U.S. Private Capital Markets

July 19, 2022

Contents

At a Glance

The Private Capital Group at Rockfleet is pleased to release the first in its series on the Private Capital Markets in the United States.

In this primer, we provide an overview of the U.S. private capital markets, with a focus on the basics of venture capital, private equity, and private debt.

In future parts we will also offer our insights on the current state of the market and where we see it headed in the future.

The report series is intended to serve as a valuable resource for entrepreneurs, professional investors, and other individuals interested in understanding how these markets are structured, and the pros and cons of using the private markets as a source of capital and or investment.

Contact Us

(212) 257-2235

Send a Message

VC is funding that is provided to early-stage companies with high growth potential that may include either equity or debt

PE is funding that is provided to more mature companies that are typically looking to expand through acquisitions or buyouts

Private debt (PD) includes asset-backed securities and mezzanine financing

Each of these has its own risks and rewards, so it’s important to understand the different investment opportunities in the private markets before investing

Overview

It's been a volatile start to the year for financial markets. Stocks have tumbled, oil prices have skyrocketed, and investor confidence has taken a hit. Meanwhile, corporate bond spreads have been steadily moving higher, and they're now nearing levels that are considered to be "stressful." This means that investors are becoming increasingly worried about the ability of companies to repay their debts. In addition, U.S. markets are on pace for their worst start to a year in decades.

Central banks' efforts to fight inflation may be making investors more uncertain. This uncertainty is making it more likely that there will be a recession, due to the concerns about the global economy, exacerbated by the coronavirus. These factors are why public markets are struggling.

Private Equity (PE) firms have been quick to react to the current market volatility, with many firms looking to take advantage of the situation. However, there are also signs that PE firms are coming to terms with the real possibility of a recession and are focusing on how to protect their portfolio companies from the effects of a recession. PE firms are also paying attention to the trends in the private markets, such as the increased volatility in VC-backed companies.

It is worth noting, however, that not all experts agree on this assessment. Some believe that the recent falls are simply a natural correction after months of strong gains, and that there is no cause for alarm. Only time will tell whether this is accurate or not. In any case, it is clear that the global economy is at a turning point, and investors should pay attention to these trends in order to make informed decisions about where to allocate their capital.

What are the Private Capital Markets?

Private capital markets are where companies and investment funds raise money from private investors, as opposed to going public and raising money from the stock market. There are three main types of private capital markets — venture capital (VC), private equity (PE), and private debt (PD). VC is funding that is provided to early-stage companies with high growth potential. PE is funding that is provided to more mature companies that are typically looking to expand through acquisitions or buyouts. Private debt (PD) is also used in some instances and can have its own advantages as well.

Private Markets — a Quick Primer

In the U.S., the Securities and Exchange Commission (SEC) is the primary regulator of financial markets. The SEC requires publicly traded companies to disclose certain information to the public in order to sell their securities. Therefore, many companies choose not to go public and instead raise money from private investors for a variety of reasons including:

- More control over the company — private companies are not required to disclose their financials or business operations to the public, so they have more control over how their information is shared.

- Flexibility in fundraising — private companies can choose when and how much they want to raise, and from whom. They are not beholden to quarterly reports or Wall Street analysts and the sometimes-irrational sentiments of "the market."
- Potential for higher returns — private companies are often growing faster than public companies, so investors may see a higher return on their investment.

Although the private markets aren't immune, they tend to weather the storm with less volatility than experienced in the publicly traded markets. There are some disadvantages of the private markets to consider, including less regulation, higher risks, and more difficulty in exiting/selling your investment.

Why Consider the Private Markets?

The U.S. private markets — VC, PE, and PD — have been on a tear in recent years. By some measures, they are now larger than the public markets. There are several reasons for this trend. For one, the U.S. public markets have been underperforming for much of the last decade. This has led many investors to seek out higher returns in the private markets.

Another reason is that the private markets have become much more accessible in recent years. Thanks, in part, to the efforts of firms like Rockfleet, online platforms such as CapRaize make it easier than ever for investors to find and invest in private companies.

