Redefining Portfolio Diversification:

The Overlooked Power of Pre-IPO Investments

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New Insights Into Private Market Investor Behavior

This white paper is informed by proprietary research and real investor behavior across the private markets.

In March and April 2025, Alto surveyed over 1,000 U.S. adults, evenly distributed across four generations and genders, including self-directed investors already engaged in alternative assets. This data is complemented by select third-party research and industry insights to provide a well-rounded view of today's pre-IPO investing landscape.

Alto's self-directed IRA platform empowers individuals to diversify beyond public markets with access to private equity, venture capital, crypto, real estate, and more. The Alto Marketplace brings these opportunities into one easy-to-navigate platform—designed for investors looking for transparency, efficiency, and access to what's next.

Start exploring at **altoira.com/marketplace**

Traditional strategies aren't enough. Today's investors need access to high-potential alternatives like pre-IPO shares to build truly diversified, opportunity-rich portfolios.

Investors today are being asked to do more with their portfolios—grow their wealth, manage risk, and plan for longer retirements—all while traditional tools offer less stability. Many are looking beyond the familiar mix of stocks and bonds to find new ways to meet those goals.

One path gaining traction is access to private market opportunities, particularly pre-IPO shares. Some of today's most valuable companies—SpaceX, OpenAI, Anthropic—created the bulk of their value while still private. For investors focused on long-term growth, that's not just a trend—it's a shift in where and when value is being created.

Pre-IPO shares are often highlighted for their high return potential, but their role goes deeper. They represent a broader evolution in how portfolios can be built: not just to grow, but to adapt. Including private growth assets alongside public investments introduces greater flexibility and diversification—helping investors build retirement portfolios that reflect how companies grow today. After all, the traditional 60/40 model wasn't designed for a world where many of the most promising opportunities stay private for longer.

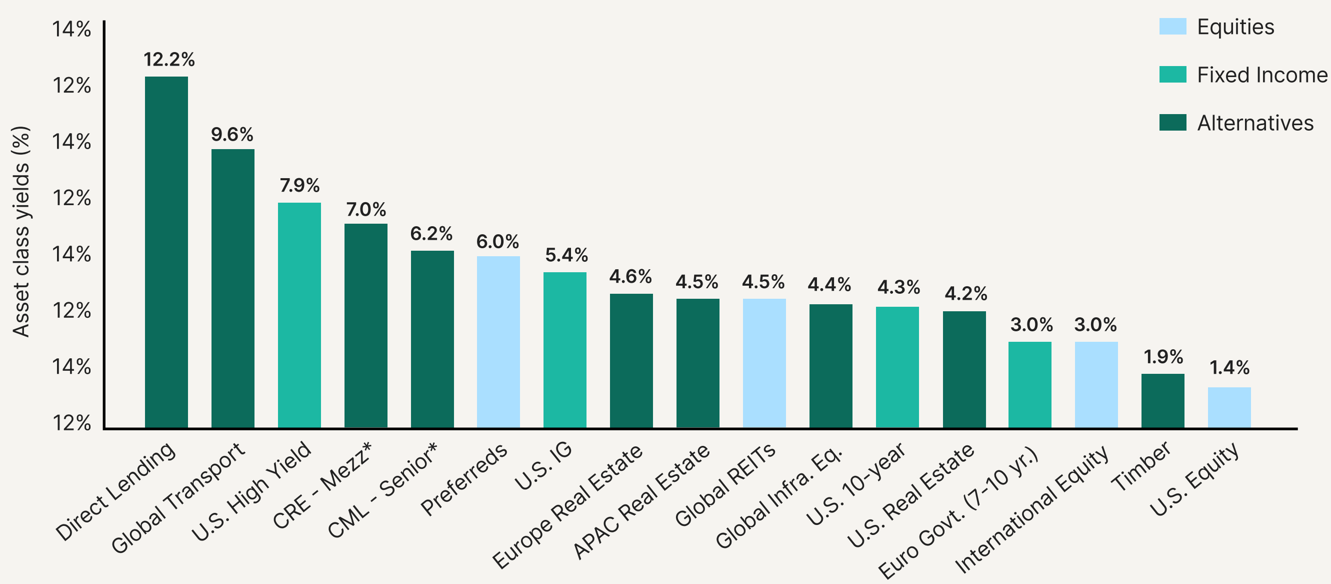
Important note for investors: While pre-IPO shares and other private market investments may offer the potential for enhanced returns and diversification, they also involve substantial risks. These include limited liquidity, extended lock-up periods, infrequent or no secondary market access, valuation uncertainty, minimal public financial disclosure, and a higher probability of capital loss. These investments are generally suitable only for accredited investors who fully understand the risks, can withstand long holding periods without liquidity, and have the capacity to lose all invested capital. Past performance is not indicative of future results, and there is no guarantee that any private investment will achieve its objectives or deliver a positive return.

