Joining the 1%

1%

When you watch this short video, titled "Less Than 1% Get Funded," you will see a key issue in the mindset of a lot of businesses. Businesses will come up with an idea and then go out, get a bunch of money, and it will GO BIG.

This mindset leads to 99% of people not getting funded. It takes a lot of grassroots to get you to where funding is the appropriate next step.

I am a firm believer that when you get going in any endeavor, it is important to build a "grassroots approach" to getting started. That means you should work to get your idea together in any way possible, even if that means doing it part-time while the full-time job is paying the bills. Be frugal to not spend unnecessary money before you are getting those first few clients in that bring some revenue. If securing money is necessary, you should start with the friends, family, and credit card route first. Going after the serious venture capital dollars is not an easy endeavor, will be a difficult first start, and is left for that remaining 1%.

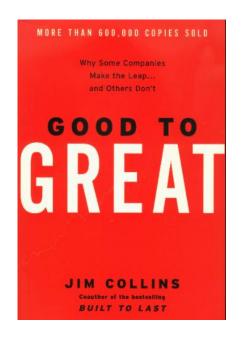
So how do we increase the odds of our success to reach the 1%? We must first get our product or service going by building out the offering, getting users, and showing some market acceptance. From there, we can begin to approach companies about additional funding. By using and providing some revenue help, you can then continue to build on this cycle. And in turn, you will slowly increase the odds that you will have success within the venture capital world, as I discussed in my recent blog, Scaling bounceit!™ by Not Scaling.

Currently, I am in the process with my partners at bounceit!® to raise money and take the idea of this social voting mobile app to the next level. This week, we traveled to Columbus, Ohio to meet with a venture capital firm. As we discussed a plan to raise capital, they saw other opportunities for applications of bounceit!®. I am hopeful that this will be a very good arrangement for both parties. I will keep you updated as we progress.

We are at this point of approaching venture capitalist because we have followed the steps mentioned above. We have invested our own money and time, gotten bounceit!® out there, and been receptive to the users' feedback. Our first vertical is approaching campaigns and implementing a ground-level polling analysis. We are taking the next step and talking to businesses that are ready to sign up, and get a plan together to enter next year's political season.

My first two companies were done from a "grassroots approach" and not taking any outside money. The success of the IPS Funds were all grown with one new investor after another. Efficience was grown from some money I had from IPS, but not from any outside investors. So this side of a startup will be a new experience for me, and we look forward to becoming part of that 1%.

Are You Confronting the Brutal Facts?



We have had a nice run in the markets over the past few weeks, hitting record highs for seven consecutive days. It would seem like good times ahead and I would so much like to jump on that bandwagon. I have seen this before and it makes me very cautious, given what is probably ahead. With any market and economic difficulties, there is always opportunity. The key signature of the DNA in a real entrepreneur is always being in search of opportunities in any

environment, and then acting on them.

When looking for opportunities, we must first practice the Stockdale Paradox, which is coined by Jim Collins in his book <u>Good to Great</u>. In the book, Admiral Jim Stockdale makes observations of those that survived being prisoners of war in Vietnam and those that did not. Admiral Stockdale was there for eight years and endured the most brutal of situations.

When asked "Who did not make it out?" Stockdale replied, "The optimist." He shared that they would say, we will be out by Christmas, Easter, and Thanksgiving, and when those markers came and went, the POWs would die of broken hearts.

He went on to say to Jim "This is a very important lesson. You must never confuse faith that you will prevail in the end — which you can never afford to lose —with the discipline to confront the most brutal facts of your current reality, whatever it may be."

So what are the brutal facts of our reality? We have a huge amount of debt (\$16 trillion) that is as much as the combined total of all the goods and services transacted in one year for the US economy. Each year the bureaucrats are spending \$1 trillion more than they take in from taxes, so we are adding a trillion to the total debt each year. The worst part is they

don't show any desire to stop spending! We have major uncertainties of how all the tax increases, more government controls, and medical health care changes will affect our businesses.

