

# Private Market Insights

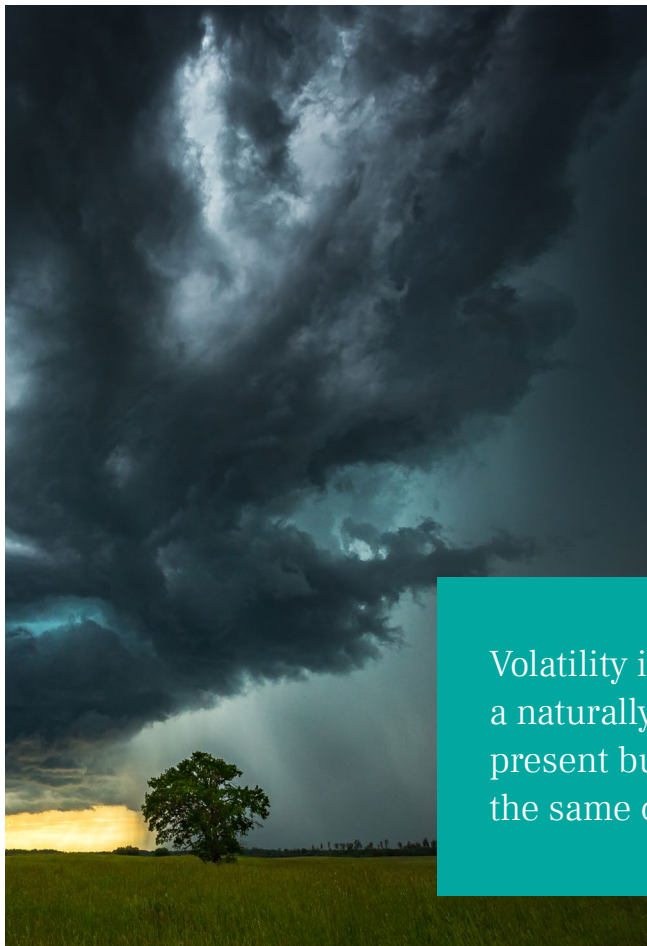
A NEWSLETTER BY FAST

## Lessons Learned from Mother (Nature): Patience and Potential Prosperity in Times of Panic

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The world around us is full of naturally volatile forces, from wind to rain to wildfires. Phenomena like these, while naturally occurring, can leave us feeling exposed—even panicked. Even though we can, to some extent, see them coming, their inevitable arrival can nevertheless feel like an uncontrollable situation.

**As residents of a state known for such events, we have two choices: flee the scene or prepare.**

After enough years of careful observation, we begin to understand and anticipate the cyclical nature of these events. Better yet, we build and maintain our properties to withstand the inevitable storms, embracing their chaos for what they ultimately give way to—fertile ground for new life.

Volatility in financial markets behaves similarly—as a naturally occurring phenomenon that is always present but flares up in cycles. As investors we face the same choices: flee the scene or prepare.

## **We're seeing real volatility in markets that isn't likely to go away anytime soon.**

We're yet again seeing smoke and we know the fire isn't far behind. The markets we face today look familiar but feel different. Therefore, a solution needs to both address persistent issues that reveal themselves in cycles and acknowledge the unique circumstances of what we face today—specifically, public market volatility, inflation and rising rates.

Based on what we're hearing from our 62,000 end investors and the feedback we receive across thousands of financial advisor conversations each month, we believe that we have a unique lens through which to view and assess current market dynamics and investor behavior.

## **So how do we best prepare? Both for the challenges we face today, but also for any in the future.**

We believe that incorporating private markets can offer portfolio protection from the “fires” of public market duress, keeping investors poised to benefit from the reward that may come when those fires ultimately subside.

Panic and fear can lead to quick, irrational action, which is detrimental to wealth creation. And during volatile times like these, financial advisors spend an enormous amount of time explaining to clients why they shouldn't act on their impulses.

