STEPHEN SACKS

THE INTELLIGENT INVESTORS HANDBOOK

HOW TO SENSIBLY MANAGE RISK WHEN INVESTING IN FAST GROWTH BUSINESSES

The Intelligent Investors Handbook - How To Sensibly Manage Risk When Investing In Fast Growth Businesses

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Stephen Sacks

Dedicated to Tony Hsieh who died in tragic circumstances on 27th November 2020 just two weeks short of his 47th birthday and as I was writing this book.

"Stephen is one of those rare people that can inspire and help get the best out of you. I have found him to be an honest and trustworthy individual who I can rely upon at all times. I like bouncing ideas off him as he is a highly professional and open- minded person with an exceptional depth of knowledge in business solutions. I have the pleasure of working with Stephen on a joint venture project and I am looking forward to our ongoing business adventures."

Michele Yianni - Director - Kyle Macy Property Solutions Limited

"Stephen provides inspiration to many businesses. He is insightful and energetic. He questions deeply, identifies issues and then insists on massive action in order to move his clients on. I know that there are a number of businesses that would have folded without his lead that not only turned the corner but in fact went on to much success. If this book creates only 1% of the value that Stephen does with his clients one-to-one that will offer readers a multi-fold return on their investment in purchasing it."

Rupert Honywood - MD - Integrated Marketing Bureau

"I have known Stephen for many years and am always amazed by his business acumen and ability to reinvent himself in business. Someone I truly look up to and follow as best as I can!"

Jason Conway - MD - Ameris Ltd

"As founder of The Supper Club I have had, over its 15-year history, the good fortune to meet and learn from some of Britain's greatest entrepreneurial talent: Stephen is one of those amazing businessmen. Home to nearly 500 of Britain's most successful 'scale-up' founders and CEOs, the Club's members are committed to helping each other grow personally as well as commercially. As a long standing member, over ten years, Stephen absolutely personifies the Club's values and its key principal of 'Give and Get'. His wealth of experience as leader of a number of successful businesses means he's been able to help dozens of others with timely advice and inspiration over the years. I am absolutely delighted that Stephen is now able to share this wealth of experience with a far wider audience and that I have a chance to thank him more publicly."

Duncan Cheatle - Founder & Chairman - The Supper Club

"Only entrepreneurs truly understand entrepreneurs. That's why, as an entrepreneur, I appreciate having Stephen as an advisor. He is smart and savvy. He is a problem identifier and solver. He is relentless in pursuing the goals he agrees he will deliver with his clients. He remains loyal to the vision and the belief. He challenges and probes - but always with a win outcome. It's tough and lonely being an entrepreneur and it's important to surround yourself with the right people. Stephen is someone I am proud to have in my squad."

David CM Carter - Founder & Chairman - Entelechy Academy

"Stephen, or 'Poker Face' as I affectionately refer to him, is not a man to pull any punches and he doesn't have a calling in international diplomacy, but he most certainly is someone you want on your team. Clear-thinking, straight-talking and fairly funny to boot, Stephen identifies areas where a slightly different approach may unlock cash in your business, improve your profitability and put you on a completely fresh trajectory. It is, quite simply, the difference between working *on* your business instead of working *in* your business."

Oliver Codrington - CEO - London Wellness Centre Limited

"The thing about Stephen is his immediate intuition of the right thing to do, the best way to do it and his no-nonsense approach to helping you get it done. Well worth the time of day!"

William Gets - MD - Brainstorm Marketing

"I have been working very successfully with Stephen for a number of years, although I knew of his wonderful reputation many years before that. He is incredibly knowledgeable about the business world, is clear and appropriate with advice, knows what good looks like and I, and our company, Catax, have benefited hugely, as have his clients, through the warm introductions he has provided."

Richard Armstrong - Director - Catax

"I have known Stephen Sacks for several years and have always found his insight into the SME marketplace to be well-founded and helpful in evaluating business and its funding requirements. His business network is established and able to transact successfully through his extensive commercial experience and evaluation of business opportunities. I would recommend Stephen to SMEs and Start-Ups and suggest they be part of his expanding business network."

Alan Judd FCA - CEO, SME - Financial Advisors Limited

"I approached Stephen Sacks to help facilitate the part sale of our business. Our requirements were unusual in that we wanted to find a partner/investor who would understand our culture and fit into that rather than just a buyout deal. Stephen understands our requirements and personalities and found a win-win solution. We now regard him as someone we trust and go to for advice, which is rare in the business world."

Imran Hassan - CEO - Lilly & Sid

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CHAPTER 1

Predictable Success

"Being successful once could be mostly luck. Taking the lessons learned from the first time and creating even more subsequent success is the ultimate fulfilment an entrepreneur can experience."

Tony Hsieh was a tech visionary whose commitment to customer service is largely responsible for the world of internet shopping as we know it today. His leadership of Zappos helped define our expectations of online retailers. Nobody was sure about shopping on the internet back in 1999. Books were okay, as Amazon was slowly proving it, but shoes? What if they didn't fit? Or you didn't like them?

Zappos free shipping and return policy soothed the customer's doubts. Their extraordinary customer service got rid of those doubts altogether. Zappos made it a joy to shop online. By 2009, everyone was doing it, and Zappos was seeing revenues in the $1 billion range.

Tony got in early in the tech industry and he always saw its potential. He started out by founding LinkExchange in 1996, just a year after his graduation from Harvard. Two years later, he and his co-founders sold it to Microsoft for $265 million (about $423 million in 2020 dollars).

A lot of 25-year-old men would have taken that money and bought a bunch of toys, but Tony had bigger things in mind.

Tony Hsieh's Legacy

When Tony passed away in November of 2020, he was one of the most successful – and beloved – internet entrepreneurs ever. Tony had a gift for transmitting his passion for his work to his employees and, under his leadership, Zappos often made the *Fortune* list as one of the best companies to work for. He always believed in lifting others and using his money to improve the community.

"I always felt that Tony was a futurist and always saw 20 years ahead. I have no idea what he was doing, but I'm sure people will come to understand, in 20 years, that it makes perfect sense."

– Amanda Slavin, best-selling author and long-time friend of Tony

When Tony moved Zappos from San Francisco to downtown Las Vegas in 2004, many people questioned his decision. Back then, the area was seedy – even a bit scary. But Tony had a vision…

Today, the area has been renewed and revitalised with a budding start-up ecosystem. Tony saw it as a future Silicon Valley in the desert. And, not coincidentally, as a city with a cheaper cost of living for his employees. Nevada's lack of income tax didn't hurt, either.

It was for projects such as this that helped him win the Ernst & Young Entrepreneur of the Year Award in 2007. He'd also moved beyond investing and developing businesses to write a book, *Delivering Happiness.* Which hit #1 on *The New York Times* Best Seller List the first week it came out, and then stayed on the list for 27 weeks.

Not bad for a 37-year-old!

However, it probably wasn't the career Tony's parents envisioned for him as he was growing up…

Early Career and Education

Born in 1973, Tony grew up in San Francisco's Bay Area. His parents had come over from Taiwan, determined to live the American dream. His mother was a social worker, and his father was an engineer. Like most Asian parents, they wanted their son to become a doctor or a lawyer.

Tony had other ideas. He saw the potential in the new computer industry and was determined to be part of it. So, he went to Harvard to earn his computer science degree, graduating in 1995. While there, he earned money by selling pizza to the other students in his dorm. That’s how he met Alfred Lin, who later became Zappos’ chief financial officer and chief operating officer.

After graduating, Tony landed a job at Oracle. At the time, it was one of the best jobs a person could hope for, especially with a degree in computer science. Although he had the skills to do the work, Tony didn't like the corporate culture. Still young, and perhaps too free-spirited, he quit after just six months.

That's when Tony co-founded LinkExchange, an advertising network. He used the website to advertise his client's sites. In those early days, banner advertisements were huge. A company with five million ads rotated daily caught the attention of Microsoft, who bought out the company in 1998.

From there, Tony continued investing under the name Venture Frogs. Although not all companies he invested in turned out amazing, this is the path that brought him to Zappos.

Who Buys Shoes Online? Investing in Zappos

Zappos is a shoe store and clothing company. Founder Nick Swinmurn wanted to create an online shoe store to satisfy the local demand. Tony was slightly reluctant at first, but he saw the opportunity once he learned that it was a $40 billion market.

"You need to invest in a broad range of different tech or other start-ups. The vast majority will fail, but some will succeed and be very successful."

Tony invested $2 million along with Alfred Lin, his friend going back to his Harvard days. As Zappos became more successful, Tony's interest grew. Zappos quickly turned into something very different from his previous investments. It wasn't simply an asset. He joined as co-CEO with Nick in 2000. That year alone, the company had revenue of $1.6 million. In 2001, Zappos showed a revenue of $8.6 million.

Fast forward to 2004, and Zappos received a massive investment. Sequoia Capital put in $35 million, and the company's sales skyrocketed to $184 million. By 2008, the company Tony invested in had reached the $1 billion mark in gross sales. This just goes to show that people really do buy shoes and clothing online.

Nobody would have predicted Zappos rise back when it first started out. It was the early days of the internet and people weren't sure what to make of it. But again, Tony had a vision.

He removed a lot of the risk associated with shopping online. And that involved a lot of risk for the company. Zappos offered free shipping – both ways – and a 365-day return policy. Their returns totalled about 33% of their gross revenue in 2010! Most CEOs would consider that insanity, but Tony knew that a happy customer is a loyal customer.

Delivering Happiness – How Tony Became a Best-Selling Author

Tony's rise to stardom was something that others only dream of. But why did he succeed?

What did Tony do differently to help grow a company to $1 billion in sales?

These were some of the questions that Tony also asked himself. For the better part of his life, he spent a lot of time trying to find himself.

That didn't stop when he became successful.

In fact, his journey with Zappos inspired Tony to write *Delivering Happiness*, which became an international bestseller. For 27 weeks the book remained on *The New York Times* Best Seller List. Using this new platform, Tony also raised money for cancer research in partnership with LiveStrong.

His book shares interesting details of how he became successful. Not just the strategies Tony used, but also his motivation. It was his pursuit of making customers happy that ultimately led to the massive success of Zappos.

Diversification and Taking Chances Can Make You Successful

"It's those few that succeed that can more than pay for the ones that fail. Much more difficult than it sounds as human nature is that we are generally more driven by fear of loss than we are attracted to gain. So, chasing losses is a losing strategy in this scenario."

What happened to Tony doesn't happen to many computer science graduates. Most end up pursuing a career in their field. Many more end up working for others as cogs in a larger machine. Yet Tony's success story is very different. He saw his future outside the box. He set different goals for himself and his ventures. He took the money from the LinkExchange buyout and decided to create something more.

He was always striving for growth not just for himself but for the wider community. His investments in the Downtown Project in Las Vegas and later on in Park City, Utah are part of his legacy. On a more personal level, Tony was an inveterate matchmaker. He loved introducing people and officiated at many weddings for his friends and employees.

He didn't get hung up on one niche. He saw the need for diversity if there was any hope to find that unpolished gem. When he invested in Zappos, it was a risky venture. Sure, the market was there… but the method of delivery was incredibly new and unproven. Tony proved that it could be done and done well. He paved the way for e-commerce as we know and love it today.

Like many other entrepreneurs, Tony experienced it all – luck, failure, calculated success. Looking back to his LinkExchange deal in 1998, there was a fair bit of luck involved in the sale of that company.

Since his LinkExchange deal, Tony made a few good investments but also several unsuccessful ones. With Zappos, it was a different story. The first $500,000 investment came at a time when everyone thought an online shoe store was a bad idea.

One year later, in the year 2000, after the dot-com crash, Tony restructured the company and continued to invest his own money. By 2004, Sequoia Capital invested $20 million in Zappos, a business with sales of $184 million.

Tony’s involvement with Zappos was more than that of a regular investor. He assumed the leadership mantle and used the experience from his previous ventures to shape Zappos into what he knew it could become.

One year after Sequoia Capital’s investment, Zappos got an offer of $370 million from Jeff Bezos. Due to fantastic sales, Tony refused. In 2009, Amazon made the ultimate offer to buy Zappos for $1.2 billion.

Tony couldn’t say no to that. But even as he made a killer profit, he also stayed on as CEO to continue to shape Zappos in his vision.

Zappos struggled for about a decade before Amazon bought it for a fantastic sum. Yet, despite the big payday, Tony didn’t want to lose the company’s identity just because Amazon bought it. Tony made his money, thanks to all the shares he bought. But he also continued to grow Zappos even under Amazon’s mantle.

Today, e-commerce is a favourite small business for people just starting out. It’s thought of as a fairly low-risk activity. We have Tony to thank for that as he was among the first that not only started in the field but made numerous investments over the years. And his overall journey is an inspiring success story.

CHAPTER 2

Who Am I and Why Should You Listen to Me?

What Happened When I Turned Fifty?

For me, my paradigm of thinking changed right around the time I turned fifty. I know it doesn't happen that often in the business world, but maybe it was a midlife crisis…

Who knows?

I spent most of my life trading businesses. I invested my time in buying and selling businesses mostly in fashion but also in furnishings and logistics. Generally, I traded businesses that involved stock and staff and had lots and lots of headaches.

When I turned 50, I started to shift my core business paradigm.

When I first started working, our technology consisted only of the telephone. There wasn't anything more advanced available, nor did we think we needed more. But technology gradually grew within businesses.

More and more companies started to include computers and mobile devices into their core operations. Now, we've reached the point where business and technology have become fused.

If you think about it, it's nearly impossible to operate a business today that isn't all about its technology. It doesn't even matter if the technology is about the product or the delivery.

By the time I turned 50, many things had changed.

In 2016, I spent Christmas thinking about what I was going to do moving forward. I wanted to figure out what I wanted from my professional life – something I wouldn't feel forced into.

So, I started to look back at my career to date. When there was nothing to buy, or sell, or turn around, I had to go back to business as usual.

At that point, it was all about dealing with HR and administrative issues. I found all of that kind of boring, to be honest.

I didn't hate it, but it also didn't bring me any joy.

So, as I looked at my journey, I discovered something about myself that I never noticed before.

What Was the Most Rewarding Aspect?

It was the transactions where I gained more satisfaction. It was actually more rewarding than trading businesses.

Naturally, I started thinking – maybe what I wanted to do was to advise on transactions.

I thought to myself that maybe that's a better career path for me. I could start a business that just focuses on that aspect.

It felt like something that would add more value and give me more satisfaction in the process.

2017 – The Pivotal Year

I spent the next year, 2017, doing just that as a trial. To my surprise, by the end of the year, I made more money, got more satisfaction, and I was even sleeping a lot better than I did the previous year.

I didn't have the same aggravation and issues to contend with as I did when running a larger business. At the end of that year, I also wrote my first book called *Reboot Your Business*, which I later published in May of 2018.

How I Expanded the Business

Based on what I wrote in the book, I expanded on the business.

From that moment, my journey to today, running a business with fifteen partners and ten researchers, has helped me prove my point. There's a massive OPPORTUNITY in this market, and I see the potential for expansion.

What Was My Revelation?

The biggest thing for me was to learn how much business had changed since the time I only focused on one area (fashion).

The discovery of the start-up culture was part of my revelation. And I admit, it came to me quite late. I had no idea it existed up until about three years ago.

How Kids Start Now

I saw how smart kids today go into start-ups. Suddenly, I saw many big cities in the world filled with brand-new, exciting, and disruptive tech businesses. And what did they all have in common?

They were all desperate for funding. Granted, most businesses were going to fail. On the other side, I saw a lack of potential investors.

My New Paradigm and Mission

These are the two sides I wanted to bring together – start-ups and investors.

How I could do that is the concept at the core of this book. It's also the thing that powered and guided my thinking for the better part of the last three years.

I wanted to come up with a way to bring more than financial investment into start-ups. I wanted a way to make investors see the value in bringing a piece of them along with the money to add more value to the investment.

Disruptive Tech Businesses vs. Funding – The Issues

I want to dive a bit deeper into the problems I uncovered in this area. Specifically, I want to talk about why businesses fail.

Back in 2019, up to 90% of start-ups would fail. About 21.5% would do so in their first year, while up to 30% could fail in the second year of business.

Some research showed that up to 50% might fail by year five, and 70% can fail even after a decade of trying to make things work.

As disruptive as a new business can become, everyone needs funding in the beginning. Statistics like these often discourage investors from getting involved – until they understand how to add more value to their investment.

And if you think those statistics seem inflated, consider the many reasons why a business can go under fast. Here are just a few things to keep in mind.

Money Problems

Some businesses fail because they run out of money. Maybe there’s no more funding. Perhaps businesses can’t secure new financing from investors.

But it could also come from poor cash flow management. It can happen because of poorly managed costs or not having nearly enough sales.

Whichever the case, money is crucial to sustaining a business, especially in its infancy.

The Wrong Market

Here’s another big problem with new companies. They tend to start out targeting everyone in the market as their demographic. That casts the net too wide.

Even targeting everyone in their hometown can be too broad. A narrowly defined niche always helps market a product or service to the ideal audience.

Research

Using good research can take a company a long way. But what happens when there’s a lack of market research?