Investors are Rethinking the 60/40

The classic 60/40 portfolio—60% equities, 40% bonds—has long been the gold standard for retirement investing. For decades, this mix delivered a balance of growth and stability: stocks drove returns, while bonds offered protection in downturns.

But today's economic environment has exposed the limits of that approach. Market volatility, persistent inflation, and shifting central bank policies have weakened the historical relationship between stocks and bonds, making it harder for the traditional model to deliver the resilience investors once relied on.

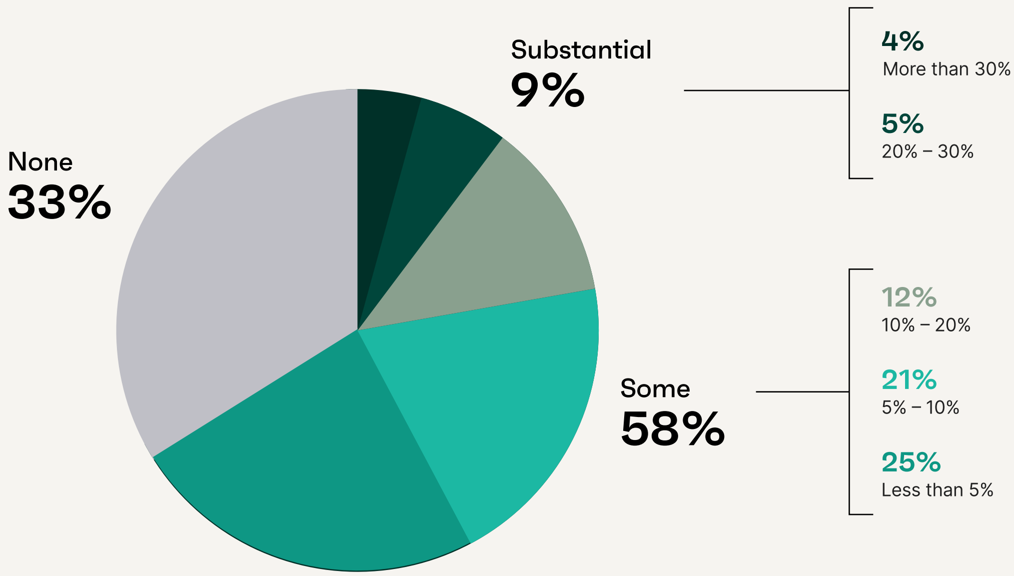
Asset Class Yields



Source: JPMAM Quarterly Alternatives Update: 1Q 2025

This shift is prompting a broader reevaluation of diversification itself. In a recent survey conducted by Alto, 67% of respondents reported having at least some allocation to alternative investments—a clear sign that investors are increasingly looking beyond public markets[1]. That momentum is fueling growing interest in private market opportunities, where assets like pre-IPO shares offer both long-term growth potential and a way to align portfolios with how value is created today.

What percentage of your portfolio is in alternatives?



Source: Alto Retirement & Alternatives Study, March 2025

The Rise of Private Markets

Some of the most dynamic growth in today's economy is happening far from the public markets. Private markets offer investors access to a broader and often less correlated range of opportunities than traditional public equities and bonds. By investing in private assets such as private equity and private credit, investors can tap into sectors of the economy that aren't readily available through public markets.

These investments provide enhanced return potential and diversification benefits, while also helping to reduce overall portfolio volatility by being less sensitive to short-term swings in public markets. For instance, U.S. private equity has delivered a net annualized return of 13% since 2000—outpacing public equities like the Russell 3000, which returned 8% over the same period[2].

Private equity allows investors to participate in the growth and transformation of privately held companies—often through buyouts, growth capital, or venture strategies. These investments are actively managed, with a focus on operational improvements and strategic expansion that drive long-term value. Meanwhile, private credit provides access to attractive yields by lending to companies outside the traditional banking system.

