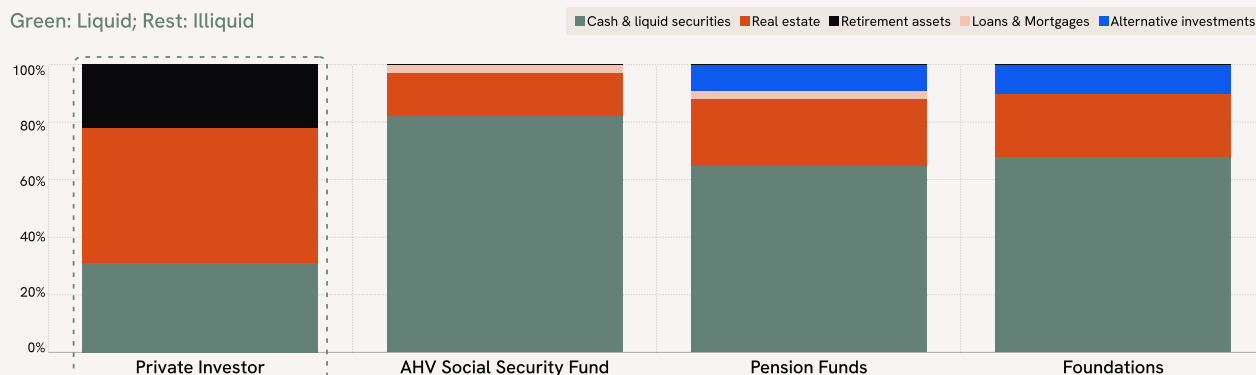
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Chart of the week: Share of private market investments by different investor groups

Green: Liquid; Rest: Illiquid



Source: Annual Report 2023 of the AHV Compensation Fund; Pension Fund Statistics 2023 of the BFS; Benchmark Report SwissFoundations 2023; Economico Flash 14

With Flash 26 and the question of whether private market investments belong in an asset management portfolio for private investors, we conclude our odyssey through the topic of investment strategy and the "investment beliefs" behind the construction of [Economico standard portfolios](#).

Private market investments include all investments that are not tradable on a stock exchange or other liquid secondary market. In addition to the private equity and private debt product lines, this also includes unlisted real estate or infrastructure investments. Your own home, your shareholding in an SME or the ownership of a farm are also private market investments:

Three reasons not to use private market investments in wealth management for private investors:

- 1. Diversification:** private investors already have plenty of private market investments in their portfolios. According to [Flash 14](#), the real estate share of the average Swiss alone amounts to 47%. This makes private investors the investor group with by far the largest proportion of private market investments in their portfolio (see chart of the week).
- 2. Liquidity:** Private market investments cannot be traded in liquid form. At the same time, the liquidity planning of private individuals is - compared to institutional investors - a vulnerable matter: sudden life events such as job loss, accident or divorce can immediately trigger a substantial liquidity requirement. If you are then only sitting on illiquid investments that are almost impossible to sell,

you have a problem. Current account and securities investments should therefore provide an outlet for private individuals to overcome such liquidity bottlenecks.

- 3. Costs:** Private market investments are characterized by a high information gap between provider and investor, the fund contracts are often not structured in the interests of the investors, the management costs are high and sometimes opaque. Even institutional investors with access to their own qualified research capacities find it difficult to identify private market investments that can keep up with the respective "public market equivalents" - i.e. economically comparable listed liquid investments - in terms of costs.

It may be that the use of private market investments is attractive for your provider because it enables him to generate additional product fees. For you as an investor, however, we question the added value of adding private market investments to your asset management portfolio.

Takeaways

- Private market investments are not suitable for a private asset management portfolio.
- With their own home and pension assets, many private investors already have (more than) enough illiquid investments in their portfolio.