Key Questions

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Am I an Accredited Investor?

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A "yes" answer may unlock exciting investment opportunities.

The stock market crash of 1929 had such a profoundly searing impact on so many that the year has become synonymous with financial calamity. Other years that hold such notoriety include 1987, 2008, and perhaps 2020, although this year will clearly be remembered for events that extend well beyond financial market volatility.

The stock market experienced gut-wrenching losses in 1929 as roughly one-quarter of its value was erased in two days in October. While the Dow Jones Industrial Average managed to post solid gains in the ensuing months, the market entered into a protracted slide from April 1930 to July 1932 to wind up falling an astounding 89%. Thus, it would be more apt to label this period as the financial crash and the Great Depression of 1929-1932 rather identify just one year and characterize it as a singular event.

While many forces triggered this period of economic tragedy, rampant speculation in the preceding years is commonly viewed as the proximate cause. During that time, fraud and other forms of financial deceit were prevalent. It would not be an exaggeration, therefore, to link important legislation aimed at curbing financial deception to the Dow's all-time bottom around the same time.

Most notably, the passing of the Securities Act of 1933 (also referred to the Truth in Securities Act) was a watershed moment: It established important laws to deal with financial wrongdoings such as insider trading, the sale of fraudulent securities, and manipulative trading designed to drive up stock prices. With the benefit of hindsight, one could easily claim that these laws restored confidence in America's financial system, resulting in immense benefits for society in every decade since.

As with many laws, however, it becomes necessary to modernize them to enable further benefits for successive generations. One such example is the definition of an "Accredited Investor," a concept contained within the Securities Act of 1933.

The term Accredited Investor was established to prevent novice investors who lacked sufficient knowledge or expertise to evaluate complex investments or did not possess the means to assume related risks. With almost 90 years having passed since the law was enacted, an update of this definition was long overdue, an opinion that the Securities and Exchange Commission (SEC) shared.

In particular, the SEC amended its Accredited Investor definition, which sets specific guidelines for investor access into the private capital markets. This can include certain hedge funds, private equity funds, and/or venture capital funds. The term "private capital" refers to any asset that is not publicly traded such as stocks, bonds, ETFs or mutual funds.

With the recent expansion, investors can now qualify as Accredited Investors based on defined measures of professional knowledge or credentials (including possession of certain industry licenses), in addition to the existing tests for income or net worth. "We do not believe wealth should be the sole means of establishing financial sophistication," the SEC said.

Am I an Accredited Investor?

The following is a description of the existing qualifications along with those that were recently added.

Existing Qualifications:

Individuals

- A person with earned income of more than $200,000 (or $300,000 together with a spouse) in each of the last two years and who reasonably expects to earn the same for the current year, or
- Net worth of $1 million (excluding the value of a primary residence).

Institutions

- Any entity in which all equity owners are accredited investors, or
- Entities or trusts with assets that exceed $5 million.

Recently Added Qualifications:

Individuals

- Include holders in good standing of the Series 7, Series 65, and Series 82 licenses.
- Include as accredited investors, with respect to investments in a private fund, natural persons who are "knowledgeable employees" of the fund.
- Add "family offices" with at least $5 million in assets under management and their "family clients," as each term is defined under the Investment Advisers Act.
- Add the term "spousal equivalent"; spousal equivalents may pool their finances for the purpose of qualifying as accredited investors.
- Clarify that limited liability companies (LLC) with $5 million in assets may be accredited investors and add SEC- and state-registered investment advisers, exempt reporting advisers, and rural business investment companies (RBICs) to the list of entities that may qualify.

Institutions

- Native American tribes, governmental bodies, funds, and entities organized under the laws of foreign countries, that own "investments," as defined in Rule 2a51-1(b) under the Investment Company Act, in excess of $5 million and that were not formed for the specific purpose of investing in the securities offered.

At Key Private Bank, we believe that private capital (as defined by the SEC) can significantly enhance the risk/reward tradeoff of a total portfolio. Private capital may be especially beneficial in the current financial market defined by low interest rates, elevated equity valuations, and uncertainty.

Importantly, when investing in private capital, investors must be fully aware that liquidity provisions of the investment strategy may vary. Less liquid strategies, including private markets, may generate excess returns due to various factors that do not exist in public markets, but may be less liquid or illiquid for an extended period of time.

Private investments also introduce different risks and considerations requiring active oversight, robust diversification and alignment of interests. As a fiduciary to our clients, we accept these prerequisites: As with all client mandates, we seek to grow and preserve the wealth that our clients have entrusted to us.

Please contact your Key Private Bank Advisor to find out what Accredited Investor investment opportunities may be suitable for you.

For more information, please contact your Key Private Bank Advisor.

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