Investing in Direct Participation Programs (DPPs)

Dori Zinn January 5, 2023

Direct participation programs (DPPs) are a specific type of investment to consider. They are non-traded, pooled investments, and they commonly invest in ventures like energy companies and real estate. This is a bit different from other pooled products like mutual funds and exchange-traded funds (ETFs), where most of the investments with the pooled money are in products that trade on the market, like stocks and bonds. If you want help investing in DPPs or have any other financial needs, consider working with a financial advisor.

What Is a Direct Participation Program (DPP)?

If you're seeking non-traded pooled investments, DPPs could help. They invest in real estate or energy for the long term, usually upwards of 10 years.

While you can actively trade mutual funds and other types of investments, DPPs have passive management. Non-listed real estate investment trusts (REITs), oil and gas programs, and non-listed business development companies all qualify as DPPs.

To participate, members will buy in to access the DPP's benefits. A limited partnership, a general partnership or an S corporation subchapter usually organizes the purchase. This setup means the DPP doesn't pay any corporate tax since income, credits and others are passed through to the partner.

Since DPPs aren't traded, they aren't liquid – at least for the duration of the program. Since they're not publicly traded on the stock market, you might be missing some important company disclosures that would otherwise come

with a publicly-traded company. Clients are required to meet certain income and asset thresholds to participate in buying DPPs. Those requirements can vary by state and even the program.

Rules Surrounding DPPs

DPPs first appeared in the Securities Act of 1933. They're also part of Financial Industry Regulatory Authority (FINRA) Rule 2310. If a financial professional takes the Series 7 exam, questions about DPPs will feature prominently.

Since limited partners invest in DPPs, investors only risk the amount they've invested. A general partner manages the investment. Limited partners can change or fire that general partner. Also, they can sue a general partner if they act against the wishes of the limited partners. However, limited partners can't manage a DPP and don't receive payment or dividends for running the DPP.

The Pros and Cons of DPPs

Direct Participation Programs aren't your typical investment securities. However, just like any investment opportunity, there are benefits and drawbacks to using them.

Pros

- **ROI:** You can expect a return on investment anywhere from 5% to 7%. Non-liquid assets can help your portfolio. Do market downturns scare you out of your wits? You can rest assured that your DPP investment will go untouched in the short-term since it's an investment spanning upwards of a decade.
- **Non-traditional investing options:** It's important to diversify your income and portfolio. As a result, alternative investments can help you branch out from regular stock market options.

- **Limited investment = limited liability:** Investors consider DPPS passive investment vehicles. As a result, you're not legally responsible during a lawsuit or if a company faces charges. However, the general partner or corporation would still face trouble in such a scenario

Cons

- **Income threshold requirement:** Some programs and states have a minimum requirement of $70,000 annual income and net worth, respectively. Others might require $250,000 net worth. Meanwhile, this might limit some investors from getting into DPPs.
- **Limited company financial disclosures:** Since these companies don't trade publicly, you won't always receive access to certain company financial documents. Which means you could be missing out on some important company information.
- **Long-term illiquidity:** DPPs aren't liquid investments, which means you can't touch them for their lifespan. This could be anywhere from 5 to 10 years.

Bottom Line: Should You Invest in Direct Participation Programs?

If you're considering jumping into alternative investments, like direct participation programs, you might be able to boost your income. Through decent returns and little stock market exposure, you could invest in real estate, business development companies and even oil and gas programs.

But keep in mind you're in it for the long-term. You can't liquidate DPPs for the duration of their program life. If you're hoping to build up your cash quickly – within a few months or a couple years, this might not be the best investment for you. Meanwhile, consider alternative options, like the stock market or high-yield savings accounts.

Investing Tips

- Investment is ever-evolving and changing. However, if you're not sure about specific investments, you may want to reach out to a financial advisor for help. Finding a financial advisor doesn't have to be hard. SmartAsset's free tool matches you with up to three vetted financial advisors who serve your area, and you can interview your advisor matches at no cost to decide which one is right for you. If you're ready to find an advisor who can help you achieve your financial goals, get started now.
- It's always a good idea to diversify your portfolio, whether you have a mix of stocks and mutual funds or you have many different types of investments. As a result, it's better to spread out your investment money across many different securities and sectors. That way, in the event you lose money in one investment, you haven't lost all your money. Even if an investment looks like it could bring in a ton of cash, you might risk losing a ton of cash. Be mindful of the risk in your investments before funding them.

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