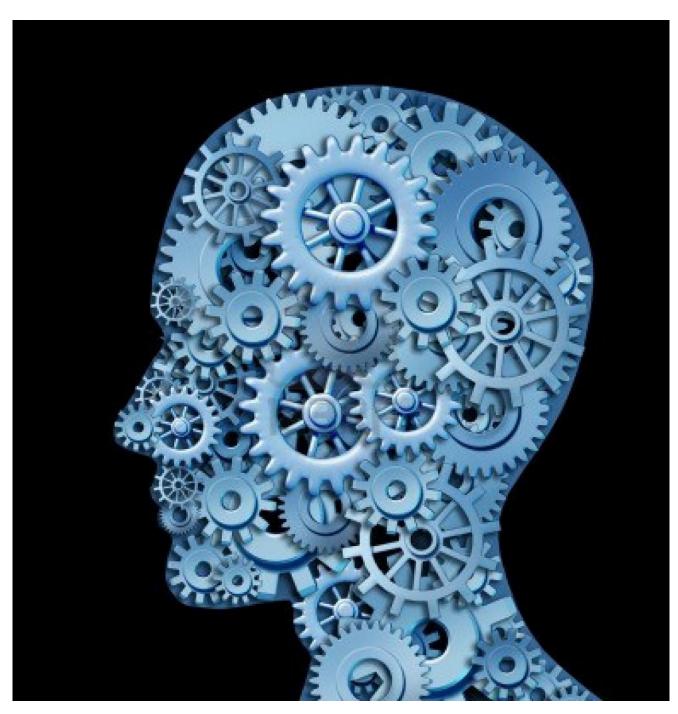
The fear and uncertainty makes people sit and wait it out, for the most part. We are experiencing some positives now because of pent-up demand. Some areas don't have enough new homes to account for the demand. Some businesses are spending on things that they have been putting off for a long time and can't wait any longer.

This is not the environment of record-breaking stock markets that means things will change. I was in the investment world when the Fed flooded the markets during the late 90s and worried about lots of things, but mainly Y2K. This money mostly went into stocks and drove the markets to a massive bubble that soon burst. Sadly, I watched my money and that of so many others lose unfathomable sums.

Because of the brutal facts and my experience, I am being careful about the markets and business investments. I am also keeping an eye on any opportunities that may arise, given major changes that may occur. Remember that companies like General Electric, IBM, Disney, Burger King, Microsoft and Apple, all were founded in major recession or great depression. Opportunities are not limited to the good times.

Adding Context to Your

Decisions



f times we miss the aspect of context on how we look at things. This has importance in making business decisions of all sizes and shapes. This can show up a lot with people's decisions and with how they look at their competitors and strategies.

I was reminded of this on reading Rasmus Arkersen's recent

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post of the power of <u>contextual intelligence</u>. I have written about Rasmus before and his work continues to intrigue me. I first met him when he spoke at an EO regional conference in Bangalore, India, a few years ago. I wrote a blog about his work on <u>human potential</u>.

This recent discussion was on how Rasmus asked people which would be better to hire — an Apple or Microsoft sales person. He experienced most people would say Apple, because of all the hype on the products and Steve Jobs. But what if it was all that hype that made it easy for the Apple guy to sell more when the level of sales was not as high as Microsoft, but was due to a much better sales ability? This is the contextual intelligence that Rasmus is talking about when he says to look deeper and below the surface to learn how the numbers are achieved.

Anthony Robbins also talks about this in his discussions around metaprograms. He states that by understanding how people sort things, you can communicate better with them in the right context. According to Robbins, some people sort primarily by feelings or logical thoughts. Most of us know that, but did you know that some people can even sort by food? When their thoughts are focused around food, you may ask them directions, only for them to tell you to go down to the McDonald's and turn there. Robbins says, "If you ask them about the movies, they will talk about the concessions stand. If you ask them about the wedding, they will discuss the cake."

I also experienced this in my Investment days in what is called "survivorship bias." This occurs when you look at performance over, let's say, a group of mutual funds during an imaginable 20 years, and it looks good at an 8% return. What it doesn't factor in are the funds that performed badly and were closed down or merged out of existence. If you added this in over that time period, you may have a percent or two lower rate of all those funds.

These all are examples of looking at the full context of a situation and getting a complete understanding of why something is what it is. This is what Rasmus says is contextual intelligence, and when all is fully factored, may help you make better decisions.

What type of decisions do you have ahead that may need a little contextual intelligence?

I Built This!

Given some of the recent comments by those in the White House, I must share the experience of my own entrepreneur journey and how it differs from these recent statements.

When I was starting a mutual fund, I dealt with many people and agencies of both the state and federal governments. Their job was to ensure I met every regulatory obligation they could think of, and they seemed to come up with even more. I found nothing but roadblocks getting in my way as I tried to get this mutual fund off the ground.

