A QUARTERLY LETTER ON THE PRIVATE MARKETS

Why Pre-IPO Is the Most Attractive Asset Class to Own Today

The companies defining the next decade are staying private longer, and that's the opportunity.

BY **Howard Marks** Co-Founder, StartEngine

When ChatGPT arrived, millions of people had the same reaction at the same time: *How do I get in on this?*

And then they ran into a wall. OpenAI was private. There was no ticker to buy.

This is not a unique case. Many of the decade's most consequential companies were growing up entirely out of public view, and the public was locked out of their lower valuations, watching from the far side of the glass.

That wall is the whole story. And I think it's the most important thing happening in investing today.

Look at what happened to the plumbing.

In the 1980s, the median American company went public about 8 years after its founding. Across 2001 to 2025, that stretched to eleven. The last two years came in at fourteen and twelve.[1]

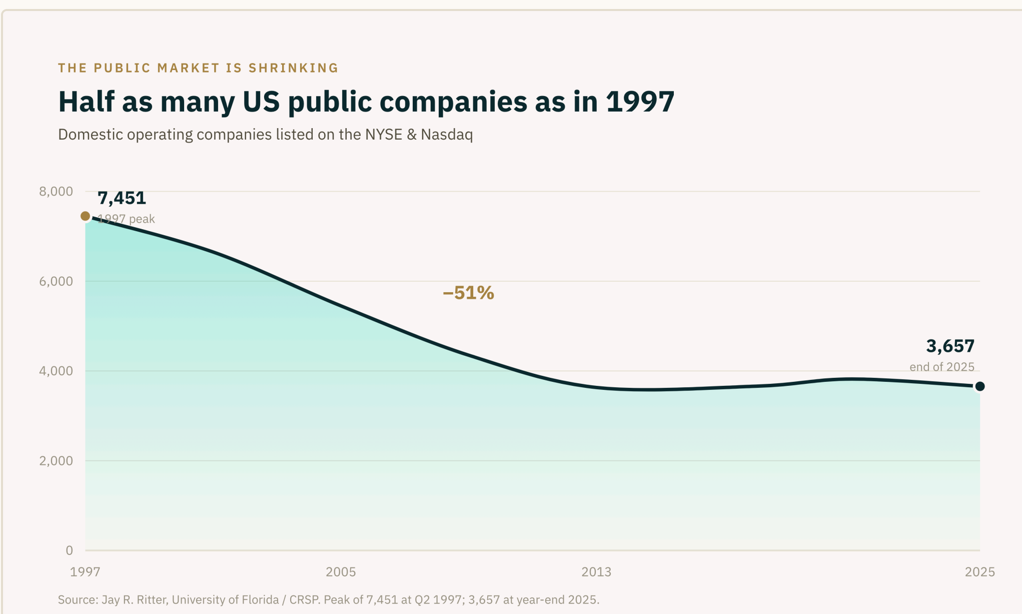
And when companies do arrive, they arrive expensive. The median IPO in 1996 came public at a market value of about $137 million in today's dollars. In 2025 it was $1.17 billion.[2]

Nearly a decade of compounding now happens before the ticker exists.

Meanwhile the public market itself has been shrinking. US-listed operating companies peaked at 7,451 in mid-1997. At the end of 2025 there were 3,657 — a decline of more than half.[3] Roughly 81% of American companies with more than $100 million in revenue are private.[4]

