# Article information:

The returns of entrepreneurial investment: A private equity premium puzzle? - ProQuest
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# Article summary:

1. Private equity investment is highly concentrated, with 75% of all private equity owned by households for whom it constitutes at least half of their total net worth.

2. Despite the lack of diversification, the average annual return to all equity in privately held companies is no higher than the market return on all publicly traded equity.

3. The low returns to private equity investment are puzzling given its high risk, and possible explanations include nonpecuniary benefits, a preference for skewness, or overestimates of the probability of survival.

# Article rating:

May be slightly imbalanced: The article presents the information in a generally reliable way, but there are minor points of consideration that could be explored further or claims that are not fully backed by appropriate evidence. Some perspectives may also be omitted, and you are encouraged to use the research topics section to explore the topic further.

# Article analysis:

The article The returns of entrepreneurial investment: A private equity premium puzzle? analyzes the return on investing in nonpublicly traded equity in the United States. The authors find that despite the poor diversification of private equity, the returns are no higher than those of public equity. This finding is surprising given the large public equity premium and raises questions about why households willingly invest substantial amounts in a single privately held firm with a seemingly worse risk-return trade-off.

The article provides a comprehensive analysis of private equity holdings and returns using data from several sources, including the Survey of Consumer Finances, Flow of Funds and National Income and Product Accounts, and other data sources. The authors find that private equity investment is extremely concentrated, with 75% owned by households for whom it constitutes at least half of their total net worth. Furthermore, households with entrepreneurial equity invest on average more than 70% of their private holdings in a single private company in which they have an active management interest.

Despite this lack of diversification, the average annual return to all equity in privately held companies is rather unimpressive. Private equity returns are on average no higher than the market return on all publicly traded equity. The authors suggest that large nonpecuniary benefits, a preference for skewness, or overestimates of the probability of survival could potentially explain investment in private equity despite these findings.

One potential bias in this article is that it focuses solely on U.S. nonpublicly traded equity and may not be generalizable to other countries or types of investments. Additionally, while the authors provide evidence for why private equity returns are low given their risk, they do not explore potential counterarguments or alternative explanations for why investors may choose to invest in private equity despite its poor risk-return trade-off.

Overall, this article provides valuable insights into the concentration and returns of entrepreneurial/private equity investment in the United States. However, further research is needed to fully understand the motivations behind this type of investment and to explore potential alternative explanations for its poor risk-return trade-off.

# Topics for further research:

* Motivations for investing in private equity
* Nonpecuniary benefits of private equity investment
* Skewness preference in investment decision-making
* Alternative explanations for poor risk-return trade-off in private equity
* Private equity investment in other countries
* Diversification strategies in private equity investment

# Report location:

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