At that time, there was only one money market mutual fund being run out of the Memphis area of Tennessee. When I was creating a stock mutual fund, the Tennessee regulators were all concerned about covering their behinds. They created requirements on the fly that we needed to meet in order to get the fund approved to sell in the state.

I am sure I have never heard anyone in the government say something like, "Greg, this mutual fund seems like a great idea and should create some high paying jobs for our state! What can we do to help you?"

The <u>SEC</u> audited us four times over the 10 years we had the funds, and each time, they spent a week in my office trying to discover something we were doing wrong. Not once did they ever ask how they could help us make the fund more successful, more marketable, or easier to manage. They focused on what they could do to find something wrong, so they could issue a fine or shut us down.

When we were getting our software company off the ground, I went a year without a paycheck, so we could pay all the employees and keep the business going. I didn't hear anyone in the state or federal government offering to support me and help me out during this endeavor. The risks I had taken and the rewards I had earned in the past allowed me to do that. My partners and I sacrificed and took the risk, as we should have, and we will benefit from any success that we may generate. With our tax dollars, the government will get its "fair share" even though I never heard a single government agency offering to assist me or my business.

The government has provided aid for connecting the people in the economy by building railroads and interstates. They only did this AFTER someone took the risk to build the steam engine, locomotive, internal combustion engine, and automobile. Individuals and families all across America have worked hard and sacrificed to build their businesses and their dreams, building this country!

Click here to see video.

That was my experience. What was yours? Any entrepreneurs out there feel that if it wasn't for the government, they would have gotten where they are or have been able to stay around?

The Power of the Crowd

I wrote a blog in July 2011 called "What Disruptive Technology is Sneaking Up on You?" I also wrote another one more recently called "Crowdfunding, the Savior for the Entrepreneur." Interestingly, they have both been pulled together by the disruptive technology guru Clayton Christensen. Clayton spoke with CNNMoney for an article they featured on his involvement in crowdfunding.

As I explained in my <u>previous blog</u>, crowdfunding will allow companies to raise money with their social contacts for partial ownership in a company. You can raise a lot of money by asking for small investments from a large number of people.

Think of this like a <u>mutual fund</u> that has lots of money to invest, but one individual investor may only put in \$500 while another puts in \$10,000. Crowdfunding gives the investor the opportunity to invest in people they know even if they don't have large sums of money. The previous laws placed tight limitations on this.



Clayton pulls disruptive technology and <u>crowdfunding</u> together when he points out that crowdfunding has the potential to disrupt traditional financiers. He has invested in a platform that is being created to help bring together both the investor and the company trying to raise more capital.

As I've said before, I think this opportunity is going to be big! It will change the game for many people, most importantly the entrepreneur. Ideas and opportunities that would have never gotten off the ground before will now have a better

chance at a good start and could become job creating machines.

Now, the important ingredient for anyone with aspirations to grow and get funding is a strong social network. The theme we had back in my investment days was connectivity. We invested in companies that were creating the infrastructure which would bring us together. We have all heard "it's who you know, not what you know." This rings even truer today with a major focus on people.

What are you doing to grow your social network?

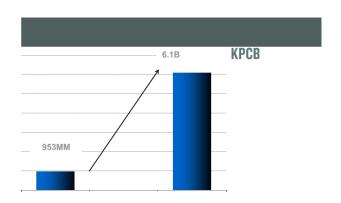
Make the Trend Your Friend

Mary Meeker recently released her <u>annual overview of internet trends</u>, and I found it to be very insightful. You may remember that I have discussed Mary's research and opinions on this topic in some of my previous blogs. She pushed forward as a leader in this space with different investment banking firms and is now a partner at one of the most prestigious venture capital firms, <u>Kleiner Perkins</u>.

Meeker's overview includes more than one-hundred slides, so I have summarized some of what jumped out at me. The general theme is that internet growth is still significant and mobile adoption is still in the early stages. Many of the slides show examples of how this connected world is creating the Re-Imagination of everything.

The Smartphone has penetrated only 953 million users when compared to the 6.1 billion mobile phone subscriptions as

shown on slide 11. This is a huge upside. Think about all the new businesses and people considering apps moving forward. Is your business prepared to benefit from this growth?



Next, on slide 10, compare the global penetration between the Android and iPhone shipments. Android has over 250 million compared to over 60 million with the <u>iPhone</u>. This is a four times difference, and it makes you think about for which one you would build an app. Looking at your demographic, area, and global reach will help to determine if you choose to create an app for one or both.