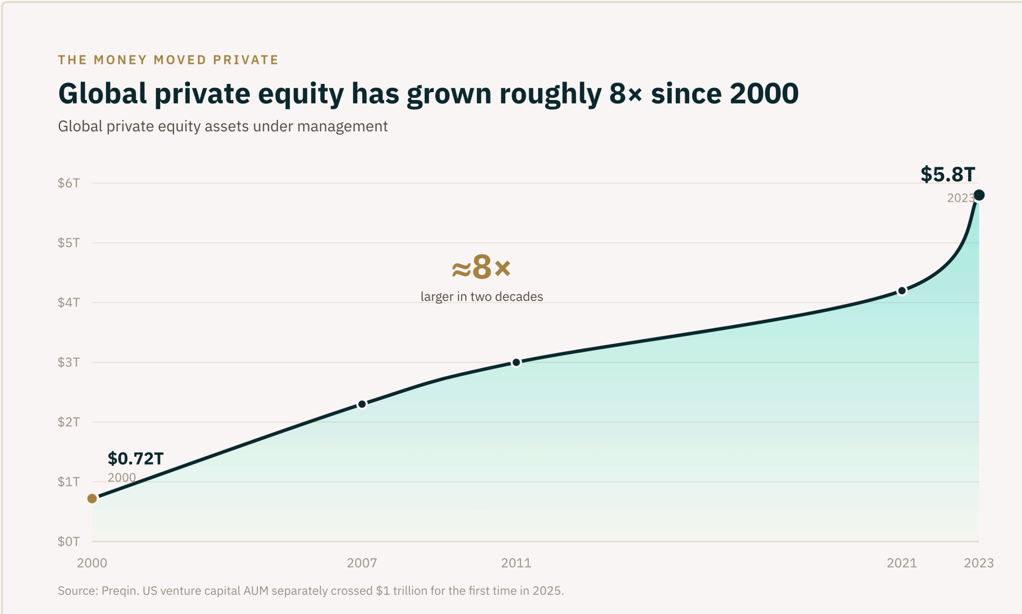
> **The public market used to be where you found the economy. Now it's a sample of it.**

FIGURE 1 — THE PUBLIC MARKET IS SHRINKING



The money followed to the Pre-IPO private market. Global private equity AUM was about $716 billion at the end of 2000. By the end of 2023 it was $5.8 trillion — roughly eight times larger.[5] US venture capital AUM crossed $1 trillion for the first time in 2025.

FIGURE 2 — THE MONEY MOVED PRIVATE



Here is the asymmetry that bothers me. Individual investors hold roughly half of all global capital. They account for only about 16% of the assets in alternative investment funds.[6] And it isn't only the mass market that's absent. A household with $1 to $5 million in investable assets typically holds 1–2% in alternatives. At $5 to $30 million, around 5%.

> **The largest pool of wealth in the world is the least exposed to the fastest-growing asset class in the world.**

That gap is the opportunity. It is also, I think, an accident of history rather than a considered judgment.

The Thesis

A must-have, not a curiosity

What does this reality lead us to?

Pre-IPO should become a "must-have" asset class. Not a curiosity, not a side bet, but a real allocation that belongs in a serious portfolio.

It's mispriced, it's hard to get, and it behaves differently from and complements the stock market.

Most people treat those three things as reasons to stay away. I see them as the reason to pay attention. Let me walk through why.

One

Pre-IPO is mispriced. That's structural, not temporary.

Price is supply and demand.

In the public market, both sides show up in enormous numbers every second, and the price you see is the price the crowd has argued its way to. This is what is called the "efficient market."

In private markets, that machinery barely exists. Transactions are infrequent. Buyers are few. Real price discovery is thin. No one argues private markets are "efficient."

So the price gets mispriced. Sometimes too high, sometimes too low.

On EquityZen's platform, pre-IPO shares traded at roughly a 16% discount to a company's last primary round in the first quarter of 2025.[7] Forge Global has reported bid-ask spreads north of 20%.[8]

Those gaps don't exist in a liquid market. They exist here because the market is, by design, shallow.

And this isn't only true of shares in individual companies. It's true of the most institutional product in the asset class.

When a pension or an endowment sells its stake in a private equity fund — a seasoned, professionally managed, diversified portfolio — it sells at a discount too. In the first half of 2026, LP stakes changed hands at 87% of stated net asset value. Buyout funds, the deepest and most liquid corner of the market, cleared at 91 cents on the dollar. Venture stakes fetched 79.[9]

In no year since 2019 has this market cleared at par. The best year on record was 2021, at the peak of the liquidity cycle, and it was 92%.[10]

This is a $240 billion market now, roughly four times its size seven years ago.[11] It is not a fringe. And it still doesn't clear at value.

And here's the part people miss: the gap is *structural*.

It doesn't get arbitraged away, because the sellers are often forced sellers — an endowment or a pension that needs liquidity — and the buyers are a small, specialized group.

Academic work in the *Journal of Financial Economics* traced this exact dynamic: the return advantage buyers capture comes from asymmetric information and a limited pool of buyers.[12]

That's not a glitch that competition erases next quarter. It's the shape of the market itself.

