RIAs and Private Investments

Four reasons to incorporate private investments into your practice

In the age of the robo-advisor and increasing numbers of RIA firms competing for the same clients, maintaining the status quo isn't enough.

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*Total number of SEC-registered RIAs has increased by **9.2% since 2012**, with over half of that increase occurring in 2015.*[1]

A Changing Landscape

The world of investing has become increasingly complex over the years, with more investment options today than ever before. It's no longer primarily made up of stocks and bonds for the vast majority of individual investors. Now, a variety of investment products are available, including ETFs, alternative funds, structured products and more.

For RIAs to continue to be successful, they can no longer provide advice only on basic portfolio allocation. They should also consider becoming experts in other areas of investing, especially in private investing, which has become one of the largest sectors of capital markets.

The RIA movement really started to take root in the 1990's when Schwab and others developed dedicated platforms to support the RIA model. By the early 2000s, RIA firms were well established in wealth management becoming stronger and more prolific after the financial upheaval that started in 2008. Since then, the objective advice model has quickly become popular with high net worth investors. And, the data points indicate that the trend will continue.

But, as high net worth clients flock to the RIA model, independent advisors need to address the holistic needs of wealthy clients. Often, this goes beyond providing normal asset allocation management. A good RIA firm should be able to address a vast array of their client's needs from estate planning to advising them about a variety of investment types.

[1] Investment Adviser Association. "Evolution Revolution: A Profile of the Investment Adviser Profession." (2015): p. 7: https://www. investmentadviser.org/eweb/docs/Publications_News/EVREV/evolution_revolution_2015.pdf

$1.3T *invested in Reg D private offerings*

One investment type RIAs should be aware of is private placements. These include Reg D transactions in which direct investments can be made by accredited investors. For many advisors coming from the wirehouse world, their experience with private investments may be limited. Most Wall Street firms do not actively engage in offering their accredited clients access to private deals. This has typically been limited to larger institutional clients and wealthy family offices.

While private investments are considered to be more risky, many investors are drawn to them for the ability to directly invest in a specific opportunity as well as the potential for them to post better returns than the overall market.

In 2014, it is estimated that about $1.3 trillion was invested into Reg D private placements.[2] This includes everything from investments into real estate, funds, startups and more.

Private investing is becoming mainstream—and with more than 8 million accredited investors in the US, many of your clients and prospects will have an interest in these types of investment opportunities.

This guide provides 4 key reasons why every RIA firm should consider incorporating private placements into their practice.

[2]Staff of the U.S. Securities and Exchange Commission. "Capital Raising in the U.S.: An Analysis of the Market for Unregistered Securities Offerings, 2009-2014." (2015) p. 2: https://www.sec.gov/dera/staff -papers/white-papers/unregistered-offering10-2015.pdf

> *"A diversified portfolio that includes alternative investments helps reduce your client's exposure to market volatility."*

Reason
1

Market Volatility

Recently, there has been volatility in stock markets throughout the world. This global phenomenon is not new—it's something we've been experiencing for more than 15 years. Markets had dramatic drops in 2000 only to see an incredible bull market from the early 2000s until 2008. Looking at a chart of the stock market for the past 20 years can appear daunting, with markets fluctuating from extreme lows that quickly turn into new highs.

However, during that same period, private placements were not affected by the same extreme volatility. Private investments typically are designed to have longer-term hold periods that provide the opportunity for the investment to achieve its goals for returns. This is one reason why private investments are categorized as *alternative investments*. For example, asset-backed investments such as real estate exhibit less correlation in performance to the overall stock or bond markets.

High net worth investors are also drawn to investment opportunities with more predictable investment return profiles. They often prefer investments that have quarterly dividends, such as with real estate or funds, that may be a good fit for long-term capital appreciation.

Not all private investment offerings will be the right fit for all accredited investors, but an RIA firm can demonstrate value by helping their clients navigate through the various options to create a more diversified overall portfolio for their clients. And, a diversified portfolio is one of the few proven methods to help clients reduce their exposure to market volatility.

Reason 2

Client Retention

Accredited investors that are eligible to invest in private placements represent a great target client for most RIA firms. Becoming an expert in private investments can be instrumental for an RIA to grow their practice and retain valuable clients. One way advisors can differentiate and grow their practice is to position themselves as an expert that high net worth clients can rely upon to learn more about private investing.

By lacking an awareness of a variety of investment types, including private investments, advisors may be forcing their existing clients to invest from outside accounts into these deals. If a client can go to their existing advisor for advice on a potential private investment, it limits the desire for that client to speak to others for similar advice. If a client is interested in a private investment and their advisor does not want to get involved, often the client will find another advisor that will be willing to offer advice. This can lead to losing the relationship overall.