What happens when a business doesn’t know anything about its competitors? The result can be overconfidence in the product or service they offer.

Why is that bad and why can it cause a business to fail?

Overconfidence can cloud the fact that you enter the market selling something that people either don’t want or don’t need. It doesn’t speak enough to the market’s needs and demands.

Lack of Expertise

Having a good idea or being an expert doesn't make one a good entrepreneur. Did you know that many entrepreneurs start businesses only because they need a job?

They don't know the first thing about managing and growing a business. But since entrepreneurs are experts in their field, they figure they deserve to make a living doing something for themselves.

It's an admirable dream but one with little chance of becoming a reality without business skills. And that's one of the reasons many businesses fail.

Inefficient Marketing

In my experience, the potential for success in many businesses can come down to bookkeeping and marketing. And the latter isn't easy to get right the first time around.

Unfortunately, many entrepreneurs only have a narrow area of expertise. When it comes to marketing, they lack the skills to do it. They may also fail at outsourcing marketing implementation to the right partner.

Potentially the Biggest Problem – Management

One of the reasons businesses fail is often because of bad management. When management can't step outside its comfort zone, it has a hard time raising funds for the business to move forward and succeed.

You can always hold management accountable for many of the issues investors see in start-ups. You can hold it responsible for many of the problems that lead to companies failing before they even start generating profits.

This brings me to my next point.

Investing in Start-ups vs. Turnarounds

There's a big difference between investing in turnarounds and in start-ups or scale-ups.

The fundamental difference is that in a start-up/scale-up, as an investor, you basically put your trust in management to grow the business.

But in a turnaround, you usually need to replace the management since they are probably the root of the problem.

Of course, this creates its own issues. Not every wealthy investor is a good fit as a partner in a start-up.

Bear with me here…

What if there's a fantastic opportunity in a potentially disruptive start-up but that company has horrible management?

It can't raise funds, it didn't create a good business plan, and it didn't do its research.

In that scenario, would pouring capital into the company be enough to help it grow and succeed?

Is money enough to save a great product or service?

It's not!

In this situation, an investor has to bring two things to the table. They have to bring money and expertise to add value to the transaction and new partnership.

So, this often implies changing the management.

That's why it's so hard to find the right fit between start-ups and investors. And it's also why succeeding in this field is more rewarding and brings me more satisfaction than what I did before.

Finding the right fit isn’t always easy. Companies can’t always see an investor's added value because they focus too much on the money. Desperate times can blur their vision.

Investors face similar problems. They may not know if they can provide added value to a business prime for a turnaround.

Others simply don’t want to do it and prefer to invest in the hopes the existing management can get on the right track.

Identifying good pairings and efficient investment strategies is why I developed the whole Funding Nav Method.

Why the Funding Nav Approach Works

The Funding Nav Approach is attractive because it is dynamic, effective, and cheap.

We look at the businesses' funding opportunities – from those that are free, such as tax credits or grants, through debt to equity (which is the most expensive funding available).

This is affordable because it blends the costs and effectively splits the risks.

So how do we onboard start-ups?

Any start-up that ends up working with us goes through a rigorous process. It's a process of due diligence and examination. We do this so we can try to think laterally about all the opportunities we can exploit for the start-ups for the benefit of all parties involved.

CHAPTER 3

First World Problems

The idea of "First World Problems" may seem condescending to some people.

Why is that?

It's because what some people perceive as problems don't really matter. They don't impact our lives in any significant way. They shouldn't eat away at us as much as they do. Yet, some of these First World Problems have a recurring theme. What's often difficult for us to deal with is the abundance of choice.

For instance, if you've ever had a house built or done any DIY, you've encountered the bewildering multiplicity of paint colours… Is there really any difference between periwinkle and puce, spring green and leaf green?

It's enough to make you paint everything white and be done with it. But which white? Alabaster or eggshell? What about Ice Cube or Oyster White? Snowbound? White Dove? Paper White?

Having too many choices causes stress. And stress affects our personal and professional lives and decision-making processes.

A study done at Caltech researched the concept of choice overload. Volunteers received selections of 6, 12, or 24 scenic pictures. Researchers asked the volunteers to pick landscapes they would like to use on coffee mugs. Each volunteer was in an MRI machine as they made their decisions.

Through measuring brain activity, the researchers concluded that 12 choices hit the sweet spot – 12 options to choose from put volunteers in a state of optimal brain activity.

Anywhere between 8 to 15 choices are more than enough. It all depends, of course, on the focus, the reward, and personality of the subject. But having too many options forces us to obsess over the little things.

So why does any of this matter when it comes to making investments?

It matters because when you look for investment opportunities, you need to have some options. If you want to invest, you can't narrow down your research too much.

But you don't want to overwhelm yourself either. You have to understand that balance is pivotal to your success. Focus on the big picture and on the choices that matter. Don't try to get everything perfect, or you might be disappointed.

Careful What You Wish For

Innovation has always been one of the main drivers of growth and success. Many economists believe that investments and innovation pave the way towards growth. This idea comes from a comparison of today's markets to past times. For example, there seems to be a big difference between the impact of the Industrial Revolution and today's trends.

Do people want new technology such as driverless cars or 3D printers? Sure. But in the grand scheme of things, do they have the same impact as the older fruits of labour? The industrial revolution brought us mass production. This is something that has affected everything from that point going forward.

New technological advancements don't seem to have the same definitive impact.

Because of this, among other factors, you can notice a slowdown in productivity. Past innovations are still available for companies to exploit. Therefore, big investors and companies are not focusing so much on new technology. This creates a few problems. Productivity slows down.

So why does it happen? Is it just because people are sitting on their backsides, exploiting past innovations?

Maybe. Maybe it’s a lack of competition. Too many companies have it too easy. When you lose that competitive edge and business is still good, you don't want to innovate. There's no real incentive to spend more money.

Innovation and investment go hand in hand. Although innovation isn't what it used to be, it can reemerge.

Investing in the right industries can create the capital required to innovate and drive growth. It can raise the capital required to come up with new and better solutions. It can help create new fruits of labour that companies can exploit for decades to come.

Many companies still seem to prefer imitation over innovation. But this can change. A new investment trend and a new area of focus can transform the game. This is especially important for First World countries. That's where productivity often stagnates because of lack of innovation. So, it comes down to investors to turn things around. Innovation automatically carries some risk. Some technologies can fail, or yield returns too late for investors to make any real money.

But not everything fails. One or two successes can more than pay for a few bad investments.

It's often more dangerous to do nothing once you’ve understood the risks involved.

The Dangers of Doing Nothing

Although there are many risks in life, the only one you might want to avoid is doing nothing. If you don't pull the trigger, you can't achieve anything. Yes, you need to be smart when you're taking a risk. You have to do your research and weigh the pros and cons of the outcome.

But here's the thing. There's no deal you can make that's risk-free. Risk is inevitable, especially in business. If you can get better at taking risks, you can have a successful investment career. Too many people shy away from taking risks because they focus only on the bad things.

Few investors focus only on the positive outcomes. Most let all the little things that can go wrong eat away at them. Becoming successful happens after you learn new things and apply that knowledge. When facing a risky decision, you're forced to learn so that you can get the best possible outcome.

A risk forces you to seek out information. It fuels a thirst for knowledge that will help you going forward. It's also known that if you take risks, you may have fewer regrets. Looking back and saying, "What if?" is a bad position to be in. It can cause you to lose focus and get into a bad mindset.

Risk often gets a bad reputation and induces a defensive mentality. To investors, this happens during Black Swan events. Black Swan events are rare – and often disastrous – happenings. It’s an ancient term and, at the time it was coined, it meant “an impossible thing”, because nobody believed that black swans existed.

They were all proven wrong in 1697 when black swans were discovered in Western Australia.

Nowadays, a “Black Swan” is an event that is almost impossible to anticipate and has a major effect. It also has a third characteristic, which is that many so-called experts rush in after the fact to explain that it was completely predictable after all. Of course, hindsight is 20/20, as they say.

The World Trade Center attack on September 11, 2001 is an example of a Black Swan event. 2020's global pandemic is another good example.

These Black Swan events are almost impossible to forecast. No one wants to become vulnerable. But what's better in this type of scenario?

Is it learning how to reduce your vulnerability, or doing nothing at all?

Just look at some of the most innovative industries of the recent past such as the internet, e-commerce, and personal computer and smartphone revolutions. Who pioneered and thrived from these industries? It was the risk-taking tech giants such as Microsoft, Google, and Amazon.

The companies that failed were those that didn't take risks. Take Xerox or Kodak as examples. Such companies failed to capitalise on innovation. They took what they thought was the safe approach at the time and backed the wrong technology. Xerox invented computer mouse technology but didn't profit from it. Why? Because they didn't take it to the market at the right time.

They didn't want to take the risk.

What makes companies successful is the same thing that makes investors successful.

It's about managing risk versus reward and making smarter decisions than the competition. It's about learning from risks to gain knowledge.

Something new may not always be something great. Yet, many start-ups such as Uber proved that you could disrupt the market.

Different Motivation at Different Stages of Your Career

As an investor, you can drive innovation and contribute to growth. But what drives you as an investor?

More than anything else, motivation is behind every investor – successful or otherwise.

To become a successful investor, you need the right motivation. And at various stages of your life and your career, those motivators may be different.

First off, here's why motivation is key to success. The term's scientific definition points towards a general willingness to take action. It's made up of psychological forces that compel you to do something.

To find out what your main driving forces are, you should know about common motivators. You've probably heard of Maslow's pyramid of needs, which ranks common human motivations from the most basic to the most rarefied.

It starts at the bottom with physical needs – food, shelter, safety. If you've known poverty in your life, you might be motivated by these needs. You want to create a good nest egg so that you, and your family, will never want for anything ever again.

Next comes the social needs. Once you've satisfied your basic physical needs, you turn outwards towards other people. You want to feel a sense of connection with others. Maybe you want to invest in things that give you a feeling of status and power. Or you want to exercise your leadership abilities.

At the highest level of the pyramid are what might be called the "spiritual needs" – the need for self-actualisation, for fulfilling your true potential. At this level, you're thinking about fostering innovation and building your legacy. Investing becomes a truly creative act that affects the entire human community.

Investing based on specific motivators has a specific term. It's called impact investing. Because if you look at these goals closely, you'll notice they have one thing in common. Each one makes a significant impact.

Each of these typical motivators is enough to make someone become an investor. Some people want to accumulate power and status. Others want to take on true leadership roles. For some investors, it's all about creating financial security and preparing for an uncertain future.

Each one is a common yet powerful motivator. If you have more than one, you're clearly set on this path.

Successful investing is a combination of consistency, risk-taking, and learning. The things that drive you to take action don't always matter as much.

You can invest so that you can live a life of luxury. You can invest for subsistence or status. The point is that you have to have something that drives you to take action. You have to find at least one motivator that's compelling enough at this stage in your career.

If you lack motivation, chances are you won't become a good investor. You won't seek out as many opportunities. Even more importantly, without motivation, you're less likely to take risks. And we already established that risk is inevitable on your path towards success.

It's always great to take some time and reflect on your reasons. Think about what you want to achieve and why. If you're not pleased with your current situation, try to find a different motivator. Identify that one reason that gives you the confidence in and thirst for making smarter investment decisions.

And don’t forget one of the most important takeaways from Maslow’s hierarchy of needs – motivations change over time. Once you’ve fulfilled one level, you’ll probably want to move on to the next one. The need for growth is a fundamental human need.

What Is Your Goal?

Goal-based investing is somewhat similar but has clear differences too. A goal-based investor works towards reaching specific life goals.

You may invest to build your retirement fund. Or, you could invest in having enough money for further education. In general, goal-based investing doesn't focus on high portfolio returns. It's on the other end of the spectrum from impact investing.

It's a mindset that focuses on a different performance metric. It's not about how well your portfolio does but about how good you are in reaching your goals. The trick to goal-based investing is setting your goals the right way. It's about taking a systematic approach to figuring out where you want to get to and how to get there.

You can use something like the SMART format to set investment goals. You want goals that are Specific, Measurable, Achievable, Relevant and Time-based. You can use this format to customise your investment format or workflow to suit your needs. The point is this…

Create clear goals and measure them objectively. Work towards achievable and attainable goals.

Last but not least, analyse everything within a timeframe. If you don't set deadlines for your goals, you may not make the best decisions moving forward. It's critical that you quantify your goals but also track your progress. You have to know what's working and what's not to have complete control over your portfolio.

Just because goal-based investing is not about huge profits doesn't make it any easier. You still have to do your research. You have to take your time to figure out your goals. Go into as much detail as possible when outlining your objectives, whether it's coming up with a goal or drawing your plan to reach it.

Identify what potential obstacles that can prevent you from succeeding. Figure out if you need more discipline or willpower. Figure out if living an indulgent lifestyle may stop you from meeting your goals.

Making smart investment decisions is all about planning. You have to put in the work all the time, regardless of the type of investor you are.

Learn to Manage Your Timeframe

As already mentioned, you have to set a timeframe for your goals. It allows you to track progress. It also does something else. It tells you if you have an attainable goal or if you're working towards something out of reach.

To come up with a timeframe, you can do something very simple. A common and effective trick is to break down investment goals. Don't just set a long-term goal. You should always have your long-term goal in the back of your mind, but you should also set short- and intermediate-term objectives.

Visualise the entire journey from when you invest to when you get your outcome. Identify what should happen during that timeframe at different stages. If you can, try to match those segments with your life stages.

What do you want to get while you're still in your youth?

What do you want when you reach midlife?

What should happen by the time you hit your senior years?

Breaking down a timeframe can help you understand what you have to do. It can help you make smarter investment decisions at each stage in your life. It can show you the risks and uncover potential obstacles that you have to overcome.

Understand the Real Dangers of First World Problems

People love to complain just about anything. But how many First World problems are really issues that can affect your journey through life?

The answer is, very few of them.

The abundance of choice is, without doubt, a real issue. Yet, even that's something you can overcome, especially as an investor.

Along with overwhelming choices comes fear. The fear of risk and taking action is what stops many investors from becoming successful. Yet, if history is any indication, not taking risks is not the solution. Some of the most successful investors and companies are risk-takers… smart risk-takers, but nevertheless, they aren't afraid to take a chance.

What's key for you to understand is that risk is inevitable, in any industry. There's no such thing as a risk-free investment.

But fear is something you can overcome. That fear of vulnerability or exposure is something you can beat. Identify your motivators or goals that pushed you towards making a career as an investor. Analyse those factors and look at the things you want to achieve.

Take note of success and failure stories from people in similar positions from the past. Look at why innovation always prevailed in the long run.

The more you learn about what makes successful investors tick, the smarter you become. Eventually, you'll put yourself in the mindset of a true entrepreneur.

CHAPTER 4

The Mindset of a Dealmaker

What kind of mindset does a successful entrepreneur have? How do some dealmakers stay ahead of the pack, consistently beating out the competition?

It's a combination of things. An incredible dealmaker knows their industry inside and out – so much so that they can spot important trends before anyone else. They know how to walk the line between risk and profit. And they know how important diversification is for success.

For example, take Alan Epstein, who was one of the first to understand the importance of streaming in the entertainment industry. Alan Epstein is one of the biggest dealmakers in show business – on both sides of the Atlantic. He's the chair of Venable's Entertainment and Media Group. Epstein's team constantly assists talent agencies and showbiz law firms with speciality legal advice, working with clients such as Picturestart, Spyglass Media Group, and Untitled Entertainment. He saw how streaming affected his clients and his practice, and now he specialises in helping studios and OTT platforms secure monster deals in the industry.

Matt Galsor, one of the biggest lawyers in Hollywood, is a dealmaker who goes after deals that other investors consider too risky – or just too difficult. As he puts it, he loves "finding ingenious ways to make an unmakeable deal." … "Unmakeable" deals such as three features for *The Walking Dead* franchise and a Netflix Hulk Hogan biopic, starring *Thor* lead actor Chris Hemsworth.

Aaron and Brenda Gilbert run Bron Studios, the production and financing entity behind the massive hit *Joker*, starring Joaquin Phoenix. Bron Studios brokered the deal with Warner Bros for the Oscar-winning movie. They were also responsible for a co-financing deal with MGM to reboot franchises such as *Candyman* and *Robocop*. Their company policy is to invest in diverse stories and creative voices, whether it's for TV or the big screen.

A common trait between all three dealmakers is their mindset – they all want to go after the same type of thing. They want to find and invest in quality projects because they know that's where the money is. They also make it a point to get as informed as possible before entering into any meeting, whether they're trying to get deals in the studio world or in the independent movie business.

A similar mentality allowed Alfred Lin from Sequoia Capital, and previously chairman of Zappos, to become successful. Although his experience lies elsewhere, in scaling companies, the mindset doesn't change. Lin wanted to invest in companies with potential because he'd been a part of other great management teams that accomplished extraordinary things.

How Do You Make Sure You Have a Superior Level of Information?

Being a great dealmaker is all about making the best decisions you can with the information you have. The better the information and the more you listen, the more relevant the decisions.

We live in the age of information technology. Everything today is very much data-driven, whether it's checking up on industry trends or your competition. Good information and data are among the most important assets of any company or entrepreneur.

So then the question becomes…

How Can You Leverage Information?