[1] *Alto Retirement & Alternatives Study, March 2025*

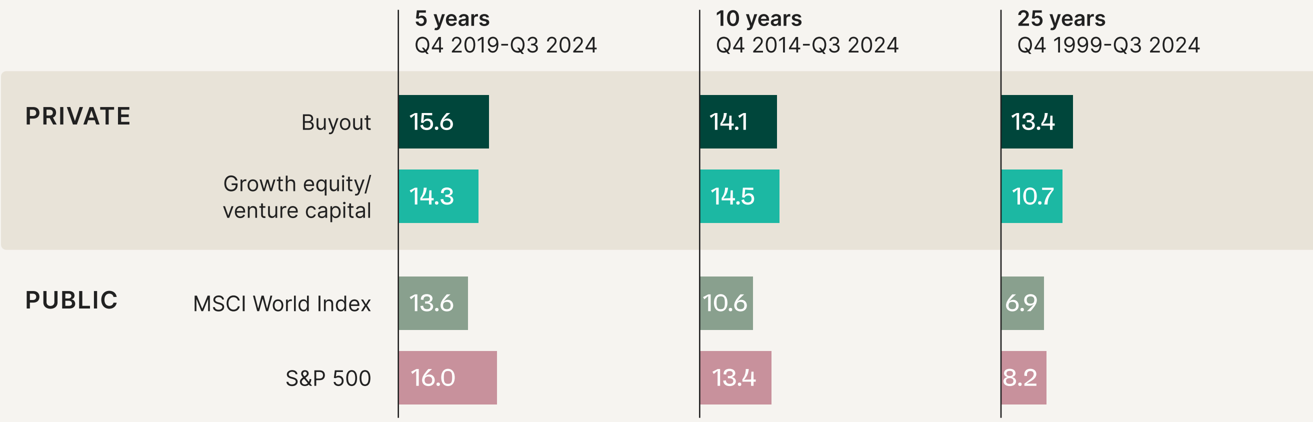
[2] *"Why Private Equity Wins: Reflecting on a Quarter Century of Outperformance," Institutional Investor, accessed May 16, 2025.* The Russell 3000 was selected for comparison due to its broad market coverage and to reduce distortion from the recent outsized performance of a few dominant tech stocks

With private credit assets under management growing from $300 billion in 2010 to over $1.7 trillion by 2024, it has become a key income-generating allocation for many institutional portfolios[3]. Yields in private credit commonly range from 8–12%, depending on the strategy, and are often structured to provide downside protection through senior-secured or collateralized positions, but actual results can vary. Together, private equity and private credit may enhance portfolio diversification, but they are also subject to significant risks, including illiquidity, manager selection risk, and the potential for capital loss.

Investors who only focus on public markets may be overlooking potential opportunities in other areas. Nowhere is this more evident than in the late-stage private companies preparing for eventual IPOs. As more value creation happens before companies ever reach public exchanges, pre-IPO opportunities are emerging as a powerful way for investors to access innovation—and returns—earlier in the growth cycle.

Private equity investment has outperformed public equity investment since the turn of the millennium

Horizon investment returns, by asset class, %*



**Assessed using IRR; calculated by grouping performance of 2000-21 funds during 2000-24. Some data not available for certain periods.*

Source: McKinsey & Company, Global Private Markets Review 2024, March 2024

Investing Early: The Private Market and Pre-IPO Advantage

The most explosive growth stories don't always unfold on public exchanges—they often happen long before a company ever rings the opening bell. For accredited investors seeking meaningful upside, this has led to a rising focus on the pre-IPO window, where access to high-growth companies can deliver outsized returns compared to their public-market performance.

Private companies now dominate the economic landscape. In fact, 80% of companies generating $100 million or more in annual revenue remain private, meaning the bulk of value creation happens behind the scenes—out of reach for traditional public investors[4]. This shift has transformed how investors think about timing and access, emphasizing the importance of gaining earlier access.

[3] *Preqin*
[4] *S&P Capital IQ. Data cited in Apollo Global Management. Private Markets Chartbook. April 2024. Accessed May 20, 2025.*

Consider the story of Meta (then Facebook). In 2005, Accel Partners led a $12.7 million investment round, acquiring 11% of the company at a $115 million valuation. Fast forward to 2021, and Accel had realized part of its stake at a reported $35 billion valuation—a 247x return. That significant gain occurred primarily during Meta's private growth phase, long before its $38 IPO price or current $549 share value[5].

While Meta represents a standout example, it's important to note that not all pre-IPO companies follow this trajectory. In many cases, early-stage growth may be limited or come with higher risk, and outcomes vary widely. Still, for investors willing to accept that risk, the private markets can offer meaningful opportunities for return.

Public market performance can differ significantly from earlier-stage private market outcomes. For context, several well-known companies experienced substantial growth before their IPOs. While historical data shows that early investors in some private companies achieved notable returns, it's essential to understand that these results are not typical.