Two

The VC comparison is a red herring

The pushback I hear is:

Aren't you paying the same price as the venture capitalists, sometimes with a premium?

You never pay quite the same price as the VCs. And yes, you often pay a significant premium to their entry. But that comparison misunderstands what a VC is.

A venture fund is a wholesaler. It has significant operating expenses and expertise, and it underwrites every deal to a 10x outcome because it knows most of its bets will return nothing.

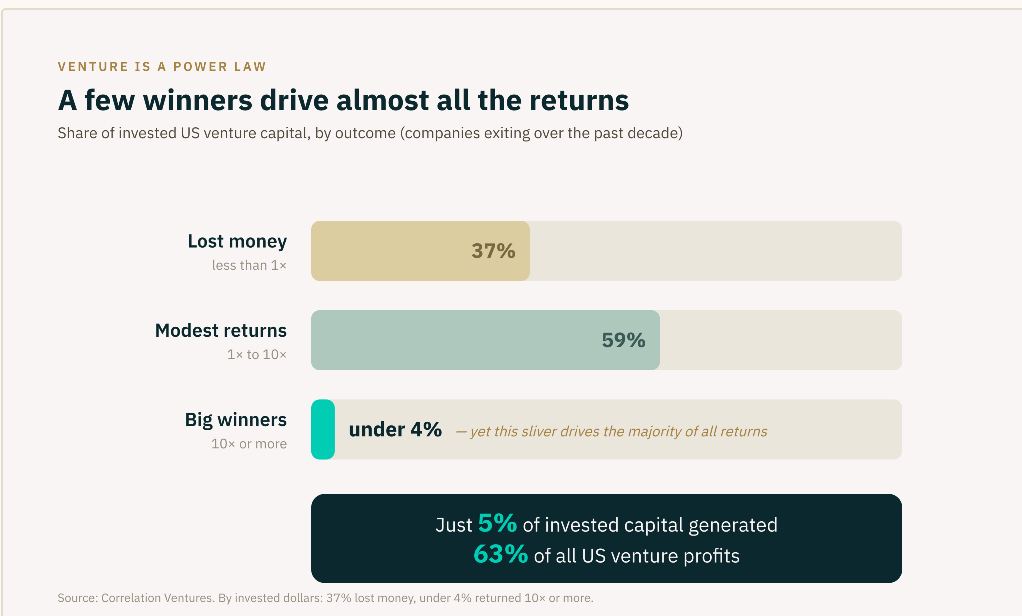
That's not my opinion, it's just the math.

Correlation Ventures maintains one of the most complete databases of US venture financings. Across companies that exited in the decade to 2023, nearly half of all financings lost money for investors, and less than 4% of invested capital returned 10x or more.[13] A decade earlier the loss rate was closer to two-thirds.[14]

The 2020–21 exit boom improved the odds. It did not change the shape.

Because the winners are astonishingly concentrated. Looking at US venture investments since the early 1990s, Correlation found that a majority of all industry profits came from just 3% of investments, and that 5% of invested capital generated 63% of profits. The share of investments needed to produce 90% of profits has stayed inside a narrow 17–23% band, decade after decade.[15]

FIGURE 3 — VENTURE IS A POWER LAW



Venture is a power law. And it is a remarkably stable one.

At Horsley Bridge, a large fund-of-funds, 6% of deals produced 60% of all the returns.[16]

Venture is a power law. Almost all of the returns sit in the top funds.

That's exactly why gaining exposure to companies backed by top names can be a good idea.

There's evidence this matters more in venture than anywhere else. Harris, Jenkinson, Kaplan and Stucke studied 1,329 venture funds from 1984 to 2014 and found that a previously top-quartile VC fund lands in the top quartile again 45% of the time, and above median 69% of the time. Crucially, that persistence survives when you use only the information an investor would actually have had at fundraising. In buyout, it doesn't.[17]

And it's worth knowing why. A separate study in the same journal finds that much of the persistence comes not from better picking, but from preferential access to deal flow. Early success begets better deals, which begets more success.[18]

Which is, if anything, the more useful fact for you. What the top firms have is access. Access is precisely the thing you're buying.

The fee structures that venture funds carry are built for institutions. Pension funds and endowments that are fee-sensitive because they're managing to a return target net of costs and inflation.

An individual investor is largely insensitive to those costs. You're not running an institution. You just want access to the company.