We often witness investors rushing to cash, as if the firehose of liquidity can put out the fires of volatility. At the same time, many financial advisors spend significant time ensuring their clients' portfolios are liquid—and consequently, clients are tempted to sell whenever fear strikes.

As with fires, we notice that today, relative to history, bouts of volatility are more extreme and more frequent. Technological innovations and easy access to trading allow individuals to directly engage in financial markets, resulting in the whipsawing of public markets.

We believe it may be time to rethink the long-held perception that investors need liquidity. Investors have 90% or more of their portfolios entirely liquid—do they really need immediate access to \$9 of every \$10? We would argue not.

While investors often find comfort in being liquid, many don't intend to use that liquidity in the near-to mid-term. Investments and savings are there for retirement—for financial freedom. In the hands of a good financial advisor with a solid financial plan, the typical investor may not need to access their portfolio for many years, with arguably only a small portion of every \$10 really being needed over the coming years.

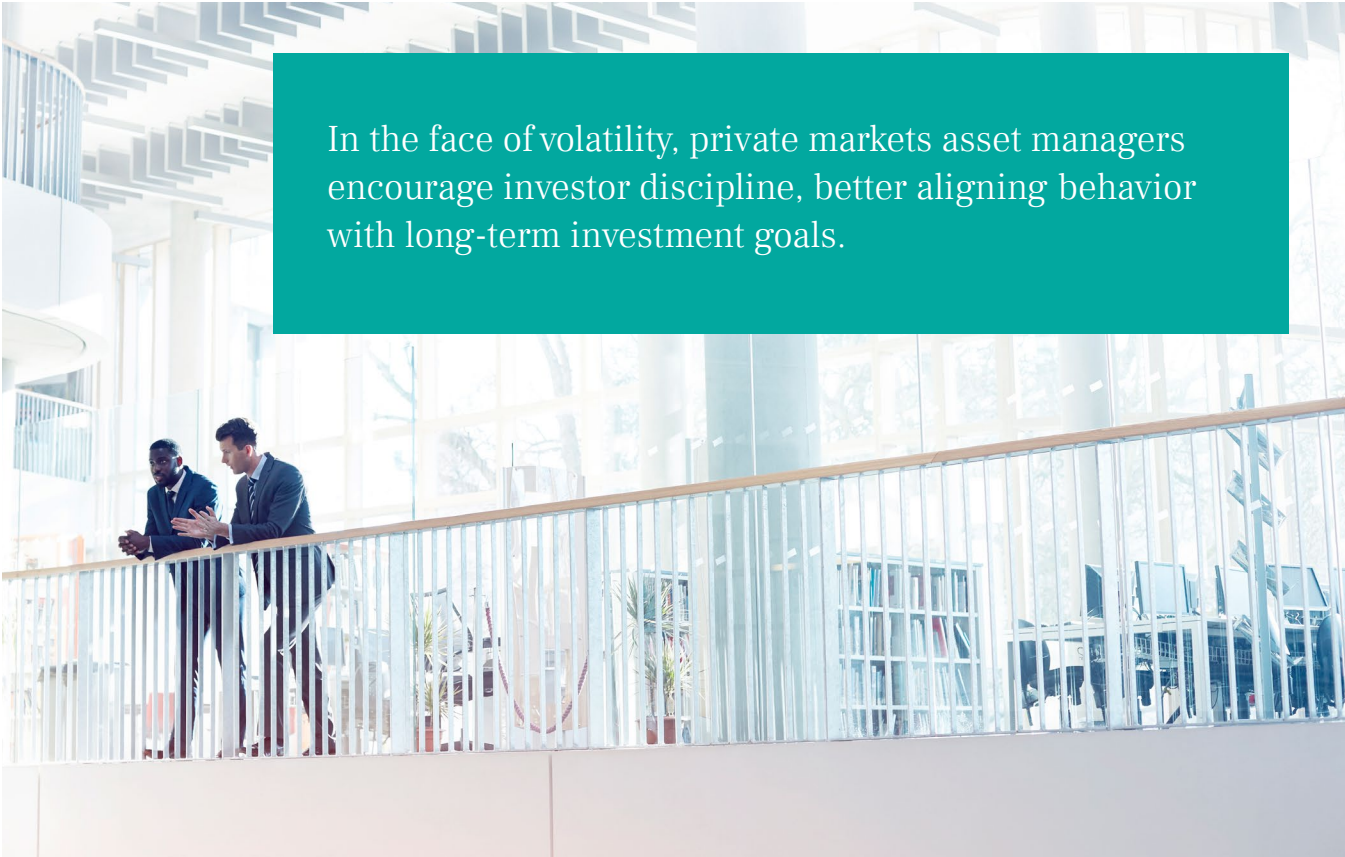
As a thought exercise, just imagine if someone handed you all your money in cash at the end of this year—you'd be at a loss! You might even be furious. But nothing in life is free, including portfolio protection. Cost is implicit or explicit. Opportunity cost today is more important than ever.