Here's a snapshot of well-known companies and how much more could have been gained by gaining earlier access[6]:

Company	IPO Price	Current Price	Growth Multiple
Meta	$38.00	$549.00	14.4x
Palantir	$10.00	$118.44	11.8x
Uber	$45.00	$81.01	1.8x
Airbnb	$68.00	$121.92	1.8x
Snowflake	$120.00	$159.49	1.3x

These figures reflect growth from IPO to the present, though it's worth noting that many investors in private companies may have entered at earlier, lower valuations. While this earlier access can potentially enhance returns, it also comes with increased risk, reduced liquidity, and limited transparency.

As more companies remain private for longer, interest in pre-IPO access has increased. For investors who meet accreditation requirements and understand the risks, private markets may present additional opportunities to diversify a portfolio and gain exposure to companies earlier in their lifecycle.

[5] *Jason Kincaid, "Accel Partners Raises $475 Million for Fund IX, Facebook Called 'Extraordinary,'" TechCrunch, November 22, 2010*
[6] *Alto analysis based on publicly available data from Yahoo Finance, CNBC, Investopedia, and Nasdaq.*

Unlocking Pre-IPO Access: What Investors Need to Know

Of course, the most compelling opportunities are often the hardest to access. Historically, pre-IPO shares were the domain of institutional investors and venture capitalists. Today, however, secondary markets are expanding access. Jefferies reported a record-setting $162 billion in global secondary market transactions in 2024—a 45% year-over-year increase. That liquidity is opening doors for individual investors to participate in pre-IPO opportunities[7].

1	2	3
Using Retirement Funds to Access Pre-IPO Opportunities	How Pre-IPO Investing Complements Other Alternatives	Choosing Between Pre-IPO Companies and Pre-IPO Funds

1 Using Retirement Funds to Access Pre-IPO Opportunities

Many investors traditionally view retirement accounts as vehicles for passive investment in mutual funds or index-based strategies. With greater access to late-stage private companies and new flexibility in alternative investment platforms, these accounts are increasingly powerful tools for building long-term wealth.

This evolution matters even more when you consider the tax benefits of holding these investments in retirement accounts. A Roth IRA, for example, allows pre-IPO shares to grow tax-free—meaning gains from a successful IPO or acquisition stay in your pocket. Despite this advantage, it's an overlooked strategy: Alto's recent survey found that 68% of non-users either didn't know or weren't using tax-advantaged accounts for their alternatives[1].

Additionally, investors who meet IRS holding requirements (typically five years) may qualify for preferential capital gains treatment, depending on how the investment is structured. These layers of tax efficiency, paired with growing accessibility, make pre-IPO shares one of the most compelling—but underutilized—tools in the retirement investing toolkit.

2 How Pre-IPO Investing Complements Other Alternatives

Pre-IPO shares may serve a distinct role in an alternative investment portfolio by offering exposure to companies at advanced growth stages, potentially enhancing long-term diversification.

While private credit strategies can provide consistent income and real estate may offer elements of inflation protection and stability, pre-IPO investments add a differentiated component. These assets are typically less correlated with public markets and may contribute to portfolio diversification when used alongside other alternative investments.

Pre-IPO investing allows individuals to access value creation at an earlier stage—often before the broader market is even aware of the opportunity. Investors who allocate capital prior to a company's IPO can benefit from a lower entry price and a longer growth runway. While public market investors begin capturing returns at the IPO price, pre-IPO participants may realize a greater portion of the value generated from private-stage growth.

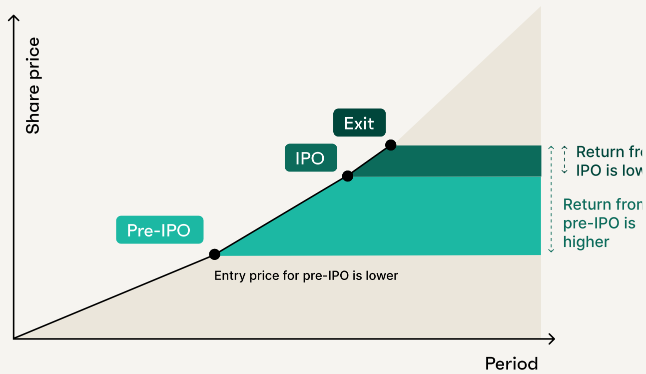
[7] *Jefferies, Global Secondary Market Review, January 2025*

This underscores why private equity and venture-backed opportunities play a growing role in modern retirement strategies: they offer not just diversification, but meaningful potential to enhance long-term outcomes.