That access is rare, and sometimes impossible to get any other way.

Three

Pre-IPO complements the public market (mostly)

There's one more reason to own this asset class: it's not tied to the daily mood of the stock market.

When you de-smooth the data, late-stage VC has run about a 0.60 correlation to the S&P 500.[19]

That's meaningfully below one — real diversification — but I want to be honest about the asterisk.

Part of that low number is an accounting artifact: private assets get marked infrequently, which makes them *look* calmer and less correlated than they truly are.

The illiquidity is real. So is the diversification. Neither is magic.

Dr. Anthony Chan, the former chief economist at JP Morgan, has pointed to private markets outperforming public ones by roughly 480 basis points a year over the last quarter century.[20]

Diversification, as he likes to say, is the only free lunch in investing. Pre-IPO is a genuinely new item on that menu.

Questions Remain

Three questions worth sitting with

Q1: Why do we suddenly have this access — and is it a "winner's curse?"

The honest answer is that access opened up because the sellers needed us.

Distributions from private equity portfolios have run near 10% of NAV a year — roughly half the historical norm — for four consecutive years. There are some 32,000 unsold portfolio companies sitting in buyout funds, carrying $3.8 trillion of unrealized value.[21]

Institutions committed that capital on the assumption it would come back on schedule. It hasn't. So they are selling stakes, and opening the door to a wider pool of buyers than they ever needed before.

That is a real reason for caution. If the only shares available to you are the ones an insider chose to sell, you should ask why. That is the winner's curse, and it is not hypothetical.

Two things make me less worried than the theory suggests.

First, the sellers here are mostly not selling because they know something bad. They are selling because they need cash, or need to rebalance. The academic evidence points to the buyer's advantage coming from supplying liquidity, not from outsmarting anyone.

Second, adverse selection is an argument for diversifying and insisting on quality. It is not an argument for abstaining.

But it does mean there's one question you ask about every single deal: why is this available to me?

Q2: Who is actually the right investor for this market?

Someone who will not need the money for a while.

That is the first filter, and it eliminates most people. These positions can be held for five, seven, ten years. There is no redemption window, no early exit you can count on.

If there is any real chance you'll need that capital, this might be the wrong home for it.

Beyond that: someone who can build a genuine position across five to seven names rather than one, because a single name is a coin flip. Someone whose core portfolio is already doing the work of meeting their needs, so this allocation is truly incremental. And someone honestly insensitive to the fee load — which is most individuals, but not all of them.

There's a formal answer too, which is that most of these offerings are open only to accredited investors or qualified purchasers. But accreditation measures wealth, not fit. Plenty of accredited investors have no business here, and the reason has nothing to do with their net worth.

Q3: What education does it take to operate here?

Less than people fear. More than platforms imply.

Four things I'd want anyone to understand before writing a check.

- **A valuation is not a price.** It is what one group of investors paid in one negotiated round, usually with preferences and protections you will not have. It is a mark, not a quote.
- **The capital structure matters.** Preferred shares sit above common. In a disappointing exit, the distance between those two is the distance between getting your money back and getting nothing.
- **Know what you actually own.** In many structures, you are buying an interest in a vehicle that holds the shares, not the shares themselves — and that vehicle carries its own costs.
- **Know the exit math.** An IPO is not the finish line. There are lockups. There is dilution. The path from a private mark to cash in your account has more steps than most people count.

None of this requires a finance degree. It requires reading the documents and asking what happens if things go badly — not only what happens if they go well.

What It Means for You

Build your position while the door is open

Larry Fink at BlackRock has been making a version of this case: that the old 60/40 portfolio is becoming 50/30/20, with 20% in private assets.[22]

A meaningful slice of that, I'd argue, belongs in pre-IPO. Not a blip. A position.

You buy 5 to 7, not one or two. One company is a number on the roulette wheel; a diversified basket makes you more like the house.

For most of the last century, this table was reserved for insiders.

That's changing.

You can now gain exposure to pre-IPO companies on a number of platforms.

The companies defining the next decade are staying private longer, and that's the opportunity.

So the question isn't whether pre-IPO deserves a place in your portfolio.

> **It's whether you'll build your position while the door is open, or wait until everyone can see through the glass, and the price already reflects it.**

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FOOTNOTES

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