





**“Throughout the centuries there were men who took first steps, down new roads, armed with nothing but their own vision.”**



Ayn Rand (1905-1982)



**"I call my invention *The Wheel*, but so far I've been unable to attract any venture capital."**



**“The probability of an entrepreneur getting venture capital is the same as getting struck by lightning while standing at the bottom of a swimming pool on a sunny day.”**

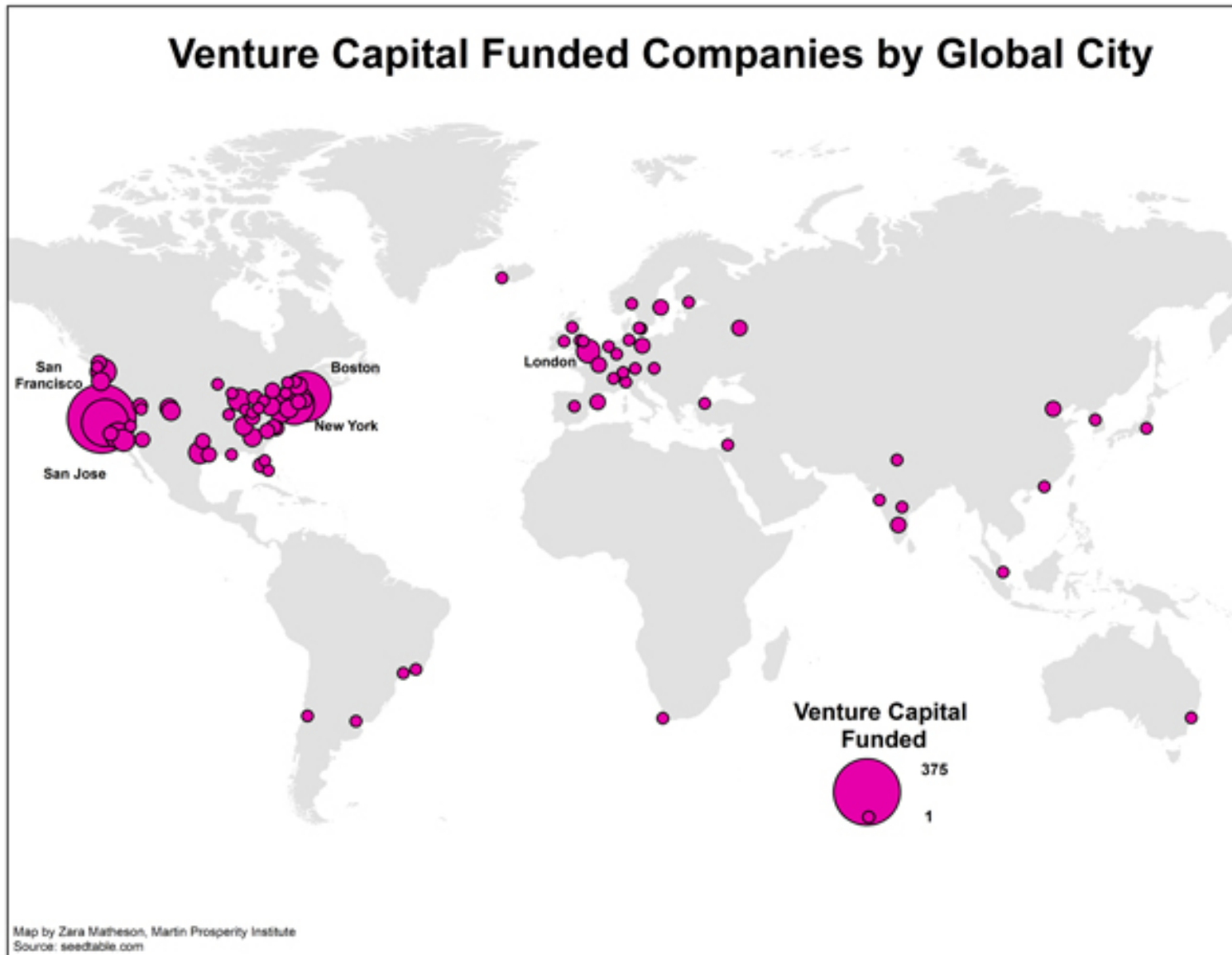
- Guy Kawasaki, *The Art of Bootstrapping* (2006)