**So why are most individual investors paying an implicit premium to keep such a large portion of their portfolio liquid when they don't want to liquidate it?** That premium, as measured by the difference between private debt and public market bonds, has historically been as much as 2-4% in extra yield and returns in any given year from 2004 through March 2022.<sup>1</sup>

When you don't need to access cash for a near-term goal, is it really worth the opportunity cost of not investing in private markets with potentially similar or better returns and less observed risk?

Moreover, due to inflation, **an investor who sat in cash over the last year lost 8.5% of their purchasing power!**<sup>2</sup>

The investor's goal is ultimately return-oriented, not liquidity-oriented. Achieving success relative to a financial plan very much depends on staying invested for compounding returns. Constant buying and selling, as is often seen during periods of meaningful volatility, hinders the ability to achieve success relative to that financial plan.



In the face of volatility, private markets asset managers encourage investor discipline, better aligning behavior with long-term investment goals.

Volatility, like a fire, if treated with caution and respect, can be a cleansing, regenerative force. And private markets, especially in the face of public market volatility, have demonstrated incredible resilience, strength and opportunity.

Private investing can encourage greater levels of entrepreneurialism and transformational change relative to public markets. This is due to the longer time horizon of private equity ownership and more hands-on boards with greater alignment of interests. It's something we witness daily across the more than 3,000 companies in which we invest.

**As private markets investors, we currently see great opportunity across the asset classes in which we invest.**

For financial advisors whose clients have recently sold positions and/or are sitting on dry powder, when you

go to redeploy that cash, we encourage consideration of the private markets—where we believe clients can potentially achieve compelling and consistent returns in nearly all market conditions.

Understandably, the marketplace focuses on the potentially higher income and returns that might be gained by switching from public to private markets. However, above and beyond the opportunity for enhancing risk-adjusted returns, we believe private markets encourage alignment and discipline relative to a long-term financial plan.

While markets may not follow the seasons—fire or otherwise—they demonstrate, over time, similar cyclicity. The best we can do is learn the lessons from the year prior and be better prepared for the inevitable seasonal change ahead.

1. Sources: Cliffwater LLC, Bloomberg. Cliffwater BDC Index (CWBC Index) represents private debt. Credit Suisse Leveraged Loan Index (CSLLI) represents public market bonds.

2. Source: US Bureau of Labor Statistics. Loss of purchasing power is equivalent to CPI as of July 2022.

## About the Financial Advisor Solutions Team (FAST)

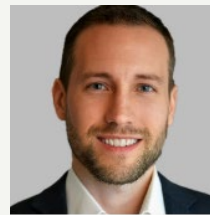
FAST offers resources and one-on-one support to help navigate the complexities of private markets investing. The team's goal is to empower investors to confidently incorporate private markets investments into portfolios. The educational content, research and analytics that FAST delivers are designed to enhance the understanding of the benefits of private markets investments. FAST is a skilled and knowledgeable team of professionals who can answer questions and foster more informed decisions.

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