

INSIGHTS FROM CFA SOCIETY SINGAPORE

Buyer beware: 7 red flags signal a reckoning in private markets



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PRIVATE markets have entered what may be the most precarious phase of a decades-long speculative cycle – defined by questionable valuations, governance concerns and aggressive marketing to retail investors.

While institutions have already committed trillions of dollars to these opaque vehicles, many are now quietly heading for the exits – just as individual investors are being drawn in by the promise of stable returns and enhanced diversification.

The warning signs are piling up. Consider, for example *Wall Street Journal* columnist Jason Zweig's June article, which raised serious questions about valuation practices at Hamilton Lane Private Assets Fund.

Zweig revealed Hamilton Lane's use of a valuation methodology that enabled the fund to record generous mark-ups on secondary investments – often within days of purchasing them.

According to the article, the fund recorded significant markups shortly after acquiring positions. Such a move, while not unheard of in private markets, may result in perceptions of artificially boosted returns.

While the Hamilton Lane Private Assets Fund targets individual investors, the underlying valuation and incentive dynamics mirror those seen across segments of the

institutional private markets landscape.

Signs of late-stage speculation: Seven red flags

How did this happen? Private markets – which include investments such as venture capital, buyouts, real estate, hedge funds and private credit – were all the rage among institutional investors over the past two decades. But today, seven red flags strongly suggest that private markets are in the late stage of a classic speculative cycle.

At best, this means they are severely overvalued; at worst, it means that at least some segments may qualify as a bubble.

Red flag #1: Widespread acceptance of a flawed narrative

In the late 1990s, Americans believed that any company with a “.com” suffix offered a sure path to riches. In the early 2000s, Americans believed that real estate prices would never decline on a national level.

In the 2020s, it seems almost every institutional and individual investor believes that private markets offer a foolproof way to enhance returns and/or reduce portfolio risk. Few question the validity of this narrative despite mounting evidence that not only is it unlikely to be true in the future, but there is also strong evidence that it failed to materialise in the past.

Red flag #2: A complacent and siloed supply chain

The real estate bubble in the early 2000s that led to the global financial crisis was extremely difficult to detect because it was visible only to a small handful of people who understood every segment of the real estate and mortgage-backed security supply chain.

Back then, individuals with no real estate experience were using massive amounts of debt to indiscriminately buy properties with the sole intention of flipping them for a quick profit.

Mortgage lenders were motivated only by sales volume, which led them to issue loans with little regard for the borrower's ability to pay. Investment banks purchased and repackaged these loans into risky products that were nevertheless rated triple-A.

Finally, lax ratings agencies, specialised insurers, government-sponsored enterprises and the financial media reinforced the faulty narrative, giving speculators a false sense of security.

On the surface, the current supply chain in private markets looks quite different, but it is similar in the sense that each segment adds incremental risk. Few investors appreciate how these risks compound as products move along the assembly line. Moreover, participants in the supply chain are so hyper-focused on extracting value from their segment that they have little care for the risks embedded in the products that pop out at the end.

Rather than focusing solely on the end-recipients of capital flows, however, attention should be directed further upstream towards the mechanisms and decision-makers that enable such behaviours to persist unchecked.

This is why I believe a critical, yet often under-examined, link in the private markets supply chain lies with investment consulting firms and investment plan staff. For more than two decades, many have encouraged trustees to steadily increase private markets allocations, often beyond what long-term objectives or market condi-

tions justify.

In some cases, these recommendations have relied on optimistic return assumptions, cursory due diligence and incentive structures that may not align with beneficiaries' long-term interests. Importantly, these entities tend to operate with limited regulatory oversight.

Red flag #3: Large, indiscriminate capital inflows

When attractive investment opportunities are scarce, prices of sound investments rise to unattractive levels. This compels fund managers to allocate the excess to unworthy investments and/or outright frauds.

Eventually, a critical mass of investors awakes to this reality; capital flows reverse; and the speculative cycle ends with a crash.

The flood of capital into private markets has persisted for more than two decades. It began soon after the late chief investment officer of the Yale Investments Office, David Swensen, published *Pioneering Portfolio Management* in 2000. Followers assumed they could improve their performance by bluntly allocating to alternative asset classes. Few paused to consider the fact that Swensen was both uniquely talented and early to enter these markets. Replicating his performance was never likely for the masses.

Red flag #4: Unbalanced media coverage

Today, mainstream financial coverage tends to emphasise the accessibility and growth potential of private markets, often with limited scrutiny of valuation practices or systemic risks. This consensus-driven approach can reinforce overly optimistic narratives and accelerate momentum in late-stage speculative cycles. This phenomenon is common in financial history.

Red flag #5: Stealthy flight of smart money

On Jun 5, 2025, Bloomberg reported that the Yale Investment Office

was nearing a deal to close a sale of US\$2.5 billion of its venture capital portfolio. While it is possible that recent funding changes for Ivy League institutions played a role, the scale and timing of Yale's potential sale suggest that other factors such as liquidity management or a re-assessment of valuations may be the more significant drivers. The Yale Investments Office is widely regarded as one of the more astute investors, which makes it plausible that their proposed sale of private equity is a dash for the exit.

Red flag #6: Aggressive sales to retail investors

Starting in the early 1900s, it became common for speculative cycles to end after Wall Street firms exhausted the funds of the last and most vulnerable cohort of capital providers – retail investors. The most common vehicle used to extract capital from retail investors has been the investment company, now more commonly referred to as a mutual fund or 40-Act fund.

Over the past 25 years, private markets were largely reserved for institutional investment plans and ultra-high-net-worth investors. But as is always the case in speculative cycles, overly enthusiastic investors eventually flooded the market with excess capital. The classic cycle of overbuilding and malinvestment ensued.

Now, over-allocated institutional investment plans and private fund managers are desperately seeking exits, which helps explain their sudden interest in bringing private markets to retail investors. Once again, a vehicle of choice is the 40-Act fund. Heavy marketing to retail investors has led to massive inflows into evergreen funds with fancy names, such as interval funds and continuation funds.

Red flag #7: Sudden loss of confidence in the narrative

Speculative cycles end when a critical mass of investors suddenly lose faith in the flawed narrative on

which it was based.

In this context, Zweig's article may serve as a valuable warning. Whether the valuations represent isolated practices or broader systemic issues remains to be seen. But the questions raised deserve a closer look by all participants in the capital markets ecosystem.

Researching the 235-year financial history of the United States trained me to never ignore the red flags that typically signal the approaching end of a speculative cycle.

In 2025, it remains unclear whether the surge of capital into private markets constitutes a full-blown bubble, but the accumulation of red flags strongly suggests that extreme caution is warranted. The sheer volume of capital – combined with extraordinarily high fee structures relative to traditional asset classes – may significantly impair future returns.

In this context, the cost of staying on the sidelines seems to pale in comparison to the risks of participation.

Retail investors should approach these increasingly accessible vehicles with a clear understanding of their true purpose and risks.

It seems highly likely that, in general, these vehicles are viewed as acceptable exit routes for institutional investors but are likely to constitute unattractive entry points for retail investors.

This is not a scenario that investors should take lightly if advisers present them with opportunities to enter these markets.

The writer is a senior vice-president for IFA Institutional where he specialises in providing advisory services to institutional plans, such as endowments, foundations, pension plans and various corporate plans.

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