Transparency Over Illusion: The Case for Liquid Investments

CD WEALTH MANAGEMENT
A BLUESPRING WEALTH PARTNER

Wealth Planning That Transforms Your Life

At CD Wealth Management, our philosophy with investing is to focus on the liquid markets — Stocks (Individual Equities), Fixed Income (municipal bonds, corporate bonds, Treasuries, CDs), Index Funds (ETFs), Mutual Funds, and money markets. We are not investing our clients' monies in alternative investments — either liquid alternatives or illiquid alternatives.

To use a golf analogy, we play in the fairway. We want to ensure that if a client needs their money, whatever holdings are in the portfolio could be sold that day. It is paramount that clients have access to their monies when needed.

The Case for Liquid Investments

The financial world offers no shortage of investment opportunities. Over the years, a trend has emerged that has become popular to discuss at cocktail parties or on the golf course: illiquid partnerships and private deals, framed as exclusive opportunities and high-return potential. While they may appear enticing, these arrangements frequently prioritize the interests of general partners over investors.

These private deals and investments do not carry the same level of regulatory oversight, transparency, and accountability.

By contrast, liquid investments operate under strict oversight by regulators such as the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA). These regulatory bodies ensure transparency and protect investors. Failure to comply with the regulatory agencies may lead to serious consequences, including fines and/or imprisonment.

Liquid investments may not carry the same flashiness as private deals, but they are tried, tested, and proven.

What Are Liquid Investments?

Liquid investments are financial assets that can be bought or sold quickly and easily without significantly affecting their price. These assets are traded on public exchanges, offering real-time valuations and high levels of transparency. Examples include:

Stocks
Stocks represent ownership in publicly traded companies. Stocks allow investors to participate in the growth and profitability of businesses. They are traded throughout the day on exchanges like the NYSE or NASDAQ and are valued daily.

Bonds
Fixed-income securities are issued by governments, municipalities, or corporations. Bonds provide a stream of income through interest payments and are considered a much lower risk than stocks.

Marketable Securities
Mutual funds and exchange-traded funds (ETFs) are liquid investments designed to diversify portfolios while maintaining daily liquidity. ETFs can be sold throughout the day, like stocks, while mutual funds have daily liquidity at the end of the trading day.

Cash Equivalents
Assets like Treasury bills, money market funds or short-term certificates of deposit (CDs) are as good as cash. These provide immediate access to funds with minimal risk.

Stocks are traded throughout the day on exchanges like the NYSE or NASDAQ and are valued daily, so investors can see the exact value of their holdings at any time.

How Liquid Investments Work: The Value of Transparency and Management

Liquid investments operate with transparency:

Daily Valuation
Investors can see the exact value of their holdings at any time. This removes ambiguity and allows for informed decision-making.

Professional Asset Management
Investors pay a transparent management fee to professionals who manage their investments. Management fees for liquid investments are disclosed upfront and published online, providing complete transparency about costs. Unlike illiquid investments, managers of liquid assets do not take a share of the profits.

Accountability
Regulatory oversight by the SEC and FINRA ensures that managers act in the best interest of their clients. This eliminates conflicts of interest and ensures ethical behavior.

Accessibility
Investors can buy or sell these assets quickly and with minimal impact on their value, making them ideal for individuals who may need access to cash in emergencies or for other financial goals.

What Are Iliquid Investments?

Illiquid investments are financial assets that cannot be easily or quickly converted into cash. These investments often come with long lock-up periods, a lack of transparency, and high levels of uncertainty regarding their valuation. Investors in illiquid investments typically face challenges when they want to sell or redeem their investments, as there is no open market to provide daily liquidity.

Private Real Estate Deals

Investors pool money to purchase or develop properties, often in the form of limited partnerships. Returns are tied to property appreciation or rental income but often require years before seeing liquidity.

Oil and Gas Ventures

Investments in exploration, drilling, and extraction projects typically are structured as partnerships. They are highly speculative and dependent on volatile commodity markets. Organizers may offer tax advantages as incentives to invest in the project.

Private Equity Funds

A fund invests in privately held companies or leveraged buyouts of public companies. The fund typically invests in private companies with a predetermined investment strategy. The types of private equity strategies are venture capital or buyout funds. Illiquid by nature, these funds typically lock up money for seven to 10 years or more.

Venture Capital

These are early-stage investments in startups or small businesses, typically with a minority investment in the company. Returns are speculative and contingent on the company's success.

Hedge Funds

Hedge funds are actively managed funds that use complex strategies to generate returns and protect against market losses. They often have lock-up periods and redemption restrictions, making them illiquid. They also charge higher fees and have fewer regulations.

Collectibles and Art

With investments in rare items like artwork, antiques, or wine collections, illiquidity arises from the difficulty in finding buyers and determining fair market value.

Real Assets

Tangible assets like timberland, farmland, or infrastructure investments typically require long-term commitments with limited liquidity.

Illiquid investments such as oil and gas ventures, collectibles and art, and private real estate deals may be highly speculative and difficult to redeem.