You can leverage information in many ways. But you must understand that in today's business environment, accessing fresh information demands using technology to your advantage. Technology-driven data gathering can speed up the rate at which you assimilate critical facts. This information is now more accurate, up-to-date, and sourced from a variety of places.

So, why exactly do you need fresh information? How does it help you make relevant decisions?

Here are four factors that every great dealmaker takes into account prior to making or brokering a new deal. Each of these factors relies on either vast or very targeted amounts of data – data that technology made more available than ever.

1. Getting a Better Overview of the Industry

To gain a competitive advantage, you must first have a deep knowledge of your niche. You have to know everything that makes your industry grow, stagnate, or pivot. You can't make a good deal if you're not aware of how the actors in your industry behave or who they all are.

For example, you have to understand the role of the influencers in your field as well as your competitors. You also have to get information on mainstream media or more niche digital media channels. Every actor has a unique influence on your space.

2. Understanding Trends

Many investors and entrepreneurs are well aware of past and current trends. They know them because they've experienced them. But the thing that separates good dealmakers from average ones is the ability to spot and understand new trends.

By leveraging key data sets, you can learn to look beyond common topics in your sector. Knowing new trends will allow you to stay ahead of your competitors. It will also allow you to come up with market-disruptive ideas and innovate. If you know the latest trends in your sector, you can spot lucrative opportunities – much like Alan Epstein understood how to embrace the disruptive power of the streaming industry.

You should also know that monitoring industries close to yours is just as important. New trends in related sectors can spark disruptive ideas in yours too. But you can't do any of this if you don't leverage information or access large amounts of data from high-value sources.

3. The Predictive Power of Information

Understanding trends is just one way to leverage information. With that in mind, there's more to the predictive power of information than just that.

You can also use data to spot and anticipate various risks or threats against your industry. With a good monitoring system in place, you can use available information to define potential risk factors for every deal you make. This allows you to plan five moves ahead. Given enough time, you won't just anticipate issues, but you may even be able to prevent or control them. Thus, you should be able to make even better financial decisions.

4. Success Factors

When you have access to information or you do your due diligence on market intelligence, you can leverage key success factors. That means you must do the following things with the information that you have:

1. Define
2. Select
3. Analyse
4. Organise
5. Disseminate
6. Incorporate

These factors allow you to create a strategic framework and set clear goals to go after. Information helps you use a systematic approach to growing a business. Whether you're in it to scale up a new venture or to simply buy into something that can increase your wealth.

Many investors don't use these factors correctly and end up running into hurdles along the way. That often happens because they don’t understand the market, don’t have the right information, or don’t know how to leverage that information properly.

The Mindset of the Entrepreneur

It should come as no surprise that a successful entrepreneur is usually wired differently than others. A winning entrepreneur always has a different mindset because they have key traits that others don't.

What are some of these traits?

- Constantly improving themselves by reading and looking for fresh information sources
- Approaching problems from multiple angles
- Embracing and welcoming challenges rather than running away from them
- Taking action rather than overthinking or postponing decisions
- Amazing focus

It often boils down to a "DO IT" approach. Sure, savvy investors have a data-driven decision-making process. But that doesn't mean that they dwell too much on the gathered information.

The mindset of a successful entrepreneur is based on value and action. It pushes a person towards seeking challenges in order to learn, adapt, and eventually overcome them.

Warren Buffet is arguably the world's most influential investor. His eye for an investment and his decades of experience have made him, and plenty of others, very rich. Buffet has a lot to say about how one should invest money in this day and age. Simultaneously, the world knows him as this conservative guru that doesn't stray away from his older tactics.

Now, Buffet credits most of his success to one thing – staying focused on building wealth. He's not the kind of man who wants a lot on his plate. He dedicated his entire life to investing, so he never gave himself the time to pick up too many hobbies or indulge in a billionaire lifestyle. He has lived in the same house for years, drives the same car and orders breakfast from a McDonalds drive-through each morning.

That's the secret to his success.

Of course, not everyone can be like Warren Buffet. That said, his core methodology is something you can aspire to. His approach to investing is something you can emulate.

If making better financial decisions is your number one priority now, then treat it as such. Focus more of your attention on overcoming the obstacles in front of you. Focus on using the data at your disposal the best that you can.

Merely successful investors share some of the previously listed traits, really successful ones have them all – especially when it comes to amazing focus. Without the right amount of concentration and discipline, you simply can't stay in the right mindset all the time. That eventually leads to missed opportunities or taking unnecessary risks with your money.

Appearing to Be Masterful

Being an entrepreneur comes with a lot of freedom in how we do business. It also comes with great responsibility. A career corporate player doesn’t get much say in how they do things. An entrepreneur gets to structure their own life. They’re in charge of their social, family, and business lives.

As an entrepreneur, you can invest in projects that you like and work with people who inspire you. You can chase passion projects or say no to people who don't see eye to eye with you.

Yet there's a lot of responsibility that comes with all these freedoms.

It's a nice feeling – knowing that you can do what you want and still build wealth. But many mediocre entrepreneurs never get past a certain point.

Why?

Because they favour gut feelings. They make impulsive decisions and don't put in the work or do the research.

If you want to become a masterful entrepreneur, you have to put in the work. You have to learn to look at the long game and not at short-term returns. Building wealth is a process and, like anything else, it takes time. Minimising your distractions and growing thicker skin are both very important. Chasing shiny objects is something that no masterful entrepreneur ever does.

The same goes for stressing over what other people think or say. A masterful entrepreneur doesn't just focus on their true goals – they also set the right goals, to begin with.

In the Land of the Blind, the One-Eyed Man Is King

This is a popular expression that comes from Latin, circa the 1500s. What does it mean?

It means that even someone of limited capabilities can look special or dominant over those with slightly fewer capabilities surrounding them.

It's scary how relatable it is to the world of investing. These days, it's very easy to run into an “expert” on financial markets. It doesn't take a lot for someone to appear knowledgeable to those new to this sector.

You’ve probably already met some of these One-Eyed Kings, and they all had similar things to say, right?

Sometimes, all it takes to come across as an expert is to use a bit of jargon or quote some studies. You can give your opinion on a few theories, exude confidence, and do some name-dropping. That's often more than enough to become king over the less knowledgeable.

So, the question is – should you follow the One-Eyed Man?

In theory, that person may know more than you, but it's hard to say if they know more relevant facts. It's one thing to hold an advantage in a social situation. It's something else to actually put that information to good use. The One-Eyed Man is an example of mediocre performance. It's someone that doesn't use all the relevant data and doesn't do the research.

The One-Eyed Man doesn't have the successful entrepreneur mindset that we've been talking about in previous sections. It's quite the opposite mindset. It's someone who pulls the trigger on intuition and half-truths. That person doesn't value the power of information, as much as knowing just a fraction more than the other person.

So, what does this mindset tell you?

Well, you can always feel like you know better and more than the other person or the market.

But knowing just a little more isn’t enough to ensure you make the smart moves.

In the investment world, such a mindset -- thinking you’re always the smartest one in the room -- is dangerous to have. And it can lead to making some pretty dangerous decisions.

That's why doing a proper market analysis is critical to your decision-making process. Vast, relevant information is what can crown you king.

Gathering Information and Adopting the Right Mindset Is Just the Beginning

If I were to tell you that getting information and embracing an entrepreneur's mindset are keys to success, I wouldn't be wrong. However, that's an oversimplification of the facts.

Let's rewind a bit and recap the mindset of a dealmaker. A successful dealmaker arms himself with tons of relevant information. He analyses everything, from every angle, and stays on top of his sector.

He knows all the players, all the new trends, and isn't afraid of challenges. Being truly masterful is more than just appearing to be an expert in something. It's about putting in the work to become that expert and having the discipline and focus on staying goal-oriented.

All of these things are even more important once you start thinking about the Portfolio Theory. In the end, as an investor, you have to prepare yourself to accept that some things are uncontrollable.

No matter how much information you gather, there are things you can't plan for. And that's when having the right mindset can separate you from a mediocre entrepreneur.

CHAPTER 5

Portfolio Theory

Most businesses are looking for individual investors, whether a start-up or a turnaround. At the outset, it's impossible to know which investments will fail and which will succeed. Even professional VCs have an abysmal hit rate. So much is unpredictable and out of our control.

Therefore, early-stage investing is to some extent a numbers game, where most investments will fail and very few succeed at a level necessary to carry the portfolio. Generally, company performance will tank post-investment before the new money starts to make a difference.

Companies will always need more money. So, what will you do as an investor? Will you follow on, or will you risk dilution or failure? Having a robust portfolio makes it easier for you to decide objectively. It gives you a cushion to fall back on since you're not relying on just one investment.

Many investors don't understand this. It's okay to assume that many start-ups will fail. The failure rate is actually big, so don't assume that all your ventures will be equally successful. Unpredictability is the reality of the investment world. Sure, you can do your due diligence at the outset, and you really should. While it may not guarantee success all the time, it still helps you avoid and mitigate obvious risks.

Planning for the worst, or assuming that most ventures won't turn out great, is a good approach when you're playing a number's game. This is where portfolio theory really starts to come in. If you want to win, if you want to build wealth, you must have a few investments under your belt. That way, you can offset your losses with wins and come out better for it.

And there's something else you should know. For most investors, their investments aren't worth more than what they paid for – not in the beginning anyway. Consider the fact that it's unlikely you've invested at the point of inflexion, or turning point, in the company's fortunes. After you invest, your investment's value will likely drop before it gets better.

There's another idea about portfolio theory that you should know before planning your financial future. Most, if not all, companies can run out of money. This is something that might get you to be mindful of having alternatives. It's all about having more opportunities to deploy your funds, more opportunities translate to more chances of negotiating better deals. It also gives you a broader overview of the market so you can make much better decisions about where to put your money.

No matter how you look at things, you're always playing a numbers game. The best you can do is gather as much information as possible and leverage that data to make the best guess under the circumstances.

Things often get worse until the inflexion point actually happens and the company's value takes a turn for the better. But the turning point is nearly impossible to anticipate. You have to keep in mind that although many ventures fail within the first year, not all of them do. A few can go on to return a huge multiple on your initial investment. So, just because something might fail at some point, that doesn't mean you've wasted your time and money.

To properly apply portfolio theory and the information you accumulate, there's something else you have to determine. You have to identify the type of investor you are. To do that, it's critical to understand the various risks involved.

Your Attitude Towards Risk

Risk always refers to the uncertainty surrounding events and their outcomes, whether positive or negative.

But here's the interesting thing. In finance and economics, risk models get very subjective. It often comes down to an investor's individual attitude towards risk and the pros and cons of a given scenario.

There are three main types of attitudes you can identify in the world of investing:

1. Risk Aversion

This is the type of investor who stays away from uncertainty. For instance, let's assume you have assets that can make you either $100k or $200k in a year. Both have pretty much the same probability at 0.5%. Then you get an offer of a guaranteed $140k for your assets.

Risk aversion would push you towards accepting the guaranteed offer. In this scenario, your view would be like this:

You don't know the actual probability of making $100k or $200k, but you know the probability of making $140k. You also probably see the $100k, the more unfortunate scenario, as the more likely one to come true. That makes you gravitate towards the safer choice. You pick the $140k since it guarantees more profit than your minimum potential outcome – even though you're abandoning the possibility of earning $200k.

2. Risk-Seeking Behaviour

In the same scenario, risk-seeking behaviour dictates that you would do the opposite. You'd analyse your situation and see the probability of making $200k as higher. That's the interpretation that a risk-seeking entrepreneur would want to see. So, not even a slight increase in the guaranteed offer to $150k would be enough to sweeten the pot.

3. Neutral Stance

Someone who adopts a neutral stance or who is risk-neutral looks at the scenario differently. A risk-neutral investor isn't affected by various degrees of uncertainty regarding multiple possible outcomes.

As it relates to portfolio theory, this type of investor is better at choosing between combinations of risky assets. However, because a neutral stance doesn't allow for weighing the unpredictability, something interesting happens. A neutral investor almost always invests in assets with the highest potential yield. And, as it often happens, that also means investing in the riskiest assets.

Of course, the potential return on a risk-neutral investor's portfolio can look amazing – on paper. But this type of behaviour or mentality can lead to making riskier deals than someone who's risk-seeking.

So, which type of investor do you think you are?

What type of risk are you willing to take, or what do you feel comfortable with? Knowing the risks and how most people approach them will likely dictate how you build your portfolio.

The Chances of Success (This Is Like Prospecting for Gold)

Your chances to succeed when you start out as an investor aren't always going to be high. Owing to the risk involved in every decision you make, with every company you may want to back, you can expect both successes and losses.

And yes, if your successes trump your losses, then you're on the right path. But it won't happen fast. It's a journey.

It all depends on your goals, too. But the majority of successful investors didn't build their wealth overnight. Think of it from a gold prospector's point of view. It's always a long shot but, even when it looks good, it's still a long journey towards success.

The good news is that you can increase your chances. Even if some things may seem grim at the outset, they can help you make your investment journey successful. First, you have to learn about the market. Again, it comes down to information being king. The more you know, the better you can become at setting goals, planning, and setting a timeframe.

The next thing you should do is figure out an ideal investment strategy for yourself. You can base that on the following points:

- Attitude towards risk
- Market intelligence
- Desired goals
- Reward deadline

Another way to ensure that you stay on the right investing path is to mind your sources. How you get your information is as important as how you apply it.

For example, don't fall into the trap of blindly following the one-eyed king. Understand that diversification drastically increases your chances of success. This strategy can help you get back up when some of your investments fail. It can optimise your portfolio to mitigate risks and keep you afloat in times of uncertainty.

To properly diversify, you need that drive to learn more about your market and financial investments in general. Even though the market will be volatile, knowledge can help you weather the storm.

Finally, one thing that really increases your chances of success is staying in the game. You have to stay in the game long-term to build wealth. You have to stay on the path and focus on your goals and framework. One of the quickest ways to fail is to chase fads or let your emotions guide you.

Once you do all these things, your chances of becoming a successful investor get a massive boost.

How You Can Leverage Your Portfolio

If you give yourself better chances to make it, you're already on the right track. But to truly master the art of financial investments, you also have to learn to leverage your portfolio.

When most investors hear the term leverage, they associate it with the idea of borrowed capital. Think about how corporations get in debt to banks or investors in order to finance various operations.

To an investor, leverage usually happens though buying options and futures, or through margin accounts. However, leverage and risk aren't necessarily the same thing in regard to an investment portfolio.

In many ways, an unleveraged portfolio of high-risk assets is riskier than a levered portfolio with low-risk assets.

If you think about it, one of the world's greatest investors did the latter. Warren Buffet attributed his success to investing in high-quality, but cheap and safe stocks, and his leveraging strategy.

If you look at the numbers, Berkshire Hathaway Inc. stock is among the most valuable in the world.

But it's not just that. Think about it this way…

Anyone who invested $10,000 in the stock in 1964, when Buffet took over, would have over $210 million in 2020. That's over $200 million more than the same investment would have yielded in S&P 500 stock.

But how exactly did Buffet manage to weather all the market crashes and financial crises despite often operating at high risk?

Berkshire Hathaway operates on an average leverage of 1.6 to 1. Buffet also has a clear strategy when approaching stocks. He looks for stocks that have:

- Low volatility
- Profitable

- High payout ratios
- Stability
- Low beta
- Good price-to-book ratio

So, what is his track record applying this type of leverage?

Berkshire Hathaway has had some down years too. Between 1998 and 2000 their value dropped around 44%. During the same period, the stock market saw a 32% gain.

Since then, its value has continued to increase.

You see, Buffet developed his investment strategy decades ago. Although his stocks have changed over the years, his principles have remained the same. Buffet knows that leveraging the portfolio can yield amazing returns in the long run. And what's most important is that Berkshire Hathaway hasn’t seen drastic changes over the years.

Consistency in the strategy is what helped grow its stock value to incredible heights. And the consistent performance over decades is what solidified Warren Buffet as an innovative and successful investor.

If you want to boost your returns, leveraging your portfolio is one good way to do it.

Mitigate Risk by Building the Right Portfolio

Not everyone can make the same type of investments. Everyone has different funds or financial power behind them. But there are so many ways in which you can invest. Some strategies are certainly safer than others.

Still, some set very specific timeframes and have well-defined expectations. You can't force everyone to adopt the same kind of risk or leverage their portfolios identically.

Yet, it's crucial to understand that you can mitigate risk. Uncertainty isn't the biggest risk factor when making financial investments. You may not be able to control the outcome of a company from the outset. But you can control your decision-making process. You can diversify and avoid putting all your eggs in one basket. You can choose to listen to relevant information and not the wisdom of the One-Eyed Man who would be King.

Building your portfolio the right way can increase your chances of success. Figuring out what you want, what your market can give you, and what you're willing to risk, can help you create a winning portfolio.

The only guaranteed way of not building wealth is to think that uncertainty equals guaranteed failure, or to think that leveraging and risk are synonymous.

CHAPTER 6

Clarify Your Strategy

Now that you know more about risk, it's time you familiarise yourself with investment strategies too. There are three main types of investment strategies:

- Value
- Growth
- Momentum

Each one comes with its own benefits and challenges.