Another aspect of this approach is to gain a larger wallet share of existing clients. Studies consistently show that most high net worth individuals maintain multiple advisor relationships (about 4 on average[3]). This leads them to potentially have accounts at different firms. One possible reason clients work with multiple advisors is that different advisors can help address different needs. Having a broad range of knowledge about different investment types helps make an advisor more valuable to their client.

And finally, if a client invests in private deals outside of their advisor relationship and those deals appear to outperform the investments from the RIA firm, it can possibly lead the client to re-evaluate the advisor relationship.

It's difficult and time consuming for advisors to add new clients to their practice. It's important for an advisor to ensure that they are providing a high level of service and support to those clients to maintain long lasting relationships.

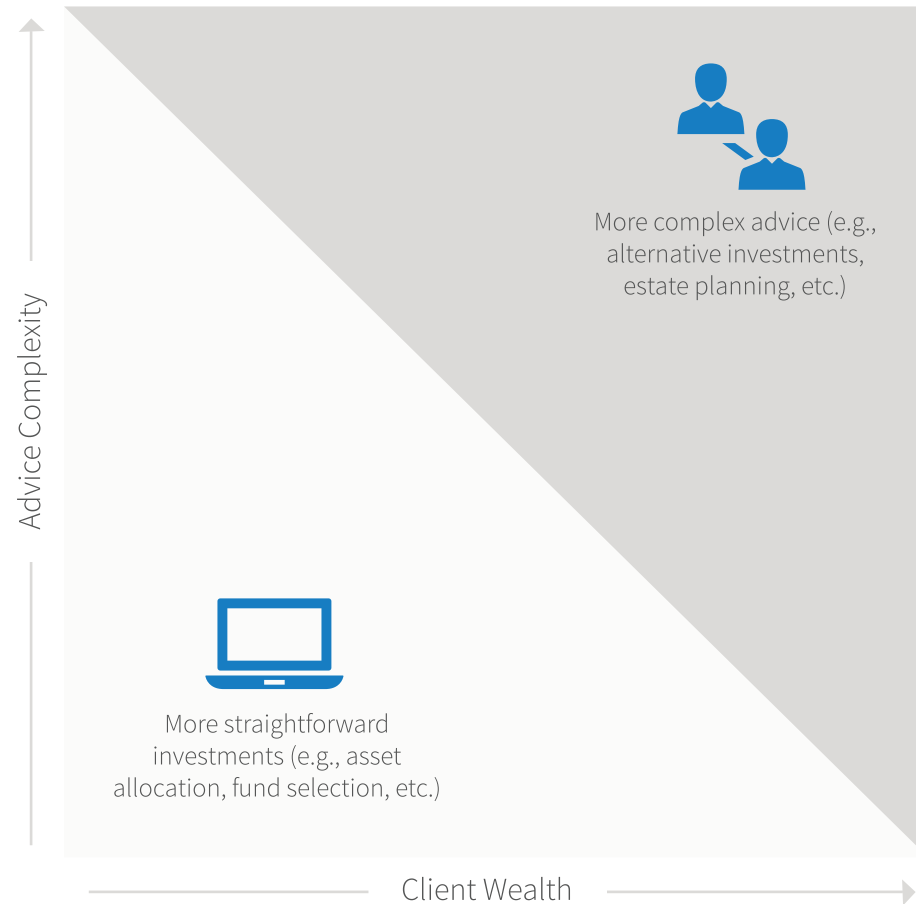
[3]ThinkAdvisor. "Investors Working With Multiple Pros." (2014) n.p.: http://www.thinkadvisor.com/2014/01/27/investors-working-with-multiple-pros

INDUSTRY TREND

> *"According to a study by Corporate Insight, from April 2014 to July 2015, the top robo-advisors went from $11.5 billion to $21 billion assets under management.[4]"*

Person-to-person advice still provides value

Although the rise in popularity of robo-advisors has the potential to disrupt the RIA model, more complex and diverse investment types still benefit from human interaction. This especially holds true among high net worth and ultra high net worth clients.[5]



[4] Investopedia. "Robo-Advisors: 5 Predictions for 2016." (2016) n.p.: http://www.investopedia.com/articles/financial-advisors/012516/roboadvisors-5-predictions-2016.asp

[5] Deloitte. "10 Disruptive Trends in Wealth Management." (2015) p.6: http://www2.deloitte.com/content/dam/Deloitte/us/Documents/strategy/us-cons-disruptors-in-wealth-mgmt-final.pdf

Reason 3

Millennial Driven Economy

The generation of Americans born between 1982 and 2000 represent almost 82 million people. This group now outnumbers the population of Baby Boomers. While most Millennials are still relatively young, they are already creating an effect on both our economy and approach to investing.

