

Private vs. Public Credit: Achieving Higher After-Tax Returns with the Compoundr Strategy

In today's fixed income landscape, investors are increasingly drawn to private credit opportunities, enticed by promises of higher returns. While private credit can offer attractive nominal returns, it often comes with trade-offs: opaque valuation, limited liquidity, and elevated default risk. For many investors, these factors can erode actual after-tax returns and complicate portfolio management.

Public fixed income markets, by contrast, offer transparent pricing, daily liquidity, and regulatory oversight—advantages that allow investors to not only access attractive investment returns but also strategically manage their tax exposure. Through the Compoundr strategy, investors can maximize after-tax outcomes without taking on the hidden risks inherent in private credit.

The Hidden Costs of Private Credit

Private credit funds, including direct lending and middle-market loans, often tout yields above what public bonds deliver. Yet these higher nominal returns come with notable drawbacks:

1. **Opacity in Valuation** – Loan valuations are often based on internal models or infrequent appraisals, making it difficult to know true NAV at any given time.
2. **Low Liquidity** – Capital is typically locked for years, with redemptions possible only at pre-defined intervals, limiting flexibility.
3. **Higher Default Risk** – Middle-market borrowers carry credit risk that is less diversified than public bond portfolios. Defaults and restructuring events can materially affect returns.

These factors make it challenging for investors to plan cash flows, rebalance portfolios, or strategically realize gains and losses, particularly in taxable accounts.

Why Public Fixed Income Can Deliver Superior After-Tax Returns

Public bond markets provide investors with daily liquidity, transparent pricing, and diversified risk exposure. More importantly, when combined with a tax-focused approach, public fixed income can outperform private credit on an after-tax basis, even if nominal yields appear lower.

This is where the Compoundr strategy comes in. By converting income normally taxed at ordinary rates into deferred capital gains, investors can:

- **Reduce current-year taxable income**

- **Defer tax liability** until they strategically realize gains
- **Compound returns more efficiently** over time
- **Control the timing of taxable events** to offset gains or losses elsewhere in their portfolio

Effectively, a public fixed income strategy using the Compoundr approach can close the after-tax return gap that private credit is often trying to fill, without forcing investors to endure illiquidity or elevated credit risk.

Transparency and Control Matter

Public fixed income allows investors to:

- Monitor credit quality in real time through SEC filings and pricing data
- Adjust portfolio allocations or ladder maturities according to market conditions
- Maintain full control over capital deployment and withdrawals

By contrast, private credit's locked-up capital and opaque reporting structures can create unexpected portfolio risk, particularly in stressed market conditions.

Conclusion

While private credit may seem enticing for its headline yields, it comes with trade-offs that can reduce actual investor outcomes—especially after taxes. Public fixed income markets, enhanced with a tax-efficient strategy like Compoundr, provide liquid, transparent, and flexible exposure to credit while allowing investors to maximize after-tax compounding.

For investors seeking strong, reliable returns without sacrificing control or transparency, public fixed income with tax optimization is often the smarter choice—delivering better risk-adjusted and after-tax outcomes than venturing into opaque private credit markets.