

Are you a Sophisticated or Wholesale Investor?

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With the increase in personal wealth in Australia, many individuals who are classified as 'wholesale' or sophisticated' investors, don't even know it. More importantly they could be missing out on some very lucrative investment opportunities simply because they aren't in the know.

Firstly, what exactly is a sophisticated or wholesale investor? Well, in the eyes of the Corporations Law 2001, a wholesale/sophisticated investor is someone who meets at least one of the following tests:

- Has net assets of more than A\$2.5m;
- Has income of more than A\$250k over the last two financial years;
- Is investing \$500k or more into the opportunity

If you don't meet at least one of the above, you are deemed as a retail investor.

So whats the advantage of being a wholesale investor? How does this help with your investing?

The answer is simply that in the eyes of the Corporations Law, someone who has met one of the above criteria, is more knowledgeable when it comes to investing. Therefore they can invest into pretty much anything.

There are quite a number of investment products that are only available to wholesale or sophisticated investors. Reason being that they are more complex than the average IPO or managed fund.

The other reason why these opportunities are only available to wholesale investors, is because wholesale investors are exempt from the 20/12 rule. The 20/12 rule limits the number of retail investors who can invest into a particular opportunity to 20 within a 12 month period.

There is no limit to the number of wholesale investors who can invest, which is why they are preferred by certain promoters of opportunities.

Also, the fact that wholesale investors can usually tip in large quantities of money makes them all the more attractive to promoters.

Some of the opportunities available to wholesale investors are:

Pre-IPO offers

This is where a company does a capital raising usually within about the last 12 to 18 months of going public. Shares are usually offered at a discount to IPO of between 20% and 80%. These opportunities are available through certain brokers, investment banks and corporate advisory firms.

Private Placements

This is where a publicly listed company wants to raise more funds, usually for expansion or for an acquisition. Say they are raising \$4m, rather than going to lots of little investors, they go to 8 wholesale investors who invest \$500k each. Much easier and faster. The benefit of the investor is that, in most cases, they receive their shares at a discount to the current trading price. Say the stock is trading at \$1.00 on market. The private placement may be priced at \$0.80. Meaning you make 20% return on day one.

Funds

There are certain funds that are only available to wholesale investors. Private Equity funds are one such example. They are specifically set up to accept money from high net worth individuals and institutional investors. These funds have a target IRR of around 25% pa.

To learn more about wholesale or sophisticated investor opportunities, contact your stockbroker or private wealth manager or establish a relationship with a investment banking or corporate advisory firm who specialises in these opportunities.

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[ABOUT REUBEN BUCHANAN – DIRECTOR, INTEGRAL CAPITAL GROUP PTY LTD](#)

[Reuben Buchanan](#) is a corporate advisor for Sydney based advisory firm, Integral Capital Group. His primarily role involves raising capital for both public and private companies, of amounts between \$1m and \$20m. These companies use the funds to expand or make acquisitions of other companies. Integral Capital also assist companies with their IPO plans as an advisor, and from time to time do private placements into public companies of around \$1m to \$5m.

Previously Reuben Buchanan owned Wealth Creator magazine, which launched in 2002. (www.wealthcreator.com.au) He on-sold the business three years later to a private investor group. Wealth Creator is still highly regarded in the business sector in Australia.

Reuben is also the co-founder and director of [Think Big](#) magazine, Australia's largest personal development magazine.

IMPORTANT: This information is general and should not be taken as specific advice. Readers should always seek their own professional advice. Send your questions to reuben@integralcapital.com.au