

Middle Market: The Investment for the Super Rich That You Can Access Too

The U.S. economy is by far the largest economy in all the world. It's worth \$18 trillion followed by China at \$11.4 trillion which is followed by a market that few know about and fewer invest in.

If treated as its own economy, the U.S. middle market economy is the third largest economy in the world, worth \$5.9 trillion. It's bigger than Japan, Germany and the U.K. yet no one on CNBC or Fox Business even talks about it.¹

In fact, it's an area of the market that I really didn't know anything about until a friend of mine introduced it to me several years ago. After years of research, and my own money along with some client's money being invested in this area of the market, I think it's something more people should be aware of.

I really got excited about middle market investing during the first part of 2016. Recall in January and February when the U.S. stock market had its worst start to a year . . . ever!

The energy sector, in particular, was in dire straits. During that time many of these energy companies needed help to survive. They knew they could survive, they just needed time. I remember saying to my partner Brian, can you imagine the deals that we could get in that area of the market? You could probably buy assets for .40 – .50 cents on the dollar with a 10% yield.

Taking advantage of those types of opportunities in the middle market are exactly the type of investments that I was talking to my partner Brian about.

While there is a lot to know about the U.S. middle market economy, especially as an investment, the information below serves as a primer of sorts. I don't pretend it's all you need to know about the U.S. middle market, but hopefully it gets you thinking about something more than what you see on T.V. everyday.

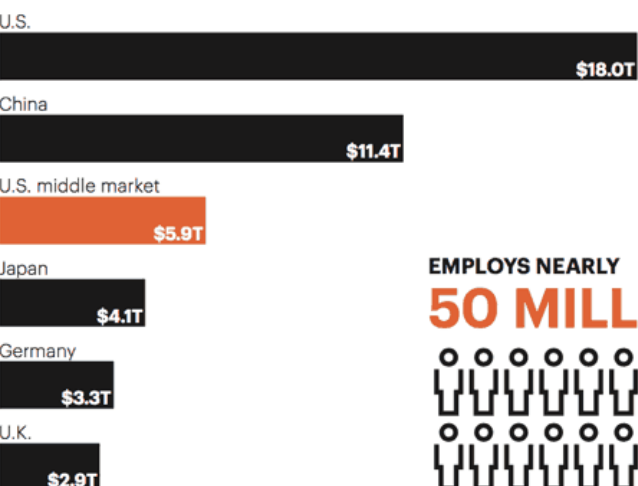
So what is the U.S. middle market? It's U.S. private companies that have annual revenues from \$10 million to \$1 billion. In fact, every time you drive down the street to go to dinner, you probably pass several of these companies without really even knowing it.

The size of the market is rather astounding when you really look at the numbers. There are approximately 200,000 companies that employ nearly 50 million employees.

Total annual revenues of the U.S. middle market are \$10 trillion vs. the S&P 500 which has an annual revenue of \$10.7 trillion.²

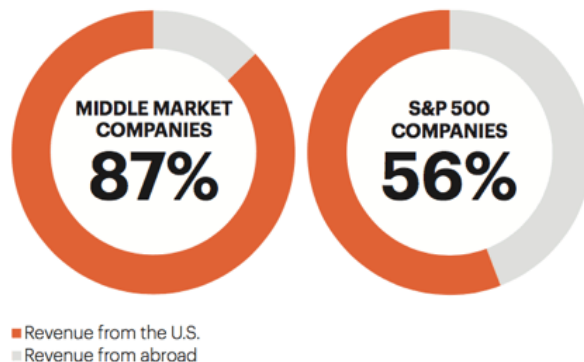
Diversified source of growth

A COMPARISON OF TOTAL ANNUAL REVENUE²



Limited exposure to global macro events

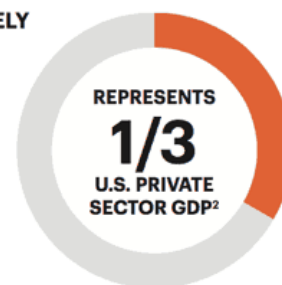
SOURCES OF REVENUE FROM THE U.S.³



THERE ARE APPROXIMATELY

200,000

U.S. MIDDLE MARKET COMPANIES¹



EMPLOYS NEARLY

50 MILLION WORKERS¹



So what are the advantages of investing in the U.S. middle market?