1. Value Investing

This strategy is what most bargain investors and individuals use to get their hands on undervalued shares and businesses.

The main idea behind the strategy is this…

The market has a certain degree of irrationality and certain stocks can become available at discounted prices. Investing in those stocks can result in good returns once the market takes notice of their value. However, it can take years for the value of those stock prices to skyrocket. Some value investors end up underperforming for years.

So, it's unsurprising that some choose to change strategy. Warren Buffet is the greatest example of a value investor – what he does is basically invest in a business and not its stocks. If Buffet likes the business and he likes the big picture, then he knows that the company's value will go up. It may not happen in the next five years, but eventually it will.

That said, value investing isn't for everyone. It can be a good fit for those that don't have a lot of money, but it's also harder to do since it requires exhaustive research. It's also often a very long game, so it might not fit your proposed timeframe. Younger investors may have a better shot at reaping the most rewards out of value investing.

2. Growth Investing

Growth investing looks a bit different. It's not necessarily aimed at getting the best low-cost deals on stocks. It's more about finding the most upside potential for future earnings.

A few years ago, a growth investor might have analysed the future of electric cars before making a move on Tesla stock. Or he might have looked into the potential of A.I. before investing in tech.

Growth investing involves getting a lot more evidence before pulling the trigger on a stock. At the same time, it also mandates going after companies in growth mode. But growth stocks don't often outperform value stocks over the same long-term timeframes, and a growth stock is less likely to give out dividends. Expanding companies usually use most of their capital to sustain growth.

Another thing that happens is that this type of stock sometimes gets higher valuations. To some investors, this may seem like a riskier move.

3. Momentum Investing

Momentum investing is all about going with the trend or riding the wave. A momentum investor looks at a stock that's consistently dropping in value and doesn't buy it. When they see stock start on an upward trend, that’s when they buy it.

Momentum investors take a very analytical approach when looking for patterns. They believe that winners often keep winning. But, like the other two strategies, this too has its pros and cons. Some companies do experience consistent growth trends. Meanwhile, stocks that drop can also bounce back up incredibly well.

In a nutshell, momentum investing seems like the smarter, less risky strategy on paper. Yet, it's often a strategy that ends up in missed opportunities. Another thing you should know is that momentum investing is not a long-term strategy. It involves moving assets based on the trend. You can make nice profits in shorter amounts of time. But for investors with limited funds, all that trading can take a toll when it comes to commission fees.

Is there a clear winner between the three investment strategies? There's no simple answer.

Each strategy provides unique benefits and challenges to different types of investors.

Start-Up, Scale-Up, or Turnaround

Becoming an investor is as much about strategy as it is knowing about what you invest in. For example, you hear these three terms thrown around a lot:

- Start-up
- Scale-up
- Turnaround

You have to understand them before making a decision regarding investment. They don't all mean the same thing and don't lead up to the same goals.

For example, a start-up is the earliest phase of company growth. A start-up company is often in the experimentation phase of customer acquisition and product features or even at the seed stage of an idea and a PowerPoint presentation.

Scale-ups, on the other hand, already have a proven concept. During this phase of growth, the company received validation in the marketplace. It has proven its sustainability and already has some traction.

The risk changes too when comparing these two growth stages. During a start-up phase, you could lose your whole investment.

On the bright side, buying a stake in a start-up often comes at a considerable discount for investors. This means that any small amounts you lose can be recouped later with other ventures.

But a company during a scale-up phase has more expectations from investors and customers.

So, when does a company enter the turnaround phase?

This phase is entirely different. It's what marks an improvement in a company's performance, after a prolonged period of negativity. During a turnaround, many changes can happen within a company that directly affect its value. It may restructure teams, redesign products, invest in new assets, and so on.

But why does any of this matter to you?

It matters because you have to understand the risks and benefits of a company throughout all its growth stages. You can make a career out of investing in start-ups, but you have to prepare for the possibility of not getting anything in return.

You can also make a career as an investor who turns businesses around. You can buy into companies when they're at their lowest. The share price is definitely appealing at this time. However, is there potential to turn around that company and make good on your investment? Or is a bit of market traction enough to justify the price of a specific stock? Can it continue to grow, or has it reached its ceiling?

To answer these questions, you have to acknowledge that the price of the stock is not always the primary driver behind investments. Knowing about different growth stages will allow you to make better decisions with your money.

What Is Your End Goal? Financial or Otherwise

We briefly mentioned investment goals and the importance of setting those goals before picking a strategy, but we didn't really dive deeper into how to look at your goals or set them.

Goals are often different between investors. Some set their goals based on how much money they have. Others want to gain specific rewards, such as earlier retirement, or they want to make expensive lifestyle changes.

In some cases, time is the biggest asset of an investor. Someone who starts in their 20s or 30s has a much better chance to build impressive wealth with a long-term game plan.

So, let's look at the three questions you can ask to figure out your true end goal:

1. What Is Your Timeframe?

Life and investment goals intersect more than you realise, so time means everything to some people. You can create three separate subdivisions of age when it comes to investors:

- Young
- Middle-aged
- Elderly

Young investors have all the time in the world. They also have fewer funds to work with, but chances are they don't need to build wealth fast. Middle-aged investors, or family building investors, have shorter timeframes. Therefore, they can't afford to put all their eggs in the long-term basket. Elderly investors, or self-directed investors, have much less time to work with too.

And here's another thing you should know. These age groups don't paint an accurate picture all the time.

Many middle-aged investors find themselves making their first investments. Elderly investors aren't always savvy, either. Some start budgeting very late in life or start showing signs of discipline that they should have used decades ago.

It's true that your age should give you a pretty good idea of your timeframe. But you can't use it as the sole driving factor.

Look at your lifestyle goals in relation to your age. You may also have to look at your income or savings before setting a timeframe.

Let's assume you want to invest in something low risk that would set you up for retirement in the next 25 years. Is that really a sustainable term? Can you afford to invest the money you have for the yield you want with that deadline? Would you have to make drastic lifestyle changes right now, before you could invest? Are you okay with the idea of delayed gratification?

Do you have significant debt that you have to cover first? Would that debt push your timeframe outside your comfort zone?

You have to ask these questions to answer everything regarding your financial status and life goals. The happiest investors manage to find a balance between meeting investment goals and their lifestyle dreams.

2. How Much Involvement Do You Want?

The amount of money you invest affects your level of involvement too. The more you put in, the more it means that you want to stay with that company for the long run. If you put in more money, it also means that you have a lot more to monitor. At the same time, you may get a taste for control, so ask yourself if you're willing to take on all that extra responsibility.

Of course, you don’t need control. You can delegate to someone else too. Many investors work with legal or financial advisors to figure things out about the companies they finance.

But in some situations, you may have first-hand knowledge. Your input can help turn a company around.

The question then becomes… Do you want a seat at the table? Do you want to influence decisions within the company and directly affect its value?

Something like this takes money as well as time. It can be better for you and the businesses you buy into, but it also takes you far off the path of a passive investor too.

If you just know the market but don't have experience with specific issues, adopt a hands-off approach. Settle for less involvement on your part and try to secure the assistance of people with the necessary expertise.

3. How Much Time Do You Want to Invest?

This is where your financial goals and lifestyle goals meet once again. It's not about your desired timeframe for getting the returns that you want. Instead, it's about the actual time you put into investing.

So, don't think only about the period you have your money locked up in order to earn the desired amount. Think about how much of your spare time you want to invest into handling an investment portfolio.

If your plan is to retire wealthy in 25 to 30 years, then you can take a more passive approach. You can look at low-risk stocks, pick them, build a portfolio, and wait.

But if you want to invest for different goals, such as:

- Buying a bigger house
- Sending your kids off to university
- Starting a new venture
- Helping a company scale

These are things that take less time to achieve. On the other hand, they may require you to maintain an active approach. Maybe you won't be able to eat out three times a week. Maybe you won't be able to go on three vacations per year.

Making a career out of financial investing can eat away at your spare time too. Even after you hit gold. Especially with some investment strategies, you have to always stay on top of your game. You can't delegate as much to other people.

You may have to make tough decisions every week, or every month, regarding your portfolio. So, ask yourself why you want to invest. Do you want to generate passive income and have both financial and lifestyle freedom? Or do you want something else?

Once you can answer this, you get one step closer to getting full clarity on your goal. After you do that, you can do a better job at identifying these things:

- The best investment strategy for you
- The best type of companies to invest in
- The best experience as an investor

There's a Strategy Behind Outlining Your Strategy

No replicable success story happens overnight – not in the world of financial investments anyway.

If you want to build wealth, you can only do it over a significant period of time. There are many winning strategies to pick from. But to increase your chances of success, you have to remember the following principles…

First, switching strategies on a whim costs money and can seriously diminish your overall returns. Choosing the best strategy for your unique financial situation isn't easy if you don't have all the facts.

Second, understanding the type of investor you are requires self-reflection. It mandates asking the right questions and setting clear goals.

Third, you have to learn to see the big picture and understand the growth phase of a company. Not knowing can mean taking a huge risk or investing blindly in something that won't help you meet your objectives.

CHAPTER 7

Investment Opportunities

Google is now one of the largest tech giants in the world. But the company that currently employs over 20,000 people had humble beginnings. Google is a child of Angel Investment.

Larry Page and Sergey Brin are the two masterminds behind the technology. But it took an experienced eye and Angel Investment funding to get the ball rolling.

Among the initial investors, you'll find names like Andy Bechtolsheim and Ram Shriram. The latter is the man who often gets the most credit for Google's success.

He did it through his established resume and reputation, most of it was earned during his time as VP of Business Development for Amazon. While at Amazon, Shriram was very close to Jeff Bezos.

Shriram was a magician who raised Amazon's customer base from 3 to 11 million. He also had a hand in Netscape's success, as well as Elance and Yodlee, among others.

It's safe to say that he has the Midas touch. Shriram's initial investment was between $100,000 and $200,000 in Google, back in its early days. When he invested in the company's IPO, he ended up owning 5.1 million shares.

Shriram opened the eyes of many people to Google’s potential. Even Jeff Bezos had an early stake in the company. Bezos reportedly bought 3.3 million shares worth $250,000 in 1998.

But why was Google a draw for Angel Investors, and what convinced a guru like Shriram to make a move?

Ram Shriram often said that he enjoys putting his money into disruptive technologies. He actually prefers this approach because it often results in getting a better service or product to the customers.

Google went on to have a milestone year in 1999 when Sequoia Capital provided the company with funds totalling $25 million.

By the year 2000, Google's technology improved, as did the company's culture. In the same year, Google also introduced another disruptive element – AdWords.

Clearly, the visionary Angel Investors, as well as all others who followed, saw the potential in the new tech giant.

Top Eight Investment Opportunities to Consider

There are many ways to build your fortune over time as an investor. It's also worth noting that most successful investors have diversified portfolios.

They never have all their eggs in the same basket. To avoid making such a mistake, look at just some of the investment opportunities you can consider.

Stocks and Shares

You can do a lot with stocks. You have value, growth, and dividend investing, as well as combinations of all three. Stocks often provide the easiest route to diversification and the chance to get involved in a variety of fields.

What's also interesting is that you can also bet on a company's success or failure. It all depends on how you rate the business' potential or that of the people who run it.

Start-up Investments

When you invest in a start-up, you invest in the earliest stage of a business. Essentially, you invest in someone's idea. It can be a risky endeavour, but it can also pay off immensely.

What can you do to get a piece of a start-up? Well, you can pull resources together with an investment group to buy a large portion of a tech start-up.

Another example would be investing money in a brick-and-mortar business to get a piece of its future sales.

A start-up investment opportunity can come in many forms. But the underlying idea is that it's a long-term bet on a stake in future profits or capital growth.

IPO Investments

IPO investments are different to start-up investments. When you invest in an IPO, you invest in a company already in its mid-stages. Getting shares in an IPO can result in immediate gratification.

As the share prices rise, so does the value of your investment, and, of course, you gain liquidity.

Commodities

There are those that made most of their money by investing in commodities and precious metals.

Why?

The world has a limited supply of gold, silver, and other metals. As we use up our supply, the value of these commodities continues to rise. Over the years, the value of precious metals steadily increased and endured through financial crises.

What's interesting about commodities is that we value them independently from currencies. Although the commodities market still has ties to the stock market, it operates separately from it.

For example, the value of gold generally rises when the stock market takes a tumble.

Cryptocurrencies

Cryptocurrencies occupy a unique position in the world of finance. Over the past couple of years, cryptocurrencies divided traditional and modern investors.

The volatility of most cryptocurrencies is what scares most people from trying to build wealth with digital commodities.

However, with high risk can come very high rewards. Bitcoin, the most popular and valuable crypto coin, reached a new historic high in January of 2021 after taking a big tumble in 2020 due to the pandemic.

Since January, Bitcoin repeatedly reached new historic highs and saw legitimate interest from more traditional financial institutions and investors.

As a result of the renewed interest, other crypto coins alongside Bitcoin started seeing more and more investors put their money in crypto.

Why are cryptos attractive?

It’s easy to invest with minimal capital since you can buy into a coin as you would buy fractional shares.

Prices can skyrocket 100% in a matter of months.

More and more vendors, financial institutions, and banks show an interest in integrating the blockchain technology of cryptocurrencies.

It’s not the safest investment choice by far. But it has immense potential for both short-term and long-term returns.

P2P Lending

Peer-to-peer lending is a fantastic investment vehicle. It's a great tool for businesses that need money and investors with limited capital looking for alternative opportunities to build wealth.

It works similarly to loans from banking institutions. However, borrowers instead get their money from individual lenders and in smaller amounts.

What's great with P2P lending is the broad net it casts around the world and across different industries. It's also a great way to invest if you want to set your own interest rate. You may even be able to have very substantial returns if borrowers miss payment dates and pay additional fees.

But like any form of investment, there is also risk involved. Even online lending platforms urge new investors to carefully weigh the risk versus the reward on their opportunities.

ETFs

Another way investors can make money is by investing in ETFs or exchange-traded funds. Think of it as owning stocks without having to manually pick every stock that goes into your portfolio.

By default, ETFs give you the opportunity to diversify. You can do so in a single industry or across multiple spaces.

The biggest opportunity an ETF provides is the ability to also own fractional shares of companies. The second most attractive attribute is its tax efficiency and low trading fees.

Fixed Income Investing

Bonds aren't always the most attractive choice, but they are safe. If you want something low risk, then buying bonds may be the right thing for you.

The interest rates are lower but still yield better returns than leaving your money in the bank and hoping for something magical to happen. Unfortunately, you can't enjoy the same liquidity of stocks, ETFs, or even P2P lending.

Bonds aren’t illiquid, they’re just not as liquid as other stocks and marketable securities. It takes more time to trade them or cash out and, with some stocks, there may be some penalty fees involved when attempting to sell prior to maturation.

Real Estate

Real estate provides a wide range of opportunities too. McDonald's started out as a fast-food chain, but few people understand that it's actually a worldwide real estate developer. That makes the bulk of its profits.

You can always buy homes, fix them, and sell them for a profit. You can also opt for long-term opportunities with rental properties.

If you don't want to get involved with physical real estate, you can opt to invest in a REIT. A real estate investment trust is something else you'll see on the stock market. Quite often, REIT stocks offer both growth potential as well as steady dividend payments.

Opportunities are everywhere if you know where to look. But the secret to making good investments is to understand how a deal really looks for you.

Is it good or bad for your capital or knowledge of that particular industry?

How Do You Work Out If an Investment Is Right for You or Not?

The biggest mistake many investors can make is to commit too much of their capital. There are obviously other mistakes which include not accounting for expenses or the investment's potential, and so on.

Here are a few quick tips you can use:

Have an Emergency Fund

Smart investors split their capital. They invest some money but always have a safety net too.

For example, sudden unemployment or a stock market crash can cause serious problems. Having a safety net can help you protect your assets instead of having to liquidate them at a loss.

Rebalance Your Portfolio

Successful investors always revisit their portfolios over time. Some companies will go down in value while others gain market share.

To maintain a good profit margin, you may have to reposition some of your assets. It could mean buying more stock in one or two companies. It could also mean dumping all your shares in one business to acquire two or three new ones.

Keep in mind, it's something Warren Buffet does every year too.

Diversify

Investing in an individual stock for a long-term play is not a good idea. By expanding your portfolio, you can limit losses and fluctuations.

In theory, having more assets means more risks. However, if you only bet on one horse and that horse loses, you blow your entire capital.

Know Your Comfort Zone

There is no risk-free investment, no matter how hard you look for one. But if you understand those risks and your level of comfort, you can make better decisions with your money.

If you don't like taking risks, try looking for government-insured investments. If you need or want to make more money, then consider accepting a higher risk on a long-term play.

Figure out where you stand because everyone has their investment sweet spot.

Outline Your Goals

How do you weigh risks after you understand them?

You start outlining your goals and building a financial roadmap. You have to know what you want to get out of your investments, short-term and long-term.

Only then can you accurately weigh any risks involved and manage your money better. Opportunistic random investment is messy and generally loss-making.

Key Investment Opportunity Takeaways

Investing in stocks, IPOs, or even start-ups is among the fastest ways to build wealth. Most successful investors own stocks in various companies.

