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The Returns to Entrepreneurial Investment: A Private Equity Premium Puzzle?

November 24, 2009

The literature shows that private equity returns are generally no higher than the market return on all publicly traded equity, yet entrepreneurial households invest more than 70% of their private holdings in a single private company in which they have an active management interest, according to data from the 1989, 1992, 1995, and 1998 *Survey of Consumer Finances*. Considering that the returns to private equity investment seem too low given their risk, the authors write, it is hard to understand why.

Data suggest that a diversified portfolio of public equity offers a far more attractive risk-return trade-off than that achieved by most entrepreneurs. There are several possible explanations for entrepreneurs' insistence on concentrating their investments in private equity.

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