There are three primary advantages of investing in this market. (Please note that these returns are historical in nature, past performance is not indicative of future performance.)

- Yield.** The loans in this area of the market has produced an average of 7% since 2010. This is one of the best opportunities for investors. ⁴
- Growth.** Over the past 15 years' middle market private equity funds returned 11.1%, nearly double the 5.8% return by the S&P 500. ²
- Diversification.** Investing in this area of the market limits global risk as 87% of the revenue realized is based in the U.S. (The S&P 500 realizes only 56% of total revenue from the U.S.). If the U.S. economy continues to grow, then these companies do as well regardless of what the rest of the globe does. ³

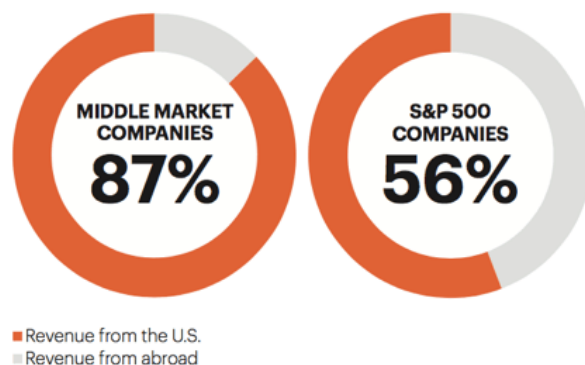
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So why don't more people invest in the U.S. middle market?

There are a few reasons why people don't invest. In my discussions with many of our clients and friends, I have found that most people don't invest for the following reasons:

1. Lack of knowledge. Like me a few years ago, most people don't have any understanding of this market let-alone how to invest in it.
2. Don't know how to invest. This market is not something you can go and buy like an ETF or mutual fund. To invest correctly, you have to find the right money managers that you trust to invest for you. People with the same core philosophies that you and with a track record that you can trust. We (Iron Gate Global Advisors) have done our due-diligence and have found people that we fully trust to help with the investments.
3. Lack of liquidity. The investments in this area of the market are not publicly traded on the NYSE. Typical investments allow a quarterly opportunity to get out, but that's not a guarantee. We tell people, including ourselves, that an investment in middle market U.S.A. will have a holding period of three to five years.
4. Potential for default risk. This is always the risk for any loan type product. The current default rate for the products that we like are in the range of 1.70 to 3.50%.

What's a typical portfolio allocation to this market?

The answer to this is not a one size fits all. It depends on the goals, age, and risk tolerance of the individual.

To give you an example, for someone with a 20 – 30-year time horizon with moderate risk, a 5 to 10% allocation to middle market (or something close) would be appropriate. This would mean that 90 to 95% of their portfolio is still liquid, (which is more than plenty for most people).

How can you learn more?

If you want more information on investing in the middle market, just email me at brett@igga.dev. I'm more than happy to talk about this oft ignored market, that really shouldn't be ignored much longer.

Interested in Middle Market
Investing? Call Brett at
1.888.591.0334 or email
brett@igga.com

You'll love what I can show you about
this lesser know investment



Sources –

1 National Center for the Middle Market, 2Q 2016 Middle Market Indicator. The Middle Market Indicator is a quarterly business performance update and economic outlook survey conducted among 1,000 C-Suite executives of middle market companies. For the purposes of the 2Q 2016 Middle Market Indicator, the National Center for the Middle Market defined the U.S. middle market as U.S. companies having annual revenues from \$10 million to \$1 billion.

2 National Center for the Middle Market. Bloomberg.

3 National Center for the Middle Market, S&P Dow Jones Indices, and The Wall Street Journal. S&P 500 data shows 2015 revenue breakdown. Middle market data shows 2015 average.

4 Thompson Reuters LPC.