How Iliquid Investments Work

General Partners with No Real Stake

In many private real estate deals, the general partner does not put their own money into the project. Instead, they use investor capital and bank loans, bearing little to no financial risk themselves. The general partner often takes a management fee and a significant share of the profits (sometimes 50% or more). This profit-sharing occurs even though the limited partners bear all the financial risk.

Leveraging Investor Capital

General partners use investor funds to secure loans, further leveraging the investment. If the project fails, investors lose their capital while the general partner remains protected.

Opaque Reporting

Illiquid investments often rely on unaudited reports produced by the general partner. These reports highlight irrelevant successes or inflated valuations while obscuring the true financial picture.

Lack of Oversight

Without SEC or FINRA oversight, investors have no external authority ensuring fair play or ethical behavior.

Why We Stay Away From Iliquid Investments

Lack of Transparency

Illiquid investments, such as private real estate deals, venture capital, and oil and gas partnerships, often lack daily pricing and rely on unaudited, self-reported valuations from general partners. This may leave investors in the dark about the true value of their investments and limits their ability to make informed decisions. Without regulatory oversight, there is no guarantee that reports are accurate or unbiased, creating a significant risk for investors.

Imbalanced Risk and Reward

In many illiquid investments, general partners contribute little to no capital but reap substantial rewards, including management fees and up to 50% of the profits. Meanwhile, limited partners bear all the financial risk. This misalignment of incentives can lead to decisions that prioritize the general partner's interests over the investors' interests, potentially resulting in losses or suboptimal outcomes for the limited partners.

Restricted Access and Estate Planning Challenges

Illiquid investments often come with long lock-up periods, tying up investor funds for years or even decades. This lack of accessibility can be problematic for those who need liquidity for personal reasons or to settle estates after death. Executors and heirs face delays, subjective valuations, and legal hurdles when trying to access or liquidate illiquid assets, adding unnecessary complexity and financial stress.

A Stronger Conclusion: Transparency Over Illusion

Investing should never feel like guessing. Illiquid investments thrive on a lack of transparency, emotional manipulation, and the allure of exclusivity. Having a mix of liquid assets can help you achieve your financial goals while also providing a safety net in times of uncertainty when money may be needed most.

Understanding the pros and cons of each type of asset — liquid or illiquid — is critical in making informed decisions as to what is right for each person and family based on their financial needs.

In contrast, liquid investments offer:

- **Transparency**
- **Accessibility**
- **Accountability**
- **Ownership of Profits**
- **Estate Planning Simplicity**

When it comes to your financial future, the choice is clear: Choose transparency, accountability and liquidity.

Your wealth deserves nothing less.

The CD Wealth Formula

We help our clients reach and maintain financial stability by following a specific plan, catered to each client. Our focus remains on long-term investing with a strategic allocation while maintaining a tactical approach. Our decisions to make changes are calculated and well thought out, looking at where we see the economy is heading. We are not guessing or market timing. We are anticipating and moving to those areas of strength in the economy — and in the stock market.

We will continue to focus on the fact that what really matters right now is time in the market, not out of the market. That means staying the course and continuing to invest, even when the markets dip, to take advantage of potential market upturns. We continue to adhere to the tried-and-true disciplines of diversification, periodic rebalancing and looking forward, while not making investment decisions based on where we have been.

It is important to focus on the long-term goal, not on one specific data point or indicator. Long-term fundamentals are what matter. In markets and moments like these, it is essential to stick to the financial plan. Investing is about following a disciplined process over time.

We are dedicated to partnering with our clients to help them grow and preserve their wealth. Those relationships are at the core of our mission: **to deliver wealth planning that transforms your life**.

The opinions expressed in this commentary are those of the author and may not necessarily reflect those held by Kestra Investment Services, LLC or Kestra Advisory Services, LLC. This is for general information only and is not intended to provide specific investment advice or recommendations for any individual. It is suggested that you consult your financial professional, attorney, or tax advisor with regard to your individual situation.

Securities offered through Kestra Investment Services, LLC, member FINRA/SIPC (Kestra IS). Investment advisory services offered through Kestra Advisory Services, LLC (Kestra AS). CD Wealth Management, Bluespring Wealth Partners, LLC, Kestra IS and Kestra AS are affiliated through common ownership by Kestra Holdings. Investor Disclosures: https://www.kestrafinancial.com/disclosures

**Bluespring Wealth Partners, LLC acquires and supports high quality investment adviser and wealth management companies throughout the United States.*

Fidelity Investments and Fidelity Institutional® (together "Fidelity") is an independent company, unaffiliated with Kestra Financial or CD Wealth Management. Fidelity is a service provider to both. There is no form of legal partnership, agency affiliation, or similar relationship between your financial advisor and Fidelity, nor is such a relationship created or implied by the information herein. Fidelity has not been involved with the preparation of the content supplied by CD Wealth Management and does not guarantee, or assume any responsibility for, its content. Fidelity Investments is a registered service mark of FMR LLC. Fidelity Institutional provides clearing, custody, or other brokerage services through National Financial Services LLC or Fidelity Brokerage Services LLC, Members NYSE, SIPC.

Contact us today at CDWealth.com | 972-499-6280