



Hype Machine

January 10, 2026

Anybody who reads the Wall Street Journal lately will have noticed something unusual: seemingly every other day, the business-related newspaper will feature a special advertising section or large advertisement telling readers to “Think it New”—the slogan for Apollo Global Management’s ‘alternative investment’ expertise. They are told that ‘perspective is power,’ and that the Wall Street Journal audience needs to think past the boring, stuffy stocks and bonds and put their money in the ‘convergence of public and private markets,’ aka ‘the future of finance.’

Apollo Global Management is a giant packager of investment products, alongside Blackstone, KKR & Co., Morgan Stanley and Blackrock—all companies that have been aggressively promoting ‘alternatives’ to a new audience of retail investors who are not hedge funds, giant college endowments or the kind of people who like to compare whose super-yacht is larger than whose. The ‘alts’ they’re pushing might be private equity or private credit, real estate or infrastructure; what they have in common is very high management fees, greater risk and a lack of liquidity—roughly translated as: if you don’t like how the investment is performing, you can’t get out of it.

The massive marketing push has been remarkably effective. If you tell people they need enough time, many will believe you. In the case of alts (as they’re known colloquially), a full quarter of retail investors now own at least one private equity investment, and overall, some \$15 trillion (with a T) of private market assets are under the management of these giant marketing machines—er, investment management firms.

And those investors are reaping enormous profits, right? Actually... State Street’s private equity index tracks return from private equity, private debt and venture capital funds. For 2024, the aggregate return in 2024 was 7.08%, compared with a 25% total return for the S&P 500 index. The stodgy stock index also outperformed private funds on a 3-, 5- and 10-year basis. This might be related to the fact that fees for private market funds have been reported to be three times higher than those for public investments.

Three times? That might actually be a significant underestimation. The average expense ratio for semi-liquid funds, according to the Family Wealth Report, is 3.16% a year. It's not hard to find index ETFs that cost .25% or less. By that measure, an investor is paying 13 times as much to a big giant institutional manager to achieve this level of long-term underperformance.

There may be excellent alternative fund investments in the marketplace, but those tend to be snapped up by super yacht owners, endowments and mega-giant investment pools, who can darken the sky with analysts and due diligence attorneys. Retail investors get whatever is left over, whatever the big guys aren't interested in or reject on the merits.

There's an old adage in the investment world: whatever Wall Street is pushing aggressively is probably not what you want to buy. The giant brokerage firms and institutional managers aren't spending all that money in the Wall Street Journal and elsewhere because they want to give outsized returns out of the goodness of their hearts. They see a chance to pocket a lot of your money by hyping up something new and different, that looks exciting mostly because they say it is.

Boring is not beautiful, but at least it's not overpriced and illiquid.

Sources:

<https://www.familywealthreport.com/article.php/Alternatives-Face-Mounting-Scrutiny%2C-Skepticism>

<https://www.ft.com/content/c21a5ca9-6175-498a-bf32-9c91e4366085>

If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number [\(215\) 325-1595](tel:2153251595) or you can [click here to schedule a meeting](#).

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