

**The Cost of Avoiding the
Illiquidity Premium:**
Why Forfeiting Illiquidity May Not be the
Safe Choice

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The Cost of Avoidance

Why Forfeiting the Illiquidity Premium May Not be the Safe Choice

Avoidance is safe but expensive. Forfeiting the illiquidity premium has a real cost.

Many advisors default to liquid-only portfolios, viewing illiquidity as pure risk. But avoiding alternatives entirely carries its own cost - one that compounds quietly over decades. The illiquidity premium exists because most capital is structurally impatient. Investors who can tolerate lock-ups are compensated for doing so. For accumulation-phase clients with stable income, the opportunity cost of avoidance may exceed the risks of thoughtful illiquid allocation.

THE COST IN NUMBERS

150-300bps

Estimated annual illiquidity premium across private markets

\$1M+

Cumulative return gap over 20 years on a \$3M portfolio at 200bps

1.3-1.5x

Multiple-on-invested-capital advantage of top-quartile PE vs public equities

WHAT AVOIDANCE ACTUALLY LOOKS LIKE

	Liquid-Only Portfolio	With 20% Illiquid Allocation
Expected Return (annualized)	6.0 - 7.0%	7.5 - 9.0%
Downside Capture (equity declines)	85 - 100%	55 - 75%
Inflation Sensitivity	Low to Moderate	Moderate to High
Diversification Benefit	Limited (correlated assets)	Material (low correlation)
Cash Yield from Holdings	Dividends + coupons only	Lease income, distributions, interest payments

Source: Omnigence Asset Management. Illustrative ranges based on representative portfolio assumptions.

THE REAL RISK ISN'T ILLIQUIDITY - IT'S MISSED COMPOUNDING

A 200bps annual return differential - conservative for well-constructed alternatives allocations - compounds to a 49% cumulative advantage over 20 years. For a \$5M portfolio, that is roughly \$2.4M in additional terminal wealth. The cost is not dramatic in any single year. It is invisible until it isn't.

Farmland delivers near-zero equity correlation and demonstrated inflation sensitivity.

Private equity in the lower middle market generates operational alpha through consolidation, not leverage - with monthly distributions.

The question is not whether your clients can afford illiquidity. It is whether they can afford to miss the premium entirely.



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