Even Jeff Bezos, before he made his billions in Amazon, made a few billion off his Google investment.

Having a stake in a company can bring you a steady return in the form of dividends. It can also position you for a sale after the stock value rises to a point where you're happy with the return.

But it all depends on how you want to make your money, how much you want, and how much risk you want to take. Investing comes with inherent risk.

And what separates good from bad investors is knowledge. Smart investors make good decisions with their money because they can spot good opportunities. Bad investors lose money because they can't weigh the risks and find something that would give them an advantage.

Others simply invest in industries they don't understand. Some miss out on hot fresh deals because they can't see the potential.

If you only know one thing, it's best to stick to that until you assimilate enough knowledge to comfortably step outside your comfort zone.

CHAPTER 8

Bet the Jockey, Not the Horse

I previously told you to avoid betting on one horse. But there's one expression that even better encompasses what it means to make decisions like a Midas investor.

Bet the jockey, not the horse.

Every business starts out as an idea…

It doesn't work the other way around. People come up with ideas. It's also people that have to make their ideas work. Smart investors know this for a fact.

So why say bet the jockey, not the horse?

The jockey is the founder(s). The jockey is the person who comes up with an idea and can make it succeed. Some also refer to the man with the plan as a jockey role model.

Every entrepreneur is the jockey role model in a new business idea. Investors analyse the abilities of the jockey as much as the potential of the idea itself, if not more.

This means one thing…

The person behind the business matters greatly, and they should strongly influence your decision to invest in that company.

Here's an interesting fact. When Evan Williams launched Twitter, not all of his previous investors followed him on his new venture. They later came to regret that decision. Those who did follow him backed the person and not the product.

Having a great product means very little if nothing in the business makes strides to drive results. You have to see potential in the people pulling the strings to make their ideas successful.

In many situations, the timing may be off. A person could show a lot of potential, but the market may not be ready for its product. It can be the other way around too.

Birchbox is now a very successful makeup company that provides beauty and grooming subscription boxes. But founders Katia Beauchamp and Hayley Barna heard many NOs before establishing their business.

Still, both graduated from Harvard Business School. Both fought to bring their good idea to the market. They raised capital three times to make their idea happen. Their investors backed them, even though the market wasn't ready for their product when they started.

Sometimes, you just have to back the man, not the plan.

Is it always a fact?

No…

But here's the thing about early-stage companies. That's when a business is more about the people behind it than its products or services.

When you want to back the man not the plan, there are two important questions you have to answer:

What makes a great entrepreneur?

An entrepreneur must have a combination of qualities. Consider it an equation to success if you will.

Integrity

A person aware of their mistakes stands a better chance of becoming successful. Integrity is an important quality in an entrepreneur.

If you want to spot a good investment opportunity, look for a jockey who can take constructive criticism. Only someone that can come to terms with their faults can find ways to improve.

Qualifications

What does the entrepreneur know to do best?

Clearly, come up with a great idea for a service or product. But do they have what it takes to market that idea to the public?

Do they have the knowledge to make it work well and disrupt the market?

When you look at the people pulling the strings behind the scenes, you have to look at their qualifications, too – and I don’t mean academically.

What qualifies them to say their idea is great and deserves funding?

Commitment

Someone who isn't committed to the work can rarely turn a start-up or early-age company into a successful business. This translates further down the line when it comes to growing a company, achieving stability, or turning a business around.

A great entrepreneur doesn't have a problem finding the energy to put in the work. It's always a person that finds it easy to stay motivated and on-task.

Passion

Passion is a different kind of emotion. It's a heightened feeling compared to commitment when it comes to working on a business.

Someone committed to making an idea successful is a good person to back. But a passionate entrepreneur inspires a different sense of dependability and restlessness to make things work.

Leadership

The jockey, or the role model, should always inspire people. It's also someone who continually looks for bigger objectives to accomplish.

A great leader is someone that can remain calm, positive, and confident – in themselves and in the potential of the company.

Vision

Another mark of a great entrepreneur is vision. Having the determination to succeed in the short-term and to get an idea off the ground isn't enough.

You want an entrepreneur to look to the future. You want someone constantly working on long-term success. Someone that sets future goals and works towards meeting them.

Skills

It's true that not all entrepreneurs can step outside their comfort zones. But those who can show a much more developed skill set.

Ask yourself, who do you want leading the charge? You probably want someone extremely focused but not narrow-minded.

Entrepreneurs have to be able to adapt and improvise. They have to know how to handle the competition and how to make their idea successful.

A person that can show potential to evolve and think outside the box is a person you may want to back. To do it, it takes skills and a commitment to learning new skills.

There's also another question you have to ask yourself before investing.

What is the ideal age and experience of an entrepreneur?

You see lots of examples today on TV of young entrepreneurs developing products, services, and seeking to raise capital from seasoned investors.

Can you really invest in a kid? Is someone fresh out of business school a good person to back?

Here's the thing…

You can't judge a book by its cover when it comes to age and business ideas. Yes, someone very young can have a great idea and may be able to make it successful. It's the experience that counts.

Enough experience can help an entrepreneur earn some of the qualities mentioned above. A series of successes and failures can help someone with a passion for earning the necessary skills and developing a vision.

Age is not always a good representation of experience for an entrepreneur or an investor.

Your Part of the Deal

Of course, when you decide to invest, there's something else you should consider. Now you know that you have to look at the people behind the business you want to fund.

But what about you?

What's your role beyond betting your money?

Your part of the deal is very important too outside any potential returns. Your presence can also influence the success of a business, especially when investing in start-ups and even IPOs.

Remember how Shriram first had a string of successes and helped grow Amazon before Google? Do you think Jeff Bezos' decision to invest in Google had nothing to do with his previous relationship with Shriram?

To understand your part of the deal, you have to look at three key things:

- If things go wrong, can you find a new CEO?
- What value can you add?
- How close should you get?

Let's go over them one by one.

If Things Go Wrong, Can You Find a New CEO?

The brains behind an idea are often the first thing investors back when they buy a stake in a company. But did you know that the CEO can also be the main selling point?

Make no mistake! Not all founders end up taking the CEO position. So, you have to look at the person at the top, not just in terms of personality but the role.

That role is critical to a company's success. But like with any role, in any business, some people are better than others at filling this position. There are also various situations that demand a specific thought and decision-making process.

Sometimes making a few bad decisions is better if the alternative means a complete lack of direction. People need to make decisions at a certain pace. A bad move doesn't immediately signal an undoable move.

The CEO Genome Project found that more CEOs got fired for indecisiveness than for making bad calls.

A great CEO has the discipline to react swiftly to the information given to him. There's also something about flexibility. Times of financial crises often require businesses to pivot. It's up to the CEO to adapt, find a new direction, and change the company culture as needed.

A decade ago, everyone wanted to find the next Steve Jobs. He had the ultimate CEO personality. These days, team players make better CEOs.

Was Jobs a bad CEO? On the contrary. He had amazing vision and always showed strength. But he wasn't a flexible individual and didn't have an inclination to accept criticism. People that work today prefer a leader that inspires and understands them.

It's just how you can get more out of the workers of the world. They need different motivation now, beyond financial incentives, than they did a decade or two ago.

So, there are many qualities you have to find in a CEO to make that person a big enough reason as to why you want to invest.

Can you find all of them? It's hard but doable. It doesn't mean you need a CEO that excels in every trait.

But this begs the question: Can the company survive and thrive without its current CEO?

And if it can't…

Can you find a replacement to fill the position? How hard would it be to do it?

You can also look at it from a different perspective. Will your investment give you a voice in who gets the next shot to run the company and give it direction?

Some investors only do deals that give them a seat at the table or a say in what happens in the company. Others look at potential risks and try to figure out if a CEO change can harm or improve the company's performance.

What Value Can You Add?

But it's not just the CEO that should get all the attention. Another part of the deal is to figure out where you stand.

What's your position beyond financial investment, or is that it?

Not all investors put their money in start-ups or stocks. Not all of them wait for dividends, growth, or to short a stock at the right moment. Some investors put their capital in businesses that they believe is beyond financial gains.

For example, in the tech sector, many of those who back early-stage companies know the industry. They know that they bring more value to the table than money. They can actually help accelerate the growth of a tech company and help it find the right direction.

When that happens, future profits no longer depend solely on raising the company's capital. They also depend on what the investor can do for that company:

- Finding partners
- Helping with marketing and raising awareness
- Building relationships with potential customers and clients
- Building a brand reputation

You have to ask yourself if you have to bring any value, and if so, how much? Some companies or ideas need more in order to succeed.

By that logic, you won't be a great match for many investment opportunities you may find. And a big reason why many investors fail is that they go in unprepared and into uncharted territory.

There Are Always People Behind Ideas

Investing in something new can be exciting and lucrative. But you have to know everything that you invest in before you commit capital.

Most new investors only focus on the idea, the product, or services provided by a company. They see the market potential and value for customers. That's why they back a product. They assume people will rush to buy it and shares will grow.

What few understand is that there's a lot more that happens behind the scenes that is critical to making a good financial decision. When you back a company, you also invest in the people behind the idea.

You invest in the founders and the CEO. You invest in a person's vision and abilities to make that idea successful on the market. A great idea doesn't sell or bring itself to market without people.

When you start taking people into account, you also begin to understand the need for analytics and metrics. Looking at a wide range of numbers is the only way to get all the information you require to make a fully informed decision.

To prepare you for what’s to come in your journey, the following chapter takes a deep dive into the science behind the numbers – what they mean, how to interpret them, and why you have to prioritise them.

CHAPTER 9

How to Analyse the Numbers

The Hockey Stick Forecast

One of the biggest pitfalls for any investor is to fall prey to unrealistic projections. Many companies may present data in an optimistic way so as to get a higher valuation and have investors pay a higher share price.

An easily recognisable unrealistic forecast is a hockey stick forecast.

A hockey stick projection is something that companies come up with when forecasting future sales growth. Such a projection often shows a considerably higher growth rate compared to the company's historical records.

For example, a steady or insignificant growth rate in years one and two can suddenly jump exponentially in year three and maintain an ascending trajectory.

If you picture it, it looks very much like a hockey stick on a chart. Of course, companies usually present claims with various ideas. They may have a plan for how to reach certain objectives that would enable massive surges in future sales.

But a sustainable and realistic hockey stick growth pattern is incredibly rare. Investors have to exercise extra due diligence to validate or dispute the forecast claims.

Hockey stick projects appear very often in the world of mergers and acquisitions. However, it rarely has the intended result. More often than not, instead of raising a company's acquisition value, such a projection diminishes it.

Of course, there's also a potential upside too. Under specific circumstances, a hockey stick projection may be an accurate forecast of future sales. In that case, a stake in the company could cost more but also have a significantly higher upside.

While it may look attractive on paper, it's the numbers that matter. You have to look at and understand the numbers that generated a hockey stick forecast. This is a bit harder to do with early-stage companies or young businesses. There may not be a long enough sales record to extrapolate information from.

But combining the available numbers with market averages, expectations, and industry knowledge, you can roughly evaluate the science behind the data.

Remember that smart investors will always look at hockey stick sales growth trends with an air of caution and suspicion. Inexperienced investors may accept an unrealistic forecast for bad reasons such as – validating their picks or thinking they struck gold overnight. This is why crowdfunded companies are often so expensive.

So, numbers matter, but their analysis and evaluation matter even more. This brings us to another overlooked aspect of weighing investment opportunities.

What the industry data says about its potential…

The Industry Extrapolation

It's easy enough in most cases to find industry data. But what do you see when you look at it?

Industry data extrapolation revolves around analysing numbers to figure out specific trends. Industry extrapolation often deals with imperfect information and even rough numbers. Therefore, it takes a certain amount of skill and experience to use that data and draw accurate conclusions.

Inexperienced investors may quantify certain variables in a way that suits them or validates their ideas. That's why a seasoned investor may often appeal to a consultant who can look at the industry data with objectivity.

Here's an example of how extrapolation works in the consumer market:

When Apple launched its iPod and iTunes package, it created a difficult scenario for industry extrapolation. It was difficult to accurately estimate demand.

Why?

Consumers never had a similar product before. So how could one figure out if the iPod could have taken a big enough percentage of the mp3 player market? Interestingly, that was a question that Apple posed a year before releasing the new product.

So, here's how extrapolation works in that scenario. You can conduct market research in the music industry. The goal is to identify the product's functional value and the closest competitors that offer a similar or the same solution.

During the market research process, you could try to find a percentage of the market that would prefer to pay for music online instead of driving to a brick-and-mortar music store.

Another way to extrapolate data would be around the idea of paying for individual songs instead of whole albums. Not everyone likes every song on an album, so why feel forced to pay for all of them if they can get only the ones they like cheaper?

Still, these remain rough analyses of the music industry market. But they can still help extrapolate trends that can determine the functional value of a new product launch or service.

Of course, the iPod/iTunes example is no longer relevant today as the world heavily shifted towards streaming. Yet the core principle remains the same.

You have to conduct market research, look at multi datasets of numbers, and extrapolate trends. Those trends give you the necessary insight, even if sometimes rough, into the potential for future growth.

Industry extrapolation is something that both companies and investors do regularly. Companies can identify ways to capitalise on their offering. At the same time, investors can figure out if a stock or a start-up makes for a good investment.

And that's not all. Remember that repositioning your assets is a big part of stable growth. Industry extrapolation could help you understand which of your assets may no longer be worth keeping.

Just bear in mind that industry extrapolation only allows you to evaluate a situation and make an estimate similar to a forecast. There are often too many data points to account for in order to get a highly accurate conclusion.

Reality Check

Given the aspects mentioned above, many investors may need a reality check of their portfolios and list of opportunities. A reality check is something easy to perform. Here are a couple of tips on how to do it yourself.

Doing a summary review of total returns on your assets is simple. You can take each asset, its returns (minus fees), and compare it to a relevant benchmark in its class. As a hint, the S&P 500 is a good way to gauge your stock portfolio's value.

Similarly, you can use the Global Dow index. The idea is to see what happened to your assets over time. Are spikes and drops in performance tied to certain events? Are they anomalies that don't reflect overall performance?

You have to find out what assets have done well and continue to do so and which assets limit your overall returns.

Another way to do a reality check is to revisit your goals. Everyone invests for different reasons, right? People do it to secure their retirement, maybe earn money for education, buy things, etc.

When you set goals, you also set deadlines you have to meet in order to reach those goals. Look at the current market conditions and your portfolio performance. Are you still on track to meet your goals using your current investment strategy?

Maybe you need to rethink your asset allocation strategy. Perhaps new market conditions diluted your portfolio because you have too much money in limited-growth stocks. Maybe a significant portion of your assets have become locked up in companies that can't meet your growth demands anymore.

An often overlooked cause of low investment returns is taxation efficiency. There are multiple ways to save money by minimising your taxes and maximising your savings. As an example, long-term capital gains often have lower tax bills than short-term gains.

Do an analysis of your portfolio and tax returns to see how you can divide assets strategically. You'll always have a mix of tax-exempt, tax-deferred, and other assets. But your allocation of capital to those types of accounts could seriously affect your potential returns.

Having a solid investment strategy as a new investor is key to success. But a variety of market conditions and world events could spell the need for a revised strategy. That is, if you want to meet the same objectives in your initial timeframe.

Learn to Love the Numbers

Granted, not every investor has the skills to become a numbers' wizard. But you also don't have to be a maths genius to understand how to look at specific data and draw accurate, objective conclusions.

An investor has the highest chance to succeed and make good bets when using data to make strategic calls. There's no real way to protect against loss or to guarantee significant profit over the years.

That said, an investor can always get better at managing investment risks. Your good decisions only have to outweigh your bad decisions, or streak of bad luck, for you to see your portfolio grow and goals achieved.

A lot of that has to do with how you approach the numbers. Do you see something you like and jump in, or do you investigate further? Do you look at different data points to formulate a conclusion?

Those are the things that smart investors do that give them an edge over everyone else. It may take money to make money. In the long run, it takes more thinking than capital to make good money.

CHAPTER 10

Valuation

Valuation is what investors use to determine the profitability of buying a stake in companies. There are multiple ways to approach valuation depending on methods, a company's stage, or even the investor's desired goal.

Let's go over some terminology and methods to clarify the overall process.

Current Valuation

A current valuation refers to the last sale price of a company or its stock. It's the current market valuation or value of the company based on data from the previous day.

If different offers exist, lower or higher bids, a current valuation accounts for those alternative prices too.

However, a current valuation means an estimate of a company's worth, in its crudest form. The quantitative process of valuation has the goal of determining a business' fair value or certain assets.

This is where various valuation methodologies and techniques come into play.

Valuation Methodologies

A comparable analysis, also referred to as a peer group analysis, compares an asset to similar assets in the same class. You can make this comparison of the current value by using trading multiples (P/E, EV/EBITDA, etc.). Comparable analysis, or comps, is a type of valuation that helps quantify a company's value based on what others are worth in the same space.

Data for this type of valuation is easily accessible and simple to work with.

Another way to approach valuation is by doing an analysis of precedent transactions. It's a type of relative valuation. The method involves comparing the target company, or asset, to others recently sold or bought, but only from the same industry. Precedent transactions analysis also accounts for any takeover premiums. Such methodology is applied in M&A transactions, but not so much in the long-term investment game.

