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Wave of private equity IPOs the final stage of distribution?

First Blackstone went public, not to be outdone, the Carlyle Group decided to follow suit, and now KKR is jumping on the band wagon.

If the first part of '07 could be characterized by an orgy of private equity deals (subprime woes aside), and it looks like the back half of the year will be all about private equity IPOs (does that make them public equity funds?)

On the surface this looks like a fantastic buying opportunity! Now joe-six-pack can play in the big league, being co-owners with the high rolling Bush clan and Bin Laden's brothers (who are or were investors in the Carlyle Group) and if you jumped on that Blackstone IPO, don't fret that your shares are trading below issue price, you're the proud new owner of Hilton Hotels (and the 7 billion in debt that comes with it)

Now that the subprime meltdown has officially killed the housing bubble, it appears as though a wave of private equity IPOs may be the last house on the block of a global "investment" mania floating atop a veritable deluge of excess liquidity.

Fissures are already appearing in this private equity wave. As I already mentioned, Blackstone is already trading below issue price, Carlyle had to tone down their IPO prospectus, citing "market headwinds".

The paranoiac in me reads some of the fine print and begins to get a different take on this. When you consider that Carlyle's to-be-public fund Carlyle Capital, "will mainly invest in AAA-rated residential mortgage-backed securities, but also in loans, junk bonds and collateralized debt obligations." and that not even a week ago Bear Stearn failed in their efforts to unwind two of their hedge funds' portfolios of subprime sludge in an asset auction, a different picture emerges. One in which private equity funds are spinning off publicly traded funds to create a market for otherwise unmovable CDOs and other high risk debt.

This new private equity bubble could play some pernicious roles including

inflating yet another asset bubble to keep the equities party going
create a market to unwind the subprime sludge and the rapidly deteriorating repackaged CDOs
allow Wall Street insiders possibly their last chance to get their money off the table and their paper into the hands of the lumpeninvestor and joe-six-packs

The ratio of insider selling to buying has been north of 30-to-1 for years, and for some reason this smells like a blow-off distribution near the end of a crack-up boom. At the end of it, the average investor in the street will have been enticed into funds holding otherwise unmarketable debt and complex derivatives, who else to end up holding the bag?

Posted by Mark Jeftovic in Venture Capital at 23:17