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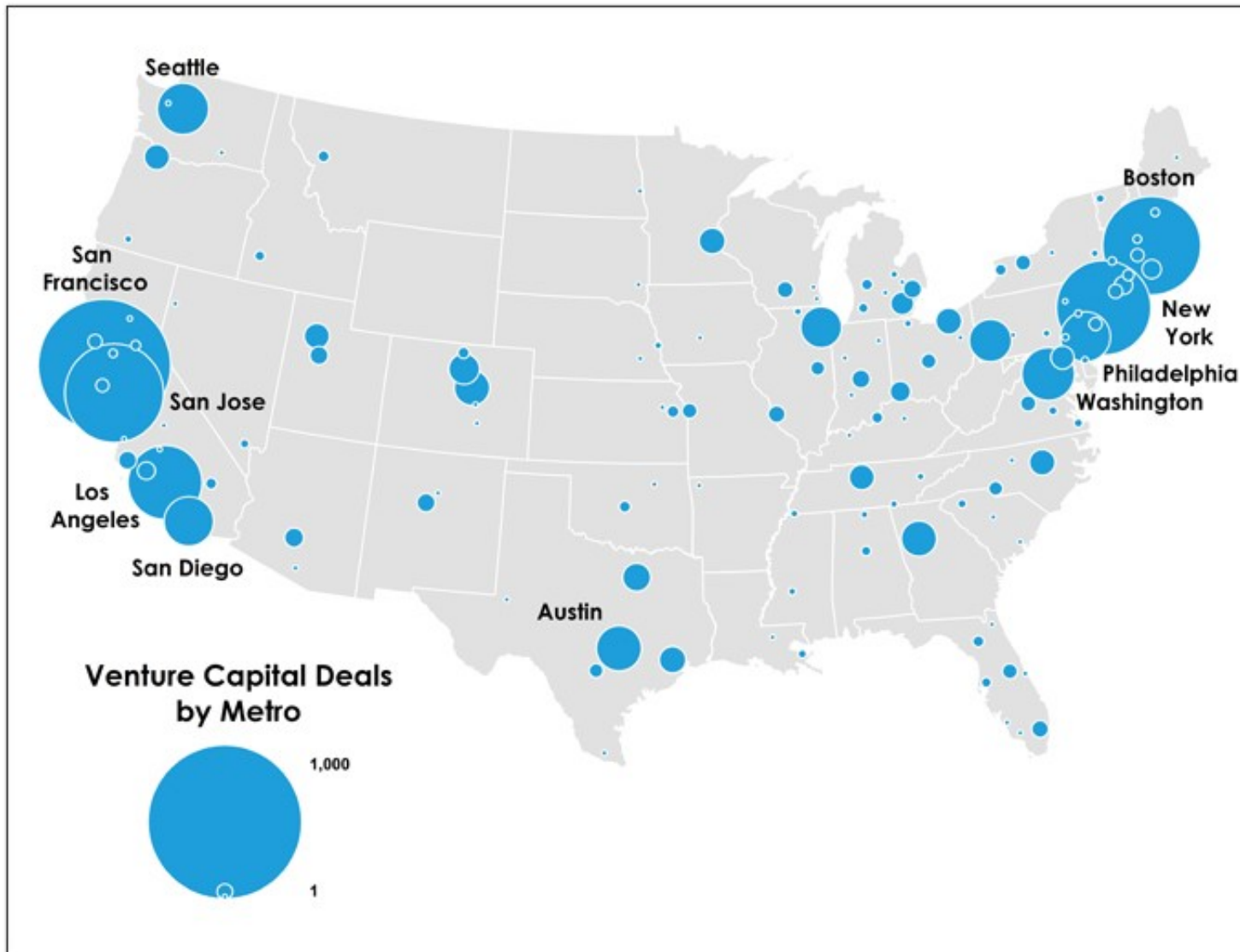
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*E la nave va (And the Ship Sails On)*  
Fellini (1983)