The Discounted Cash Flow or DCF analysis works differently from those mentioned above. A DCF valuation is an absolute form of valuation, not relative. It doesn't base its findings on comparisons to other companies or assets in the same field.

Analysts who use a DCF analysis build financial models. Those financial models look at the company's numbers to forecast unlevered future free cash flow. However, they can also discount that cash flow back to the current state of the business and its weighted average cost of capital (WACC).

You will find variations to each methodology as well as ways to look at the findings.

For example, some investors may use something called a football field chart. That chart summarises a set range of values. The values used can differ by the form of valuation used and combined data from different methodology models.

Target Valuation

A target valuation is a very specific forecast, following a methodology that yields better findings for investors. Many often use equity ratings and other forecasts before buying a stake in a company. However, target price valuation looks at actual earnings and other valuation multiples.

This results in the ability to build detailed pricing models. Why do investors need them? Accurate target valuations can better help an investor evaluate the risk versus reward profile of an asset.

In a target valuation, you need to look at the four main drivers:

- EPS or earnings per share

- EPS forecast assumptions
- Valuation multiples
- The assumptions that justified using said valuation multiples

These four key points essentially determine the forecast of a target price and its legitimacy.

IRR

The IRR, or internal rate of return, is a key metric used for the valuation of cash flow businesses. It refers to a discount rate for all types of cash flow. That rate also stands for the net present value equal to zero in any given investment or project.

Working with an IRR can help calculate the yield of an investment. Its formula is easy to use in Excel as long as you know all the variables used.

- P0 or the initial cash outflow
- P1, P2, … cash flow in specific periods
- IRR on a project
- NPV which is the net present value
- N stands for holding periods

As already mentioned, this is a rather complex formula, but programs such as Excel guide and automate it for you if you input the variables. What's more important to know is what it does from an investor perspective. It's a popular method to use in the valuation of venture capital investments or even private equity investments.

Positive IRR results indicate an investment's likelihood to turn a profit. A negative IRR result indicates a complicated, perhaps fluctuating cash flow stream. It doesn't explicitly mean a bad investment, but it suggests using other methods of further analysis.

Changing Valuations

Changing valuations account for value changes or unique adjustments on a stock's price. The purpose of the adjustment is to allow a clearer reflection of the state of outstanding stock shares, or shares held by investors.

It's a complex process with various applications. But it allows for an accurate calculation, comparison, and evaluation of investment instruments.

Down Rounds

Any talk of investment addresses two valuations: a pre- and post-investment valuation. The scope of the discussion is to allow investors to understand how much ownership they get. It also tells them what control the founders have, and other incentive alignments between both parties, as well as key employees.

When a company issues shares, it issues them against a fixed capital. Shares then get priced based on the new capital raised by the company. But remember that there are two valuations that come out as a result of an investment: the pre and post valuations.

Down rounds occur when a pre-money valuation ends up being smaller than the post-money estimated share value from a previous investment round. Several factors may lead to down rounds:

- Bad funding conditions or investor appetite
- Highly competitive environment
- Not meeting target earnings set by investors

As you can see, performing a valuation to determine an investment's profitability takes time. It also requires key knowledge and depending on the asset – a certain methodology.

How Much Should You Invest?

Once you understand how to weigh different investment opportunities and use valuation methodologies, you can run into another problem.

This is by far one of the biggest questions on any investor's mind…

How much should I Invest?

Let's assume you found a couple of assets that seem perfect for your portfolio. How much volume should you get? How much capital can you safely invest to ensure a good profit while minimising your risk?

It depends on where you want to put your money. Start-ups may not always get to the public offering stage. Even then, many IPOs may take years to get off the ground. This means for investors that it's unlikely to see stable growth or dividends during that initial period.

On the other hand, you could opt to forgo a stake in a start-up and instead offer a loan. Even at lower interest payment rates, that would guarantee steady returns.

But you should think hard about the risks involved and always hedge your bets.

We talked about risk versus reward, as well as tips on how to make smarter investments. Based on everything discussed before, there's no specific answer or golden rule to follow.

How much you should invest depends on a wide range of factors that can be unique to your financial situation. You should never invest more than you can lose if you want to take the most low-risk approach.

Keep in mind that there may also be some regulations as to what percentage of your income or net worth you can invest in any one asset.

If you want to focus on building your portfolio around start-ups, a cautious strategy might serve you better than an aggressive one. Even with diversification to mitigate risk exposure, you would still put your money in early-stage assets.

Considering that many good exit strategies ask for a minimum of 10-year investment plans, using too much of your capital is not a good idea. At least when it comes as to yet unestablished companies.

What Should Your Target Return Be?

After knowing how much you can afford to invest, another question comes up. What returns should you aim for with your investment?

A target return is, in essence, a pricing model. It's what you use to express what you want to gain from any stake in a company. It's money invested, plus desired profits, and adjusted for the value of money over time.

Interestingly enough, it's one of the few pricing models that takes into account how time changes the value of money. It's also a method that has you working backwards from a desired value to reach the current price.

How can you apply target return methodology to reach the desired profit?

One way to do it is to analyse the company's pricing strategy. You can determine how much a company should generate in profit for your stake to give you the desired return of investment. Such a model starts with the assumption that the company can hit the intended sales volume. If it can't, it may need pricing adjustments to meet investor demands.

Now, let's talk about some numbers. A good return on investment for most active investors is around 15% per year. However, more conservative numbers show between 10% and 12% when investing in stocks.

That's still great compared to bonds or treasury bills and most fixed income alternatives that rarely bring in over 5% annually.

Let's say you start small with an investment of £10,000. If you want a 10% return at the end of the year, your stock should rise to £11,000 by the fourth quarter. If you use industry extrapolation, look at the numbers, and perform a proper valuation, you can forecast a realistic target return.

After that, you can set it as a goal, or even lower it slightly to account for unforeseen events. Just remember that you have to use a conservative target return for long-term investments, especially when putting your capital in early-stage businesses.

How Early-Stage Businesses Get Valued?

Now you know a bit more about valuation, how it works, and why you need it as an investor. It's a way to protect your portfolio against risk and to find good investment opportunities.

But how exactly do you go about performing a valuation on an early-stage business?

It's not like it's a straightforward deal. It's not for any company in any industry. Start-ups and IPOs also have the added problem of less-than-certain futures. They also lack sufficient data points on revenue and profits.

The cost-to-duplicate approach is a popular method of valuation. It looks at the cost to replicate the company from scratch. From an investor's standpoint, it determines if the investment would cost more than simply duplicating the entire company. Sadly, it's not a great method to use if you want to account for potential growth or intangible assets such as brand value and key employees.

Stage valuation is something that venture capital and Angel Investors use often. It gives a rough estimate of a company's fair market price based on the range of value it occupies. Generally speaking, the further along the development pathway, the higher the value and the lower the risk.

Value ranges also vary depending on the industry, type of company, but also on the investor's willingness to use capital.

Here's a conservative example of value ranges and stages of development:

- Up to £500,000 – a company with an idea, or a barely-formed business plan
- Between £500,000 and £1 million – good business plan with a management team in place
- Between £2 and £3 million – a company with a finished product, or at least a working prototype to show

You get the general idea – every company may qualify for a unique valuation methodology depending on its stage or in what stage investors see it.

How to Value Turnarounds

Something we haven't discussed yet is how to value a company in a turnaround stage. As a quick refresher, a turnaround company is one that went through one or multiple downturns.

It's a company that suffered a massive hit, had its value drop, but still shows potential for a turnaround. A great 2021 example is AMC.

AMC stock dropped considerably during the pandemic. With cinemas closed all over the world, the company came close to insolvency. But why was it, for many, a turnaround company or turnaround stock?

Nostalgia played a small role, but it was also hard to imagine the cinema industry dying out. So, it was simply a number's game and a matter of securing sufficient funding for AMC to cover its debts. Then, investors again saw it as a good growth stock with potential for a solid recurring revenue stream.

In a turnaround valuation, you generally look at a variety of value drivers that could spark a turnaround or a comeback.

- Exit plan
- Financial performance
- Growth potential
- Diversification options
- Recurring revenue generation
- Customer satisfaction

These are typically the main value drivers associated with a turnaround valuation. The more drivers you can identify and account for, the better the value and the lower the risk of not getting a return on your investment.

How to Value Your Own Input?

Remember your part of the deal? What do you bring to the table other than your money?

Sure, funding matters a lot for an early-stage company. But you can also add your own value to the overall valuation. Think about the input you can provide and how it can change the course of the company.

If you offer a start-up or an IPO your money, guidance, and contacts, how does it change the valuation? You could look for a discount on the current valuation. Your contribution stands to make the company much more successful.

At the same time, your contribution may cause the company to increase its valuation based on the idea of collaborating with you. There's a concept called sweat equity. It's a calculation that factors in investor benefits.

But as an investor, it's up to you to value your own input. It's true that you could judge an asset based on what it should produce through future earnings or growth. That's what most companies want you to do because they know some investors bring added value.

However, as an investor, you have to keep your interests in mind too. There is still a risk, even if you pour your knowledge in along with your capital. So, if the worst-case scenario happens, why should you stand to lose more money than fair value at the time of buying shares?

Instead of looking at what a company could become after your input, look at where it is now. Factor in that it might not get to a certain level of success without your express involvement. That should get you a discount for coming in on the ground floor rather than an overly optimistic valuation based on potential future growth and earnings.

Valuation Is a Tricky Business

The valuation of a company in its early stages is arguably one of the hardest things you can do as an investor. There are so many data points to look at and methodologies you can use to determine your investment's fair value.

But a valuation helps you understand key things about investing in a potential:

- It shows how much you should invest to minimise risk
- It offers an overview of the risks and achievable goals
- It can help you set your target returns
- It can help you spot great opportunities in value turnarounds
- It can also help you avoid getting fooled by hockey stick forecasts and unrealistic projections

Everyone has their own idea of a fair valuation. Companies that have to raise capital will try to squeeze as much money as they can from investors. The latter perform their valuations to determine profitability and to minimise risk.

Regardless of the situation, you can't invest without performing at least a rough valuation. You also can't do that unless you know the numbers.

But here's the thing about building an investment portfolio. You can sometimes make some bad decisions and still turn things around. You can maximise profits in various ways if you can get creative with financing.

CHAPTER 11

Creative Financing

Tax Incentives

There are many types of incentives offered to investors. You can get tax credits at any stage of an investment, as well as on your capital gains once you successfully exit from a company. Policies can change often depending on the economic environment.

But here are the things that always stay the same. Government tax incentives don't go out to any industry. Governments reserve them for investors willing to back specific companies, usually in the early stages, with significant growth potential.

However, significant growth potential is not the same as low risk, which raises some questions.

Is it worth accepting personal income tax credits that equal a percentage of an investment? What if the investment outcome isn't positive for the investor? Does the idea of losing less money on a bet make it appealing to try and fund more companies?

In theory, tax subsidies for early-stage investors could see a rise in the number of companies that get their desired capital. But the number of Angel Investments should also depend on the quality of the offering.

More money up for grabs could also mean more low-quality start-ups appearing out of thin air for a slice of that money. A few tax credits may not be enough to convince investors to back new ideas in such a scenario.

Now, let's focus a bit on the positive aspect. Tax incentives provide opportunities for both parties – early-stage companies and investors. These contributions allow investors with limited capital to build their portfolios using government backing. Incentives can allow you to go after opportunities you otherwise couldn't.

The idea of more money may also increase the number of opportunities. Making bad bets is not the government's fault. As an investor, if you have a good screening and valuation process, you'll make good decisions with or without tax incentives.

The only real downside may come in the form of various restrictions. It means that you can't rely on incentives for every deal you want to make. In the UK, we have the SEIS and EIS schemes which are extremely generous offering 30%–50% back to qualifying investors.

Others only grant eligibility to very specific companies, while some may even enforce a minimum investment holding period. But even then, the whole situation may not look as grim as you think.

Non-refundable tax credits reduce the investor's income liability. And in some cases, you can even carry excess credits to future taxable years.

So, can you stand to boost your return on investment by using tax credits? Yes, you can.

No one can force you to accept tax subsidies, so you can use them only when the deal works out in your favour.

Debt

Using debt as an investment method is more popular than you think. As long as the market goes up, using debt as leverage can bring you substantial returns. It's also worth mentioning that similar to using tax incentives, it's a good way to break into markets outside your current capital.

Let's assume you have a £50,000 portfolio right now. You want to double it, but you don't have another £50,000 laying around. What do you do?

You borrow it at a 5% interest rate, then you double your portfolio. If you can maintain even a 20% return rate year-over-year, you stand to make a lot of money.

Your new £100,000 portfolio will net you £20,000 instead of £10,000. How much do you pay for the £50,000 you borrowed? You only pay £2,500 per year, the money you can pay from the extra £10,000 you gained after doubling your return.

For the small price of £2,500, you could generate an additional £7,500 in gross profit in one year.

But leverage will always remain a double-edged sword type of strategy. As your upside in the previous example nearly doubles, so can your downside. If you leverage debt during a down market period, you stand to increase losses. You can lose as much as 45% net of your initial portfolio value for the previous scenario.

Of course, there are different kinds of loans too. Margin loans are contracts between investors and their brokers. You can borrow a lot of money by doing that, in many cases up to 50% of your assets. However, this is also a type of leverage directly tied to your portfolio.

Some people acquire credit card debt to make investments or even loans against their 401(k) accounts, or ISA accounts.

At the end of the day, using debt to fund investments can be a hit-or-miss experience. But when talking about creative financing, this is one of the easiest to use. You can use it as a way to boost your profits in a bull market year. You can use it to branch out and invest in new opportunities outside your original capital.

The key thing to remember is this…

With any investment, there are no guarantees of returns. With any loan, the payment of the debt and interest rate is a certainty. That's why, as attractive as it is as an idea, leveraging debt is always a situational, maybe even a last resort, for investors.

In some cases, it's a better tool for companies to raise capital through debt and vice versa. A company may continue to leverage assets, find investors, and pay off the debt. An investor on the hook for loan payments could lose everything much faster.

Although it seems like a great idea at times especially to small investors, it's not. Particularly when you want to build a portfolio around unproven, early-stage companies that could take years to offer a return on your investment.

Sweat Equity

Sweat equity is perhaps a lesser-known notion for inexperienced investors. It refers to the value of a contribution you as an investor can make towards a business venture. It's a common concept in real estate, property development, but also in the start-up corporate world.

Think of sweat equity as a non-monetary benefit in nature. For example, in real estate and in construction, sweat equity comes in the form of physical labour.

In real estate flipping, sweat equity works like this:

To make a home primed for a good profit, you likely need to do some renovations. But instead of paying contractors for the work, you do all repairs and touch work yourself. You save money and gain sweat equity in the home's post-renovation value by sweating yourself through hard work.

In the corporate world, it carries a similar connotation. You create value through effort and actions that contribute to the betterment of the business. It's the reason why some start-ups offer lower salaries to employees willing to accept shares in the company.

When it comes to investing, sweat equity looks like this:

A company starts out with a $100,000 investment from its founder. The entrepreneur then sells a 25% stake in the company to an investor at a price of $500,000. That essentially puts the company at a valuation of $2 million. In this scenario, the sweat equity amounts to $1.4 million, or the difference between the initial investment and the new equity.

It's the difference between $100,000 and $1.5 million, or the current value of the initial investment. It's another way to add value to a company.

Creative Financing Goes Both Ways

In the investment game, creative financing affects both parties. It affects those in need of capital and those that want to invest their capital. Companies can get creative when it comes to accessing funds, which can affect the fair market value of their shares.

But investors have ways to get more for their money too. Between government tax credits, leveraging debt, or even accepting sweat equity deals – there are ways to grow your portfolio even if you're far away from being a millionaire.

Aside from needing knowledge of the investment game and the target industries, you also have to think creatively. If you really want to go after something, there may be ways to do it that you haven't realised so far.

Investing is an addictive game, but also great for building wealth. Just remember that your returns may vary a lot based on your decisions and choices. And it's also a fact that sometimes you probably won't get what you think you deserve.

Identifying deals is one thing.

Getting the best deals requires something more…

CHAPTER 12

Negotiation Term Sheets

"In life, you get what you negotiate, not what you deserve."

I got this quote from famed negotiator Chester L. Karrass. Originally, he stated that you don't get what you want in business. But I think we can take it one step further.

If you look at life, everything is almost like a string of business deals where you try to get something in return while pleasing others.

So, I want you to treat the topic of negotiation with utmost urgency.

Moving on to business dealings, there are five things you should know if you are to be fully prepared.

The following tips should give you a good idea of what to look for in your basic investment negotiation.

Solid Legal Advice

Never go into a negotiation without a legal advisor. Investment deals can be quite intricate for someone who isn't a lawyer. To make the most out of any negotiation, you have to get a lawyer with experience in brokering deals between investors and entrepreneurs. I once sold a business unit without legal advice and paid dearly for it later when the buyer suffered an early bout of buyer’s remorse.

Experience in the Industry

When you want to buy a business, you might not be speaking only for yourself. Perhaps you have other investors interested, and you will speak for all of them.