Slide 18 shows India's usage of the internet on a desktop has decreased over time, and their usage of internet on mobile devices has increased over the period 12/08 to 5/12. Mobile usage has currently surpassed that of desktops, which should be considered for the monetization of sites. Most sites make more money from ads on the desktop than on mobile. This will changes things.

Mary also makes several points about how things are changing in the world with the internet. In 2010, after 305 years, newspaper ad revenue was surpassed by internet (slide 32). The trend lines for the newspaper ad revenue were declining much faster than the internet was sloping up.

From a technology investment perspective, be careful. Look at slide 108. Out of the 1,720 IPOs over the periods 1980 and 2002, only 2% of these companies accounted for 100% of net wealth creation.

Mary states that the "Magnitude of upcoming change will be stunning. We are still in spring training." She gives a long list of reasons in slide 85. A few key elements include nearly ubiquitous high speed wireless access in developed countries, fearless and connected entrepreneurs, and inexpensive devices and services, including apps.

How are you benefiting from these major trends taking place right before our eyes?

Crowdfunding, the Savior for the Entrepreneur

Something exciting has happened in the entrepreneurial world, and I want to share it with everyone. The <u>JOBS Act</u>, passed by both houses of Congress in March and signed into law on April 5th, will generate big changes for the growth of small and mid-sized businesses. One of the major amendments in this bill would allow <u>crowdfunding</u>. I see this evolving into a significant means for companies to access increased funding, and it is a great way for small investors to find more opportunities to devote their money to companies with which they are more closely involved. Given how connected we are through social media and the internet, this is ripe for the times!

So what is <u>crowdfunding</u>? It is the opportunity for your business to use a website and social media to allow others with an interest and small sums of money to invest. Prior to this bill, the <u>Securities and Exchange Commission (SEC)</u> would only let a small number of people invest in one business, but once your business passed that limit, other investors were required to have a large income or net worth, or you would have to register as a security with the SEC. Crowdfunding will

eliminate all this red tape and provide the opportunity to truly democratize the investment process.

This can be compared to a New York law which passed in 1811, changing the liability requirements for corporations and making it easier to establish one with minimal requirements. This allowed investors to hold a diversified portfolio of stocks without regard to the debts of the companies in which they invested. This freed up money to move in areas it was needed, which at the time included textile mills due to our challenges with Britain (War of 1812) reducing trade.

That timely law allowed money to flow where it was needed. Today, we have a similar environment where businesses can't get the funding they need to grow because of all the bank problems. Banks withhold lending because they fear the bad economy, have experienced many losses already, and must hold more money in reserves due to increased government regulation. This starves the entrepreneur from the funding needed to take advantage of various opportunities.

Given my history with investments as well as the historical results when we democratize people, government, business, and investments, I see the start of a new era. Investing in a portfolio of startups will become as common as mutual fund investments! Does your business need capital to grow and could crowdfunding be the advantage you have been looking for to explore new opportunities?

<u>Theophylline</u>

Success is a Process of Discovery

Doesn't it seem like some of these people making it big in the business world just have this epiphany one day about a great idea, then they just go and make it happen…ending up with millions and sometimes billions later on?

This was not my experience. What I've seen is that, one day you start working on this small idea, then somewhere along the way you stumble upon a bigger idea, which usually isn't anywhere close to your original idea. If you have gone down the path of an entrepreneur, is this how it happened for you?



One of my biggest successes was starting a mutual fund, but it didn't just come up out of the blue. First I took an internship in college to learn about and sell insurance. I built on that by starting a financial planning company with my late partner Robert Loest. From there we tried an investment newsletter, but that only generated a few subscriptions. Robert

thought that money management was the future, so we went in that direction.

After a few years of managing individual client money that was slow and hard to grow, I had the idea of starting a No-Load mutual fund. This newly discovered path came from the many paths before and the knowledge accumulated along the way. It helped us take a firm that managed 20 million to managing a billion in 5 years.

What I have experienced is that we get started on something and it leads us down a path towards success, but it's not a

straight path. It's only after we fail with an idea or two (maybe more) and keep trying that we discover new paths along the way. Success is a serious of steps and discoveries that take lots of focus and drive to get past the down times and potential lack of interest in the marketplace for your ideas.

A former venture capitalist, <u>Peter Sims</u>, did some very interesting research that backs up my thinking on this topic. Did you know that initially <u>Google</u> was a project to improve library searches, and was not founded on the idea of being a major search advertising powerhouse that it is today? The major picture animation company <u>Pixar</u> first started as a hardware company. <u>Twitter</u> was also not an original idea. Sims goes into more detail in his new book <u>Little Bets: How Breakthrough Ideas Emerge from Small Discoveries</u>.