The private markets have become much more accessible in recent years thanks, in part, to online platforms such as CapRaize, which make it easier than ever for investors to find and invest in private companies

Doing your Diligence

In the world of private investing, due diligence (DD) is key. VCs and PE firms rely on due diligence to assess a company's true value and potential for growth. But accessing the necessary data can be difficult, particularly for smaller firm and individual investors. This is starting to change, however, as new platforms like DLGNZ by AuthentiFact are emerging that provide better and more democratized access to due diligence resources. This platform allows interested parties to search for experts to conduct thorough, objective, and customized DD for all needs.

In addition, online investing platforms like CapRaize provide access to a variety of due diligence data, including financial statements, business plans, and management team bios. As a result, investors can make more informed investment decisions.

In Conclusion

The U.S. private markets are large and growing. They offer investors the potential for high returns, but also come with higher risks. Due diligence is key to successful investing in the private markets. But with the help of new platforms like CapRaize and DLGNZ, accessing the necessary data and resources is becoming easier than ever before. If you're thinking of investing in the private markets, be sure to do your homework and consult with a professional before making any decisions.

For more information on this topic, please contact us.

Thanks for reading!

Rockfleet Financial Services, Inc.

420 Lexington Avenue, Suite 1402
New York, NY 10170

(212) 257-2235

Send a Message

rockfleetfinancial.com

About Us

Rockfleet Financial Services, Inc. (Rockfleet) is an SEC and FINRA registered broker/dealer, a New York State-registered investment adviser, and an SEC and MSRB registered municipal advisor. Established in 2008, it is a woman-owned and led firm. Rockfleet has registered representatives and advisors located strategically around the U.S..

Rockfleet provides services to both public and private sector issuers, institutional clients and high net worth individuals. Since its inception, the firm continues to be a very active player in the in the capital markets with a long history of the underwriting and sale of new issue securities.

In additional to the firm's capital markets business line, Rockfleet works with a very select group of early stage businesses, helping them secure the capital needed for their growth.

Rockfleet's municipal advisory teams focus on multiple sectors, including transportation, healthcare, education, and infrastructure, assisting municipalities and other public entities with their funding and financing needs.

The firm provides full wealth management services, including cash and lending, trust services, retirement accounts, and investment advisory services.

Important Disclosures

This information is not intended as a solicitation or an offer to buy or sell any securities or related financial instruments. The information contained herein is based on sources believed to be reliable, but its accuracy is not guaranteed. Rockfleet does not provide tax, legal or accounting advice. Rockfleet may make a market in securities and actively trades securities for its customers and/or for its own account. Therefore, Rockfleet may have a position in any securities at any time.

Securities in margin accounts may be loaned to or by Rockfleet. To the extent we determine, in accordance with Federal tax regulations, that your securities have been loaned, payment received by you with respect to such securities (including payments in lieu of dividends) may be reclassified as substitute payments. Substitute payments may be reported on different tax reporting forms than payments received on the underlying securities and may be subject to different tax consequences and rates. You are advised to contact your tax advisor to discuss the tax treatment of substitute payments.

Investment and insurance products are (1) not insured by the FDIC or any federal government agency; (2) not a deposit or other obligation of, or guaranteed by, any bank; and, (3) subject to investment risks, including possible loss of the principal amount invested.

Alternative investments carry specific investor qualifications which can include high income and net worth requirements in addition to relatively high investment minimums. Alternative investments are available to pre-qualified investors only.

Rockfleet archives and monitors outgoing and incoming e-mail. The contents of emails, including any attachments, are confidential to the ordinary user of the email address to which it was addressed. Emails may be produced at the request of regulators or in connection with civil litigation. Rockfleet accepts no liability for any errors or omissions arising as a result of transmission. If you are not the addressee of an email you receive from Rockfleet, you may not copy, forward, disclose or otherwise use it or any part of it in any form whatsoever. Use by other than intended recipients is prohibited. Rockfleet cannot accept orders via email.

Authentifact, Inc. is owned by principals of Rockfleet.