Don't do that if you don't have some experience in the industry. You need some insight into the niche you want to tap.

Work Towards Balanced Interest

Keep in mind that it's hard to push away the entrepreneur when you do an investment deal. Therefore, any investment tends to start a mutual relationship.

The deal has to be good for both sides. Work towards finding shared goals or common objectives to make the deal equally appealing to both sides. It makes it easier to shake on it.

Stay Focused

Over-negotiating is a big problem. It happens a lot and creates a lot of waste. You can spend too much money on trying to make a deal.

You can end up spending too much money. But what do I mean by focus? Ideally, you want to focus on the important aspects of the deal, not the minor details that don't have an impact on you or the business you're trying to buy into.

Notice Behaviour

The scope of a negotiation is to create a long-term partnership between you, the investor, and the entrepreneur. If you don't want to waste time on a relationship that isn't going anywhere, you have to pay attention to certain behaviour patterns.

Sometimes the other party might do or say things that indicate they're not interested in a long-term partnership. And really, this goes both ways. Pay attention to the language, attitude, concerns, and even body language. Even small details can reveal something about the other person.

Dilution Clauses

Before jumping into negotiating a deal, you have to know a bit about dilution clauses. There are two terms you should be familiar with here:

Dilution

What's dilution? It's something that occurs with the increase in outstanding shares of a company. When that happens, the result is a reduced ownership percentage.

As a company issues more outstanding shares naturally, the ownership stake decreases for current shareholders.

Anti-Dilution

During mergers and acquisitions, you'll run into the term “anti-dilution provision”. Investors work on these provisions to create a safety net against possible future stock dilution.

Two types of anti-dilution provisions are used in most deals.

First, you have what's known as a price-based provision. It's an agreement that can protect investors when a company decides to issue more outstanding shares at a lower price than paid for by the investor.

With this agreement, companies typically convert preferred stocks into common stock based on a conversion formula.

You also have something called a contractual anti-dilution adjustment. This clause stipulates an agreement between the company and the initial investors. The business has to agree to issue more common stock shares to investors so they can maintain their original ownership percentage.

There are two main reasons why you should never forget about adding dilution clauses. First of all, it helps protect the investor's equity in the company. Remember that as an investor, you want to ensure that your portfolio's value will increase over time.

With that, you also expect your returns to increase. But due to market conditions and potential lower valuations, that may not always be possible. An anti-dilution provision can protect against these uncertainties.

Another reason to include such a clause is to safeguard a company's common stock value. Such clauses empower and encourage companies to do two things.

They incentivise businesses to meet the investor's milestones (revenue, growth objectives, etc.). Additionally, it almost forces companies to search for higher valuations should new rounds of financing take place.

Doing these things helps protect the regular stock value as much as possible, thus minimising investors' risk.

If you don't include dilution clauses when trying to negotiate a deal, it's likely you're not going to get the most out of your investment. Hence, why I emphasised the importance of going into these meetings with an experienced lawyer and working towards balancing the interest of both sides.

Lead Investment

Remember when I talked about you being in a position to speak for other investors? When that happens, you become a lead investor.

Think of it as an ambassadorial role. You essentially take point and speak for all investors to the representatives of the business trying to raise capital. You may also be the first of the investors to indicate your desire to offer financial support.

It's also a good rule of thumb that the lead investor shouldn't be someone who just puts money into the deal. As a lead investor, it's almost your duty to also provide extra time and expertise to secure the deal.

In case you may assume the role of lead investor, let's go through some of your responsibilities. Once the funding round closes, you won't have to take on huge administrative duties.

That said, the investment agreement may outline key attributes and responsibilities for you. If you do a loan structure, you could have a shareholder liaison role. From that position, you could be asked to act as a point of contact between the company and investors.

You may be responsible for sharing information and even casting votes on behalf of other investors. You can also get power of attorney for specific corporate actions or during certain company meetings.

When assuming the lead investor's mantle, it usually means that you can't sell your shares fast. Most agreements include a clause where the lead investor should accept a lock-up period.

Now that you know what's expected of a lead investor, let's find out if you're fit to be one. Here are some common requirements for filing such a role:

- Experience working in private equity
- Venture capital experience
- Worked in banking
- Experience in helping businesses in the same sector grow

- Previous significant investments either alone or part of an Angel Investment Network or syndicate

As a new investor, it's unlikely you can check most of those boxes. However, it's still essential to understand the role of a lead investor.

It will help you know what to look for when joining a deal with multiple partners. It will enable you to determine if the person taking point has the qualifications to do so and get everyone the best deal in return for their money.

After all, remember that you'll get what you can negotiate, not what you deserve. Therefore, picking the wrong lead investor can have unwanted consequences and may affect your portfolio moving forward.

But there's one more thing I want to discuss regarding negotiating deals. There's one more term or financial instrument I should cover.

Convertible Loans

A convertible loan is often one of the most overlooked financial instruments when negotiating a buy-in into start-ups and early-stage companies.

During negotiations, investors and VC funds may invest through a convertible note. That note ensures that when another financing round happens, the loan will convert into equity. Of course, this will usually happen at a discounted valuation. Thus, it's a mechanism that rewards the earliest investors.

It's also used as a mechanism that will allow entrepreneurs to focus on their operations and generating returns. Why is that important? It's necessary so they don't have to waste too much time around the topic of valuation.

Imagine how difficult it is to set a valuation for a business in its early stages. Consider the fact that it's pricier to issue common stock than the full amount of the financing round.

Say in that scenario that a company has to bridge a gap of anywhere between £300,000 and £500,000. Bridging that gap would give the business enough traction to get a reasonable valuation.

That's where a convertible loan comes into play. It's an opportunity to get over the hump quickly so that the investor can come on board.

There are, of course, more benefits to a convertible loan. It's overall faster than going through priced financing rounds. Therefore, it eliminates the need to issue common stock or even create a new class of shares.

Furthermore, it's a cheaper alternative compared to a Series A round. It also has a simpler structure than a priced round. It can prevent running into complications from stock option grants, taxation and, of course, valuation.

When going into a negotiation where a convertible loan may be necessary, you have to understand the terms.

Establish how much you get as compensation for the added risk you take as an investor. That's called the discount rate. Then you want to set a valuation cap to determine the loan's maximum price, which later turns into equity.

As with any debt mechanism, there's an interest rate to work out. Once you have that settled, discuss the maturity date too. If no other funding rounds happen before the deadline, the loan converts into equity based on agreed-upon terms.

Negotiate Like Your Financial Future Depends on It

Both investors and entrepreneurs probably make the same mistake. They often underestimate the other side's vested interest in making a deal.

As an entrepreneur desperate for financing, it's easy to assume that you offer such a great opportunity that investors and VC funds would give you capital no matter what.

Investors make the same mistake with some companies by believing that their money is worth a larger stake in the business.

However, negotiating in good faith gets you further in business and in life. You may rarely get exactly what you deserve. But does it mean you can't get a good deal? No.

Negotiations are back and forth discussions. They're all about uncovering common goals and mutually beneficial agreements between fundraising companies and investors looking to expand their portfolios.

Before trying to make any deal happen, you need the right knowledge and experience in this space. You won't always be able to do it on your own. You need good lawyers and an understanding of certain terminology, financial instruments, and deal structures.

You also have to keep an eye out for behavioural patterns that indicate a worthy partnership. The best deals happen when both sides want each other to be happy and profit from the deal. If you always try to one-up the other side, odds are you'll waste time and money trying to make a deal that won't benefit anyone.

CHAPTER 13

Start with the End in Mind

It's time to discuss how you approach an investment opportunity. There's a lot of research you have to do on a business before you take a stab at it. But do you also know why you want to invest?

My two pence is that you should always start with the end in mind. Work your way backwards from your end goal before making other decisions. If you don't have that clear objective, work it out before doing anything else.

You may have noticed that lots of people work really hard but can't get anywhere in life. It's what happens when you lack vision and clarity about what you want.

You have to visualise your direction as an investor as much as your destination. Once you know where you want to get to, you can take proactive actions and make the right decisions along the way.

And I want to give you one more piece of advice here. Try to be honest with yourself. If you're not, you may find that the small victories you achieve will feel like empty successes.

When you don't have enough clarity on your goals, you may find that your wins come at the cost of compromises you wouldn't want to make.

So, as an investor, you need a clear picture of your goals just as much as you need research and negotiating skills.

If you struggle with setting goals and objectives, the following goal-setting strategies should help out.

Your Goals and Overarching Strategy

Look at your goals from the following perspective. You probably already have some, but they may lack definition.

Ask yourself why you want to invest in a stock or a particular company. Ask yourself what you hope to get beyond financial gain.

Are your goals lifestyle-oriented or geared towards building more wealth? Profit will always be a major factor. But don't forget that not everyone needs to walk away with the same money.

Some people want to earn more; others may need less to achieve their goals. That's why not everyone invests in the same stocks, start-ups, bonds, etc.

When it comes to investment strategies, once you have clear goals, it gets even easier. There are five things to really consider.

1. Regular trading

You take the same approach to pound-cost averaging. You try to predict the market and move along with it as you make your investment decisions.

2. Selective trading

With selective trading, you usually pick for the short-term. Identify an asset that might look a lot better in a year. You're not looking for significant profits but a decent return on your investment.

3. Bargains

Look at prices below their real value. You don't have to wait for a market crash or a down period. Simply pick available bargains and compare them based on potential.

4. Long-pull

Another way to pick an investment? You identify an asset with a higher chance than others to grow faster. This is a good strategy for short-term gains.

5. Buy low and sell high

It's the most common practice there is if you think about it. You enter the market at low prices. You ensure you get a sweet deal, and you sell when the value shoots up.

Your Timeframe

When most think about investment timeframes, they only focus on the length of the investment. It's an important criterion, but it's not the most critical one by far.

Obviously, everyone wants to make a return in a given amount of time. Especially those nearing retirement who have even less time to reap the rewards of an investment opportunity.

But what do you think happens in a lot of these situations? People look at long-term investments, but they can't always afford to wait for the strategy to come to fruition.

Most views from industry experts follow the same train of thought and advice. As an investor, you shouldn't mind exposure to ups and downs associated with the stock market, even in the final years of investment.

From this, people end up mixing things up with bonds in an effort to increase those percentages in their portfolios. In a way, some advisors believe that this is a good move to limit exposure in the stock market.

But it's all assumptions at this point. It does little in terms of risk management. The strategy of what to buy and what to hold doesn't actually mitigate risk, especially in shorter investment timeframes.

Although proven somewhat effective over time, it's a strategy that requires decades to yield impressive results.

Now, you may be wondering why I'm talking about investment timeframes at all. Why take into account your financial needs and deadlines?

The market rarely cares about your plans. However long you decide to keep your stocks or bonds won't affect their performance on the market. It's a somewhat objective standard in which your particular circumstances won't affect what will happen to your assets' value.

Many investors also tend to ignore things like market conditions. That's a factor that should drive an investment, more so than a desired timeframe for the return.

For example, if you take mutual funds, they're actually exposed to more risk than you realise. It's a buy and hold strategy, sure. But it's a strategy exposed to the market's risks, which often forces investors to go long on their positions.

How should you handle the idea of an investment timeframe? How do you look at things objectively before you decide to purchase any stocks?

You have to determine your timeframe based on the performance. Your time horizon matters, but only to you and not the market.

Obviously, your risk tolerance of going long or short should matter to you. It should factor into your decision. But the number one criterion should always be performance over convenience.

If you have a shorter timeframe, you should adjust the timing to suit your needs. Going forward on hope or waiting for some luck is not a good strategy.

Look at the performance of potential investments. Determine how long it usually takes to see the return you want from owning stocks or investing in bonds. Account for price predictions and other objective factors.

You see, the market isn't as random as some people like to believe. If it were, far fewer people would invest. You have to have the patience to identify patterns before you decide on an investment timeframe.

At the end of the day, there's a lot of skill involved in deciding when to buy, how long to hold, and when to sell. But you can build some wealth if performance drives your decision-making rather than your desire to get money out at a certain date.

Let Goal Clarity and Performance Guide Your Decisions

When to invest and when to take your money out? These are two of the most common questions for new and experienced investors.

To make any investment worthwhile, you will need a clear goal first. If you don't know what you want to get in return, you can make some bad decisions along the way.

That's why, by working with the end goal in mind, you can deconstruct your objectives and identify the right opportunities to invest in today.

Taking that into account, investment timeframes often confuse both investors and financial advisors. People focus too much on how to get X amount of money before a set deadline.

I'm not telling you that you shouldn't have both long-term and short-term plans.

All I'm saying is don’t make the mistake of judging your investment opportunities by your preferred timeframe. It won't help you develop accurate predictions of what will happen to the value of your assets.

Always let performance and market conditions dictate the pace. Adjusting your timeframe accordingly is much easier than you think if you know you can make smart, low-risk decisions with your money.

Besides, everyone wants to exit the game eventually and build a legacy in the process. So, your reputation as an investor will rely on you making the right choices with your money.

CHAPTER 14

Exiting the Building – Your Investment Reputation (And Your Legacy)

So far, I’ve talked a lot about how you have to do your best to secure the best deals. I’ve told you how you have to negotiate hard but in good faith to grow your portfolio. But here's something I haven’t touched on yet.

Some of the best investors and venture capitalists don't chase deals. Why? Because it's all a networking game in which great deals can come across your desk if you have a world-class reputation.

If you want to make more deals consistently, you need to build a glowing reputation as an investor. It's what all experienced entrepreneurs look for when raising capital.

Here are a couple of tips on creating your own stellar reputation in relevant communities and maintaining it throughout your career.

Increase Your Participation

The more active you are within communities and at events, the more people notice you. You want to target start-up meetups, conferences, lectures – anything where you can meet people and start networking.

Update Your Profile

Don't think that you won't need exposure on several social media platforms just because you're an investor. You need that if you want other investors and entrepreneurs to contact you.

The more active you are, the better your online exposure. Visibility and a good track record will increase your chances of getting the deals you seek.

But frequent updates are just as important. It goes a long way towards boosting your credibility between CEOs, investors, VCs, etc. If people can't find enough information when they research you, they may not seek you out to make deals.

Offer Value

No one wants to work with annoying people. So, don't be a pain for others. Offer valuable advice if you have it and don't force anyone to do your bidding.

Being pushy won't get you far. Avoid being a backseat CEO. If you invest in a company, trust in the management's ability to run the business – whether new or old management. If people hear you're the type to play the coach from the sidelines, your future deals may suffer.

All of these things apply to both building and maintaining your reputation as an investor. It's really not hard work. Like anything else, it takes time – to build authority, confidence, and present an image of someone others would like to be in business with long-term.

How to Exit Profitably

No investment plan is truly complete without a good exit strategy in place. It's what all owners, investors, and VCs have to liquidate their assets once meeting specific criteria. In a nutshell, it's your plan to get out of your investment.

You won't always create your exit strategy to cash in. There are other situations you might have to prepare for, such as:

- Cut losses by selling an unprofitable company
- Close down a business due to unfavourable market conditions
- Cashing in on the investment after meeting your investment objectives
- Giving up control of a company or ownership to execute a new business venture

Three types of exit strategies have been proven highly successful:

IPOs

The initial public offering is and isn't an exit strategy. For example, it may go against the stakeholders' ownership interests.

That said, IPOs can provide both liquidity and valuation. To the passive investor, this can be a good thing. The only issue is that the price of shares can fluctuate a lot when everyone starts racing to the sale window.

Perhaps the term growth strategy applies better to an IPO. Why, you ask? If you think about it, an IPO offers a variety of securities to sell, each carrying various degrees of risk. It's a good way to fuel business growth.

ESOP

An ESOP, or employee stock ownership plan, is another exciting exit strategy. It allows employees to gain a controlling interest in a company from its owner for cash.

Such structured plans are very flexible. Usually, they enable employees to gain control over time or in one transaction. The idea of creating an employee-owned company doesn't come up as often as it should. But it can align with the investor's long-term goals; therefore, it's an option worth considering.

M&A

Let's talk about mergers and acquisitions. To exit an investment means to get out of a business entirely. That often means selling the whole of your stake.

Some buyers may look at an M&A deal as an opportunity to add a company of strategic value to their own business.

Others may choose to buy the business to grow its portfolio. Perhaps in the same way you did when you acquired the said company.

Whichever type of exit strategy you choose will depend on the industry, potential, and your end goals too. Do you want to wait for the business to go public and sell your shares?

Do you want to allow the employees to take over at some point? You can get your money's worth, creating a legacy and building a reputation as an impactful investor.

There's always the option to outright sell your stake once a good enough valuation comes across your desk. It depends on how much return on your investment you want and when you want it, among other factors.

But there's a matter of timing to consider.

Any exit strategy takes both planning and execution. If you have to keep your focus elsewhere, it's best to start the process when the company's numbers look great. In that scenario, you can bank on the business' momentum to carry it forward and keep it desirable for buyers while you focus more on the process.

What's Next?

Imagine you bought into a company. You helped it grow from a start-up to a profitable business. You then implemented your exit strategy and made a nice chunk of money in return.

