The Tradeoff: Traded vs. Non-Traded Investment Funds

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When investors have capital to invest, they have a lot of decisions to weigh before making a choice. In addition to more frequently discussed factors regarding managers, asset types, and share classes, investors should also consider which product wrapper best suits their needs.

In the spectrum of investments, there exists a large variety of options for individuals to choose from. Investors with differing ages, time horizons, risk profiles, and short and long-term financial goals all enjoy a great many options in the way they seek to meet their objectives.

Further, investors are able to make use of different asset classes and investment vehicles with which to seek their preferred financial path. One of the many alternatives investors should consider in making an investment decision that might best suit their individual needs is whether they invest in an instrument that is traded or non-traded.

In most sectors of the traditional investment marketplace, the decision between traded and non-traded does not exist or is of minimal consideration. This is because the investments that make up a fund's portfolio are typically traded themselves, making the manager's decision straightforward when it comes to how the fund will be wrapped and distributed.

One part of the investment marketplace where this is not the case is with alternative investments. Alternative asset managers typically seek to take advantage of a yield premium often associated with illiquid assets. As such, alternatives are an investment class where investors may face the choice of whether a traded or non-traded product is right for them.

Traded Funds

Traded investment funds are by far the more common structure, in fact most individual investors may only be aware of the traded option. The main characteristics of traded funds are as follows:

- **Listed:** Traded investment funds are listed on a public exchange, such as the NYSE or NASDAQ
- **Liquid:** Investment funds can be sold on any day the public exchange it is listed on is open for business, provided there is a buyer
- **Market Pricing:** Traded funds are bought and sold at a price determined by the open market. The share price may be greater than or less than the net asset value of the fund depending on market forces.

Non-Traded Funds

For investment managers that focus on alternative assets such as credit, real estate, natural resources, or hard assets, it may not make sense to list a fund on a public exchange if the underlying assets do not go through frequent valuations. The main characteristics of non-traded funds are as follows:

- **Unlisted:** Non-traded investment funds are purchased directly from the fund manager, they are not freely bought and sold on a public exchange
- **Illiquid**: Due to the illiquid nature of the underlying fund assets, shares in these investments may not be readily redeemable. Ranging from years-long lock up periods of direct participation programs to the 90-day repurchase offers of certaininterval funds, non-traded funds will be less liquid than their traded counterparts
- **NAV Pricing**: Because there is no secondary market for non-traded investment funds, they are typically bought and redeemed at the fund's net asset value, or a price derived from net asset value

Some types of investment funds, for example real estate funds, may be available in both traded and non-traded forms. Each of these investment vehicles comes with its own advantages and disadvantages. Because of this, many investors will make use of both in different parts of their portfolios to accomplish different financial goals. When evaluating their investment choices, investors should work with their financial professionals to determine which product wrapper better suits the underlying assets and their own investment goals.

To learn more please contact your financial professional.

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