# Overview of the Investment Landscape



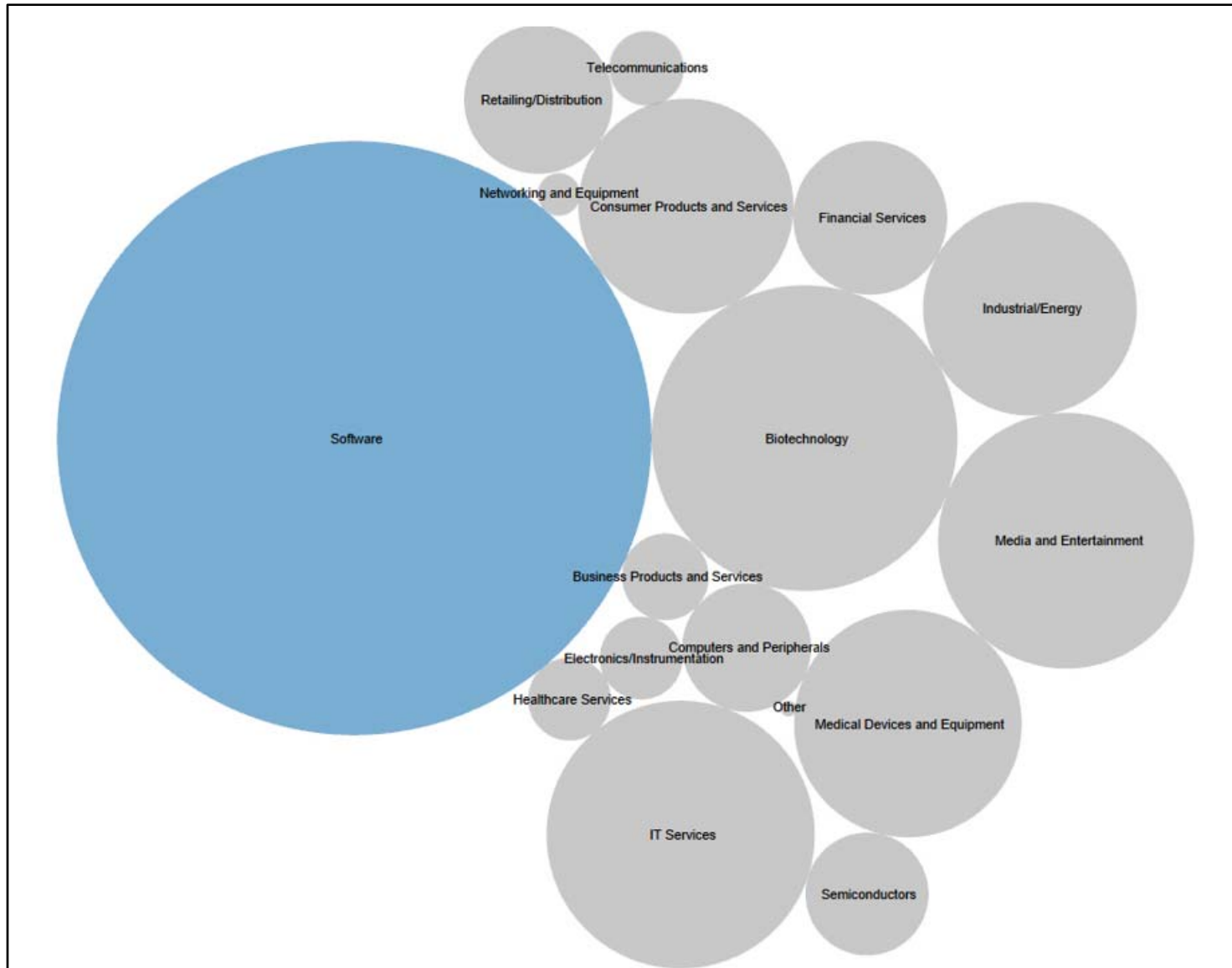
# Deals in the United States (2014)



<http://qz.com/94939/san-francisco-not-silicon-valley-is-the-hub-for-us-venture-capital/>



# Deals by Industry (2014)



# Let's Form a Venture Capital Fund

**10 investors invest \$100,000 each  
in a venture capital fund.**



# Where's the Sweet Spot for Our Fund?

Concept Exploration	Market Validation	Product Development	Product Launch	Company Growth
Founders and Three Fs				
	Angels / Angel Groups			
		Seed Funds / Super Angels		
		Venture Capital Funds		
Government Grants and Loans				

A wooden basket, tilted to the left, contains several white eggs. Some eggs have spilled out onto a light-colored surface. One egg on the right is cracked, with a pool of yellow liquid (egg yolk) spilled out from it. The background is a plain, light gray.