Pre-IPO investments can provide exposure to companies at key stages of innovation. In 2025, sectors such as financial services, healthcare, and AI/ML are showing strong IPO activity.

Notably, half of the 10 most anticipated IPOs this year feature companies incorporating artificial intelligence—reflecting growing investor interest and continued momentum in the space[8].

Hypothetical illustration of a pre-IPO investing timeline



In a diversified retirement portfolio, pre-IPO shares may serve as a complement to more income- or stability-focused assets like real estate or private credit. While these investments carry higher risk, they also offer the potential for meaningful growth over time. Developing a portfolio with a combination helps create a retirement portfolio that can weather different economic environments. Each has its merits depending on investor preference, risk tolerance, and time horizon.

3 Choosing Between Pre-IPO Companies and Pre-IPO Funds

Not all paths to pre-IPO investing look the same—and understanding your options can be the key to building a strategy that matches your goals and comfort level. As access has expanded, so too have the vehicles through which investors can participate in this stage of the market. Like deciding between a single stock and a mutual fund, investors can tailor their approach based on their goals, experience, and risk tolerance.

There are two primary ways to access pre-IPO opportunities:

Direct company investments

Offers high upside potential, but also concentrated exposure, similar to picking an individual stock. Ideal for investors with strong conviction and appetite for higher risk.

Pre-IPO funds

Professionally managed portfolios offering diversification across multiple private companies. This approach helps spread risk and is well suited to investors looking for broader exposure and lower volatility.

Newer investors may consider starting with pre-IPO funds to gain diversified exposure to late-stage private companies. These funds can help spread investment risk across multiple issuers and may provide access to a broader opportunity set.

More experienced or risk-tolerant investors might choose to complement this approach with direct investments, allowing for targeted exposure to specific companies or sectors of personal interest. Some accredited investors adopt a blended strategy—utilizing diversified funds for broader exposure while selectively allocating to individual opportunities that align with their investment thesis.

As with any private investment, careful due diligence, consideration of liquidity needs, and alignment with individual financial goals are essential.

[8] *AlphaSense. "IPO Outlook 2025: Will the IPO Market Rebound?" AlphaSense, March 18, 2024.*

Building a Private Markets Strategy with Pre-IPO Shares

Not all private market investments are the same—and that's a good thing for investors looking to build diversified, resilient portfolios. Unlike traditional stocks and bonds, private market assets such as **real estate, private equity, venture capital, and pre-IPO shares** each offer distinct benefits based on stage, risk profile, and return potential.

A thoughtful allocation might include:

Real estate
Often used for income generation, potential inflation hedging, and long-term portfolio stability

Private equity/venture capital
Provides exposure to privately held businesses with growth potential, typically at earlier or expansion stages.

Pre-IPO shares
Offer the potential for accelerated gains with nearer-term liquidity compared to early-stage VC

This stage-based approach can help smooth volatility while seeking to preserve meaningful upside. As one asset class cools, another may accelerate—exposing investors to innovation and growth across the cycle.

Alto investors are already putting this strategy into action—building resilient, forward-looking portfolios tailored to their goals and risk profiles. Pre-IPO investing is a clear example: as interest in this once-exclusive space grows, Alto is helping investors stay ahead of the curve by providing access to select opportunities before companies go public. It's part of our commitment to empowering self-directed investors to participate in innovation from the ground up.

And with the IPO market heating up again, the timing couldn't be better. In a February 2025 *CNBC* article, the Nasdaq president projected a comeback for IPOs in the second half of the year. Renaissance Capital called 2025 a "green light" year, noting that 52 U.S. IPOs had already priced as of April 1—a 62.5% increase over the same period last year[9].

Modern Retirement Portfolios Demand Modern Thinking

Today's retirement investors are navigating an entirely new landscape. The traditional 60/40 portfolio simply doesn't reflect the way companies create value—or how markets function.

True diversification now means more than holding stocks and bonds. It means expanding into alternatives, and then thoughtfully diversifying within them. Pre-IPO shares, especially when held in tax-advantaged retirement accounts, are a key part of this strategy.

As investor preferences evolve, private market access is becoming an increasingly important component of diversified portfolio strategies. While public markets remain a core part of wealth building, private investments offer additional exposure to innovation and emerging growth trends. Investors who carefully evaluate these opportunities today may be better positioned to participate in future economic shifts.

Ready to Diversify Your Retirement Portfolio?

Be ready to act when opportunities arise—open your Alto IRA. Learn more at altoira.com/pre-ipo.

[9] *Renaissance Capital. 1Q 2025 US IPO Market Review. April 1, 2025*