At my current company, <u>Efficience</u>, we focus on building multiple, easy to use web applications an put them in the market place to see what works. We might change and evolve an existing application several times before we get it right, or we might start down the path of creating an application and discover something completely different in the process, winding up on a new path instead.

Creating a Jobs Economy

Our nation is struggling to create jobs. You've likely heard that regulations have limited businesses' capital, making it difficult for them to hire or expand. Have you wondered what types of changes to these regulations would help this economy create more jobs? Let's discuss a few key changes that have worked in the past to encourage companies to grow and hire more people.



Many regulations create a big problem for the economy. Which regulations and policies are stopping us from creating the jobs that we are missing? Amity Shlaes writes an interesting article in the Wall Street Journal, Three Policies That Gave Us the Jobs Economy."

The first game changer implemented a venture capital investment increase from \$39 million in 1977 to \$570 million in 1978, an increase of 15 times! What policy changed? They cut the capital gains tax rate from 49% to 25%. In the 1960s, the rate had been raised. What happened then? As Amity says, "The mid-1970s were a dead period." The decrease in the capital gains tax rate generated investments and growth in businesses, which actually brought in more tax revenue for the government.

The second big policy change adjusted the <u>ERISA law</u>, which regulated pension and retirement plans. In 1974, they instituted the prudent man rule, which said that pension plans

would be violating their fiduciary responsibility if they invested in risky startup companies like Apple at that time. They relaxed these regulations in the late 1970s, and as a result, more money was invested in small, younger start-up companies that create most of the jobs, as I discussed in an earlier blog post.

The third major policy change centered around intellectual property rights and clarified how ideas in universities and research departments could be sold or used for commercial benefit. Subsequently, so many great ideas surfaced after having been pushed aside on a desk or stuffed into a file cabinet simply because, until that moment, no one had the incentive to go out and reap the benefits.

The lessons here are plentiful! We need to continue to lower the cost of capital transactions and capital gains. When we take from the people with capital, we always get slow growth or dead periods, not more jobs or government revenue. Amity suggests the major regulations of today include Dodd-Frank and Sarbanes-Oxley. We need to change these policies and reduce the burdens they place on businesses.

Most entrepreneurs understand this instinctively, but we need to share this data with others. Shout it out loud and clear to the policy makers because this information is vital if their real agenda is to create jobs and improve the economy and not just to maintain power.

Investing: Sometimes the

mattress looks good...



22 years in the investment world, running a money management and mutual firm taught me a thing or two. I experienced ups and downs, and learned a lot. The world is a difficult place when it comes to stock markets, and trying to decide where to place your money. In case you haven't noticed, after a decade the markets today are still lower than they were in 2000. Scary thought.

It's my experience that those in the marketplace that manage money have short streaks of what appears to be brilliance. They are labeled as a guru, right up until something changes in the market, and they go back to being the average Joe, or even worse, losing lots of money. I saw this happen firsthand when my partner and portfolio manager was labeled a guru when we had the number 1 performing growth and income fund and were on CNBC regularly. We were propelled there by placing money in what we felt was the direction of a more connected world, then supercharged by a floor of money released into the economy by the Fed in fear of Y2K. All that changed in the early 2000's.

Being in that world and around all those "perceived" investment guru's helped me see that no one had the market truly figured out, and in my opinion, still don't. You will always find portfolio managers that generate above market returns for a while, then something changes and they revert back to the mean. Most people jump on board when the good

performance numbers start to show up in the 3rd and 5th year rankings, but that is usually about the time that funds begin to fall back to mediocre, or even worse, fall like a rock.

Given my observations, I've chosen to invest in index funds with the lowest expense ratios, or not invest in the market at all. I read a great book a few years back that provided the numbers to support this theory, and even directed how to invest in the index funds and diversify between cash, bonds, international, large and small stocks. It's called "The Smartest Investment Book You'll Ever Read", and if you're going to invest in stocks or mutual funds, I fully agree with the title. If will provide you with a simple and easy to follow process.

If you read this and think, "Well Greg, what about <u>Warren Buffett</u>? He has blown away the market for over 40 years?" My response is, <u>Warren Buffett</u>is not stock market investing. He buys meaningful interest in business that his company either controls or advises on finance to help steer success. This is running businesses, not stock market investing.