Millennials are driving the next wave of innovation in the US. Similar to what the Baby Boomers did in the 1980s and 1990s, Millennials will be doing the same in the next few decades. Since many of them graduated during periods of high unemployment, they were forced to start businesses instead of finding jobs in the corporate world. New, disruptive companies being founded by Millennial entrepreneurs are interesting as potential investments for high net worth investors. For RIAs, incorporating private investments into their practices is one method to take advantage of the Millennial trend.

"Firms should begin building multi-generational relationships with their clients and their families—and adapt to meet the expectations of their new clients.[6]"

Second, Millennials represent the children of the typical clients for a RIA firm. Many RIA clients will have children that are involved in start-up companies. Given that many Millennials have come of age during the 2000s, they've seen the US at war, major recessions and have witnessed historic stock market fluctuations. This is a generation that is not satisfied with long term buy and hold of stocks and bonds. And their values will have influence on their parent's decision-making processes, especially as their parents continue to age. They will likely see value in advisors that have experience with investments beyond just mutual funds and stocks.

Mentalities of the Millennial Investor[7]

Stay in control

Do it yourself

Anywhere, anytime

Digital and personal

Wisdom of my tribe

Skeptical of authority

Not a second-class investor

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[6] Deloitte. "10 Disruptive Trends in Wealth Management." (2015) p.12: http://www2.deloitte.com/content/dam/Deloitte/us/Documents/strategy/us-cons-disruptors-in-wealth-mgmt-final.pdf
[7] Deloitte. "10 Disruptive Trends in Wealth Management." (2015) p.4: http://www2.deloitte.com/content/dam/Deloitte/us/Documents/strategy/us-cons-disruptors-in-wealth-mgmt-final.pdf

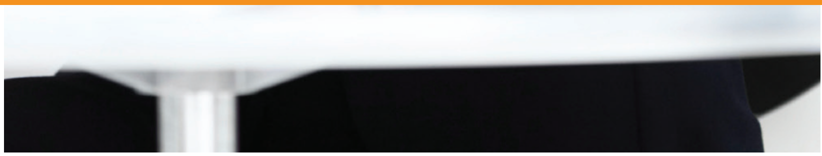
Reason 4

Technology Makes It Easier

Forward-thinking RIAs are using technology whenever possible to increase efficiency as well as improve the overall client experience. When looking to integrate private placements into your practice, technology makes it easier for your firm to adopt this type of investment alternative. The benefits of taking advantage of technology to integrate private investments can include:

- *Access to fully-vetted deals:* As an advisor, you ensure the information presented to your clients is in their best interest. And when it comes to private offerings, you'll need confirmation that the deal has gone through the proper due diligence. Now, companies like WealthForge are developing wholesale deal networks available online that make it easier to access fully-vetted deals, taking the compliance burden off of the RIA.
- *Access to variety:* These online networks also allow RIAs to view a variety of deal types to identify a potential offering that best suits their client's needs. Now offerings in real estate, energy, financial services and more, can be accessed and reviewed, all in one place.
- *Easier to complete investment:* Once you've identified an offering that best suits your client, technology like the WealthForge Invest Button allows you to view deal documents as well as complete an entire investment online in a fully compliant manner. This reduces the time spent on traditionally manual processes and allows you to spend more time focusing on growing your firm.

"Technology is poised to change the nature and delivery of financial advice in some significant ways, much as it has transformed other industries such as tax preparation, taxi booking, and accommodations.[8]"



[8]Deloitte. "10 Disruptive Trends in Wealth Management." (2015) p.5: http://www2.deloitte.com/content/dam/Deloitte/us/Documents/strategy/us-cons-disruptors-in-wealth-mgmt-final.pdf

About Us

Capital has the power to drive innovation and ideas that move us forward.

At WealthForge, we believe the process of raising private capital is outdated: opaque, inefficient, and rife with barriers. As a result, capital does not flow freely: opportunities are blocked or frozen; potential is stymied.

We set out to break these barriers, expand accessibility, and let private capital find its best potential. For issuers and intermediaries, we've created a single integrated service to execute and manage raising capital, from thorough compliance reviews, to data-rich dashboards that allow complete transparency into every aspect of the process. For investors, we're making it simpler and easier to invest in ideas with potential.

Letting capital flow freely to the best opportunities can create exponential benefits—for all, not just a select few. We will challenge the status quo in capital markets by removing barriers and reducing friction in the flow of private capital.

Learn more about us at wealthforge.com.

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