Private Equity- Size Matters
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One of the common differences of between public and private firms is size. More often than not, the investment opportunities for retail investors in the private equity market tend to be in small companies.

Why invest in a smaller company?

Well, the numbers speak for themselves. It's just that small companies by the nature of their size can double, triple and quadruple in their size. For example, it won't take much for a company of 3 people, to go to six, then from 6 to twelve or even from 12 to 24. For a company with retained earnings of $50,000 to move to $100,000, then from $100,000 to $200,000. Yet, through each step it has increased in size, profit and generally associated share value by 100 % with each step. From investor perspective, it is doubling, tripling and quadrupling of their investment.

How do large companies compare by the same logic?

Can a giant like Telstra easily double in size from 36,000 employees to 72,000 employees? Can it double its market share when it already has most of it? Can it double its profits and triple, if its already got most of the consumers that make up its market? And ultimately, will its share price double anytime soon?

IPO (initial Public Offering) is a term with strongly positive connotation announcing funding by the public market of a private firm, meaning much money for the shareholders that were lucky enough to own pre-IPO shares of the company. However, getting into a company before it becomes a publicly listed company is highly restricted to a limited few. This lucky crowd tend to be the founders, family and friends thereof, and professional angel investors and venture capital funds.

Today, with the constant advancement of the financial markets, there are more avenues for the retail investors to access this highly lucrative asset. While the access is still restricted, small scale offerings utilising 'the 20/12 rule' that permits up to 20 new retail investors within a 12 month period to be accepted by each capital offering of up to $2 million - up to $5 million if raised via a Class Order Operator such as Funding Strategies.

This means that savvy retail investors can now participate with their funds in highly lucrative liquidity events such as IPO, Mergers & Acquisitions and Management Buyouts cashing in well into double and triple digits percent returns - a market previously reserved for the infamously rich investment banking crowd.

While investment portfolios must be individually structured to meet each investors risk appetite and investment preferences, it's safe to say that an allocation of approximately 10% of an individual's investment portfolio to growth assets would certainly benefit most investors.

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About the Author:

Thomas has 15 years' experience in capital markets including derivatives trading, risk management, fund management and engineering of financial products. Thomas has worked extensively in USA, Japan, Poland, Russia and Australia, opening subsidiary offices for financial institutions as well as founding own international ventures as an entrepreneur. He holds a Bachelor's degree in Math from University of California at San Diego, a Master's Degree in International Finance from American Graduate School of International Management (Thunderbird) in Phoenix Arizona. Thomas is a licensed securities broker and a futures broker in the USA, and holds a professional accreditation as a Commodity Trading Advisor (fund management) and has been a Managing Director of a Financial Planning practice under AMP in Australia.

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