But what's next for you? Do you have other goals to meet? Are you ready to retire, or do you want to keep working on your portfolio?

I think that implementing an exit strategy on your desired criteria opens you up to continue building wealth. Of course, you should take a short vacation and maybe celebrate your win. But don't let too much time pass before you get back in the game.

Odds are you didn't invest in a single asset. So, what's going to happen to your other investments? How should you plan for the road ahead?

Here's what happens after you exit. Your portfolio may be lighter, but your bank accounts have some extra zeroes. To many investors, life after an exit is all about spending their profits on nice things.

One of the things you should do is to limit your spending. Get one thing that you really want as a reward. But protect your money going further. Consider a low-risk investment in something like a term deposit bond.

Does it seem boring? Sure it is, but it's necessary after a big win. It helps you buy the time you need to think about the next step. It can prevent you from jumping at a bad deal too quickly simply because you can afford it.

That's why it's essential to spend some money on something you love. It mitigates your immediate spending urges. The same thing applies to putting a hold on your money – you get time to explore other investment opportunities and do your due diligence.

Already, you're growing your wealth with a guaranteed return on your deposit. It's not a lot, but it's still something. You're still able to use your profits to generate more wealth.

During that time, make sure you know your financial capabilities are moving forward. Identify new industries you want to invest in and start researching. Look at your existing portfolio too.

Figure out if you should increase your position in any of your existing investments. Find out if maybe it's time to branch out on your own or join other investors on their deals.

The solution and planning may be different for everyone. But life after an exit is a lot about learning what you shouldn't do.

You shouldn't spend most, if not all, of your profits. Why? Your other assets may not be as safe in the long run as you think. By being extra careful with the money you made from your exit strategy, you mitigate your portfolio's risk.

Say something were to happen to two of your other businesses. Well, you'll at least have the return on the asset you just sold.

And remember this. Generating wealth is a continuous game. If you want long-term financial stability, eventually, you have to keep diversifying your portfolio. Don't assume that you shouldn't grow your portfolio by one or even two assets because you exited a business deal profitably.

Create Your Post-Exit Strategy

Not all investments are generational. At some point, you'll want to get out of a couple of deals because you can make a substantial and immediate profit.

You'll know what those deals are if you analyse your portfolio carefully. However, it's equally important how you decide what to do with your money afterwards.

If that money sits, it won't generate anything new for you. As time goes on and inflation kicks in, it may be worth even less after a couple of years. So, the best thing for you to do is to keep investing in profitable opportunities.

There's no reason you should stop at a single win. You can grow your portfolio further, especially when you have more capital to do it. Just keep in mind that it's tempting to rush into deals when you have money to sign whatever offer you see first.

Instead, take the same approach as you did for your first investment. Work towards identifying the most profitable avenue for you to spend your profits after exiting a business deal.

CHAPTER 15

Impact Investing

Making the World a Better Place

Impact investing is an underutilised and often misunderstood investment tactic. Every investor wants a financial return when putting their own capital into a company, stock, bond, or any other deal.

But is that all there is to investing? Can't you contribute more? You can. With impact investing, one of the goals is to generate a positive and measurable impact. It can be something to help the environment, social groups, emerging markets, and so on.

It's often a strategy used by those who want to use their capital to address some of the world's biggest problems. Many do it to help in the renewable energy or agriculture sectors. Others may impact healthcare and education. The idea is that it's not all about the money you can get in return.

Some core characteristics define impact investing. Take a look at the following points and figure out if it's something that aligns with your values.

Intentionality

This refers to your intention to have a positive impact through your investment. It doesn't matter if it's a social or environmental impact or both.

Return Expectations

Impact investing comes with the expectation that, at a minimum, you can get your capital back. At best, you receive a financial return on your investment.

Range of Expectations and Asset Classes

This type of investment may target financial returns that can start from below market value. It can also go up to risk-adjusted market rates.

You can also target a wide range of asset classes such as private equity, cash equivalents, venture capital, and so on.

Impact Measurement

You may be wondering how the impact you have is measured. It often comes down to your commitment to both measure and report your investment's social or environmental outcomes.

It's something that requires accountability and transparency. How you measure the impact is another story. That varies as it depends on your abilities, objectives, and what you decide to measure.

Success Stories

To get a better understanding of impact investing at its finest, let's look at some examples. You'll quickly notice how some investors are able to think differently about what to do with their capital.

LeapFrog Investments

This entity usually invests in insurance and financial service companies. The investment group often targets businesses that help low-income and other vulnerable customers across Africa and Asia.

One of the companies the group invested in at an early stage was AllLife. It was a straight equity deal that enabled AllLife to diversify its services and products while also accelerating its growth.

AllLife has doubled its revenue since the initial investment. But let's look at the impact. More people can get insurance even though other companies wouldn't cover them.

AllLife is also a dedicated insurer for South Africans dealing with HIV/AIDS.

That's a considerable social impact.

The David and Lucile Packard Foundation

This is an example of how a small investment can impact the environment. The Packard Foundation makes lots of grants and other program-related capital investments.

The mission includes restoring and conserving the environment or Earth's natural systems. The foundation made a $1 million equity deal.

The main objectives of the deal included proving a business model designed for the sustainable management of forests. The other goal was to gain other benefits that align with the foundation's mission, such as protecting environmental features and ecosystems.

By now, you understand where I'm going with this. Impact investing invites investors to get in a different mindset. The goal of making a deal is to have an impact in more than accelerating the growth of a company and profiting from its revenue or stock sale.

It's about making other positive things happen in challenging social or environment-related sectors. Without dragging and explaining the concept further, let's discuss some options and benefits of considering impact investing.

Giving Back

When it comes to giving back, there are a couple of ways to do it. The majority of impact investments target the following industries:

- Healthcare
- Renewable energy
- Education
- Agriculture

Some of those industries can have a positive social impact while others can benefit the environment. But there are two ways to look at an impact investment opportunity:

- SRI
- ESG

One is focused solely on the benefits generated as a result of investment across different areas. The other focuses on positive impact but also uses those factors to determine the profitability of the investment.

Let's look at these two strategies to see what options you have.

Lots of people confuse the terms impact investing with socially responsible investing (SRI). If we were to define SRI, it would be along the lines of investing while avoiding harming the environment or generating adverse outcomes.

But here's the kicker. Most SRI investors use this concept as their creed. They will invest in energy renewal companies but may not invest in a tobacco manufacturer to diversify their portfolio.

SRI is a type of impact investing. Yet, it presents you with a limited strategy when it comes to choosing companies or stock. It won't allow you to split your portfolio between businesses that benefit and those that harm the environment or social causes.

As a concept, impact investing is about showing your support for the mission of the company you want to invest in and the positive impact it can have on a certain cause. It's up to you if you choose only the noblest causes, or you want to build wealth in whatever way you can.

That's why there's an alternative to SRI. You have something called environmental, social, and governance or ESG. With this type of investment strategy, you can integrate only certain factors into your decision.

You can use the ESG factors to determine both risks and opportunities that go beyond traditional valuations. Granted, ESG implies some social consciousness. It still works towards evaluating companies for financial performance and potential.

There's nothing too complicated about how it all works. Although it's mostly a strategy used by investment institutions, private angel investors can choose to use it too. It depends on whether you want to gain financial returns and, at the same time, create a positive impact across a specific cause or industry.

You have to look at the company's mission to understand if your investment can generate some positive impact. Does the company show social responsibility? Can it benefit society or the environment?

Can it boost agriculture or enrich healthcare in certain areas?

Consider that even the microfinance loans market offers such opportunities. They often have women’s groups or start-ups in emerging nations as beneficiaries of expansion capital.

It's also worth noting that many investors can turn a profit, even if they factor in specific causes or ethical guidelines. Does it mean they make mad money too? Here's what you have to know about returns.

Better Returns

Impact investing has plenty of sceptics. They look at the idea of an optimised portfolio. They talk about balancing risk and return and see impact investing as a move away from the traditional concept.

If that happens, then the strategy itself becomes sub-optimal. Naturally, sceptics argue that investing with the thought of generating a specific exterior outcome should lead to risk-adjusted returns.

There's a fine line between impact investing and straight-up philanthropy. If you don't manage to get a return, then you might as well donate your capital. But there's an element of risk worth discussing, too.

In every investment opportunity, you have some risk. Even a finance-only deal that you make can go bust due to market conditions, disruptive world events, or poor company management.

So, why would an impact investment deal be any different? If you understand the business model, you can balance the financial return versus the risk, as you would in any other scenario. The only difference here may be getting a smaller return for the risk you're willing to take.

If you want to become a social impact investor, you have to learn how to value each opportunity. You have to know how to calculate a projected return before you decide to pull the trigger on a new deal.

How do you do that? You do it by following a six-step blueprint.

1. Work Out the Relevance and Scale of Your Investment

Look at how deep the impact of your investment will be in the future. Does the product or service of the fundraising company reach many people?

Will it benefit a large portion of the population or specific sectors?

2. Find the Environmental or Social Outcomes

Leverage social science reports to understand a company's impact potential. Use studies and existing research to figure out desirable outcomes.

Ask yourself if the outcomes you find are both achievable and quantifiable. Can those outcomes help overcome specific challenges or provide a positive impact?

3. Estimate How Those Outcomes Impact Society

Once you work out the target outcomes, you have to go one step beyond. Figure out what those outcomes mean in economic terms.

For example, Cellulant worked on developing an app to help farmers. The farmers couldn't access subsidised goods because of corruption in their country. After they started using the app, they could get up to 90% of the intended aid.

That's a considerable economic impact.

Note that this is a significant step in calculating value. But it may not be the easiest. You could have trouble getting enough reliable research. Seeking extra guidance is worth your time if you don't want to rush a deal.

4. Adjust for Risks

The data you get from social science research won't always give you an accurate baseline. You have to adjust some of the social values for risk.

Identify the risk categories in the industry and assign values to get an impact-probability score.

5. Forecast the Terminal Value

What's the terminal value? It's an estimate of what a business will be worth after an explicit forecast period.

Although it's a rather new concept, it's good because it focuses on measuring present and historical impact. Forecast the value of your investment at the time you get out, or even after you exit the deal.

6. Work Out the Social Return

This is the easiest step. When you have an estimated value of a benefit or outcome, you can divide it by your whole investment.

Why is all of this important? It's quite simple.

Impact investing makes it difficult to judge and compare different opportunities. Working out a detailed valuation and forecast will allow you to weigh your options clearly.

If you do seek better returns, this is the only way to do it. Betting on the wrong horse can be the difference between not making any money and just getting your capital back.

It can be the difference between earning hundreds of thousands of dollars and earning millions. It's not any different than comparing traditional investment opportunities. With impact investing, you just have to account for a couple of other factors too.

Think About Your Goals and Legacy

Impact investing is not a new concept. As more investment groups take on social causes, it inspires others to do so too. We've seen something of a small snowball effect in this regard over the past decade, at least.

Should you or shouldn't you consider impact investing as a viable strategy to grow your portfolio? It honestly depends on what you want to build, how you want to contribute, and the deals you can get.

Imagine being a social impact investor five years ago and putting your money in Tesla. You would have done it because of the company's work in the renewable energy field and its innovative policies.

In a few years, Tesla stocks skyrocketed, split, and went up again. Needless to say, you would have made a killing. And you could most certainly consider an investment in Tesla or any similar growth company an impact investment.

Are all impact investments that rewarding? They're not. But it depends a lot on what you want to do. There's no reason you can't grow an amazing portfolio by being more socially and environmentally conscious with where you put your capital.

Still, to ensure good returns, you have to go through additional calculations and account for other external factors. There's more due diligence and expertise involved, yet the core investment principles still apply.

CHAPTER 16

Becoming an Investor is a Journey

There's a lot you have to consider before you decide where to put your money. It all starts with your goals. You need to understand why you want to invest and what you hope to get in return.

Some people want to build wealth to afford a fancy lifestyle. Others want to have a comfortable retirement. Maybe you want to provide a safety net for your kids. Social impact investors want to make money while also benefiting society and the environment in some way.

Everyone has their own reasons to invest in start-ups, buy stocks, offer loans, and so on. People have their motivations behind building companies, selling them, or branching out.

But here's the main idea. At some point, you have to do something. You can't grow your money by spending it on assets that don't generate returns.

You can't build wealth if your money sits there in your bank account and depreciates over time. Eventually, you have to clarify your vision and goals and start snowballing your portfolio.

Once you're ready, that's when your journey begins. Successful investors are some of the most disciplined people you'll ever meet. Not only that, but they're also the most informed.

To succeed as an investor and even as an entrepreneur, you have to gain leverage over the other side. You can only do that if you have information. Do your research and appeal to real financial experts over gurus for help.

It’s always better to follow someone who knows everything about one thing than someone who knows very little of everything.

The more informed you are, the better. Your mindset should start with the idea that you have to constantly learn new skills, assimilate knowledge, and become an expert at your craft.

Allow your mistakes to teach you as much as your successes. Many people quit after failing, yet there are so many successful entrepreneurs and investors who failed on numerous occasions.

Your journey will be an interesting one as you start building a portfolio. You have to discover things about finance, various industries, and about yourself. For instance, your attitude towards risk may dictate the type of portfolio you want to build.

It can drive your decisions and even influence your goals. The investment game is fun, but not for the faint of heart. No matter how well you prepare, you will always have to accept some risk. It's up to you to decide how you weigh the risk versus the potential reward.

If there's one thing that will never change, it's this – a diversified portfolio is better than the alternative. It doesn't matter if you're the type to buy companies, invest in stocks or bonds, etc. Spreading your capital equals mitigating risk.

But there are so many more things you ought to consider. How much money do you want to invest? How much can you afford to allow yourself a safety net?

Where do you go to find opportunities, and how do you handle projected returns? Are you the type of investor that can bring something else to the table? An investor that only has money attached to his name won't be at the top of anyone's list to make a deal.

Always do your market and industry research and extrapolate the information you need to analyse deals. You need as much data as possible to carry out valuations for early-stage, turnaround, and profitable businesses.

If you want to maximise your returns, don't forget about other avenues of saving money to make money. Tax incentives, good debt, or sweat equity can be game changers for investors with limited capital power.

And don't forget that whatever you do, you'll always get what you're able to negotiate. Life rarely gives you what you deserve. If you want to build an outstanding portfolio, then you need to look beyond stocks, bonds, real estate, etc.

What if you want to buy a company? What if, like Tony Hsieh, you get to a point where you can make even more money and grow your portfolio? You have to become a good negotiator whether you're looking to buy or sell.

Learn how to approach a deal and how to negotiate terms in good faith. Sides that want to one-up each other never get good partnerships going, and it can lead to wasted opportunities.

Last but not least, don't forget that you have a duty to yourself to think about contingencies and exit strategy. Whether that's liquidating your entire portfolio or a few assets, life after an exit can become difficult. Never postpone protecting your assets or continuing to grow your wealth.

I know that it's a lot of information to absorb. I also know that building wealth is no small feat, and you have to be prepared on multiple fronts to succeed.

I'll never believe that it's too late for someone to build an investment portfolio and live long enough to reap the rewards. Looking back at my history, it took me a long time to change my core business paradigm.

It was after reaching the precious age of 50 when I realised that times changed. Some of the things that happened took me by surprise, but my will to adapt allowed me to succeed.

I wanted to understand the new market and how things moved in this new age. Sure, my past experiences also helped, but I also pivoted in a new direction and changed my mission.

Seeing the value in connecting investors with start-ups gave me new meaning. It made me want to help others understand how to explore the various other ways to obtain wealth. It's why I expanded my business the way I did and why I wrote this book.

By now, you probably have a lot more knowledge of the journey you're about to embark on. Hopefully, you also have more peace of mind of whether you can succeed. Information, research, and guidance will always help you go further than you think.

And I'm ready to assist you with all those things. Reach out, and let's work together on finding you the best deals for your unique goals and plans.

To find out more about how we can work together, please visit www.fundingnav.com or email me at Stephen.sacks@fundingnav.com

ABOUT THE AUTHOR:

Stephen Sacks is an accomplished, passionate investor and advisor. He has over 30 years of business and commerce experience. Having worked the better part of his life in trading businesses, Stephen gained a unique perspective.

As founder of Funding Nav, with his ever-growing team, Stephen's mission is to help owners of SMEs secure the right investments, unlock available cash, and grow their businesses faster.

His goal is to become the advisor he always wished he had access to during his career in trading companies. Stephen's new paradigm of thinking allows him to invest his time in bridging the knowledge gap between business owners and funding logistics.

ABOUT THE BOOK:

Have you ever wondered how great a difference expertise makes when growing a business at an accelerated rate and how you, as an investor, can bring your experience and influence to bear?

Do you want to learn proven ways to solve money problems, pick the right markets, and navigate the available investment opportunities?

In this book – you get all that and more.

The founder of Funding Nav offers unique insight into the business world for entrepreneurs and investors looking to build wealth. Hopefully, some of you will have profited from Stephen's advice in his first book, Reboot Your Business, and are now looking at how you can diversify your skills and build your own investments.

Learn the right ways to turn around SMEs for fun and profit and discover the investment opportunities to round up your portfolio.

To find out more about Stephen Sacks and Funding Nav please visit www.fundingnav.com

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