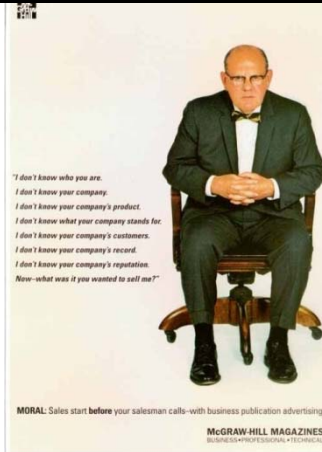
# **Deal Flow** and **Distributed Risk**

## Step 2

**The fund launches with \$1 million.**



# Where Should the Fund Invest?



I don't know who you are.

I don't know your company.

I don't know your company's product.

I don't know what your company stands for.

I don't know your company's customers.

I don't know your company's reputation.

Why would I give you any money?



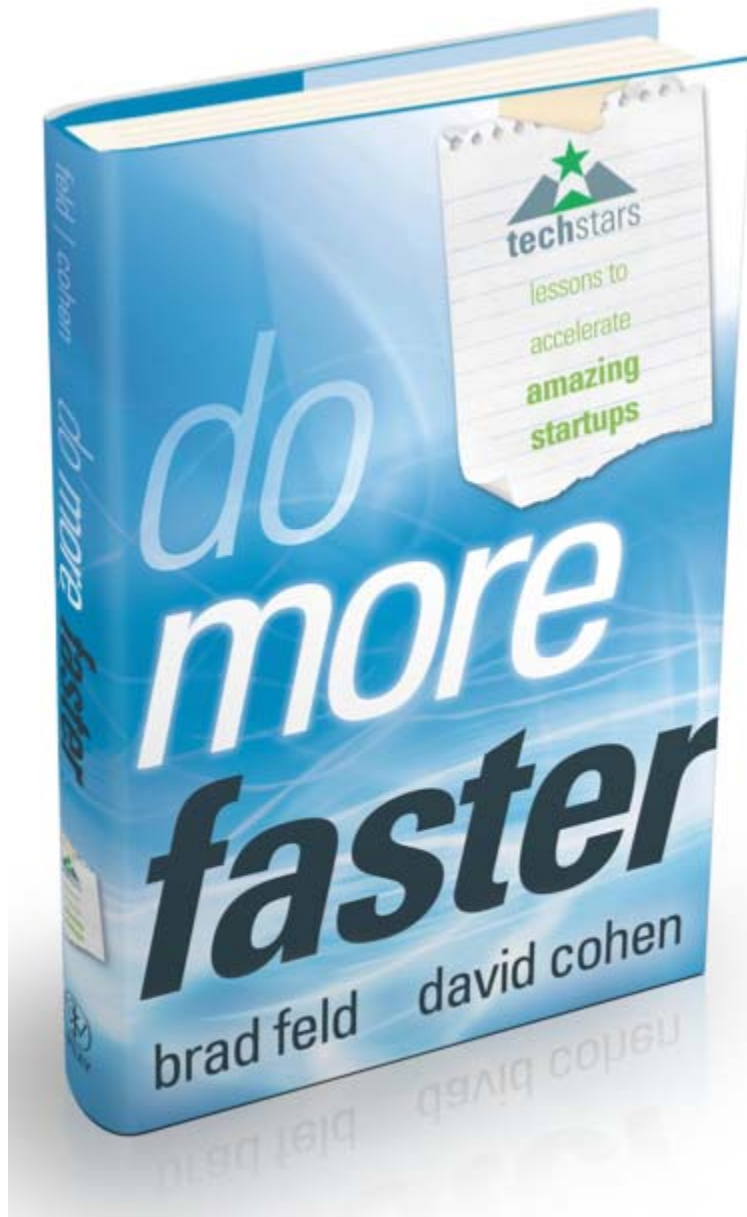
# Step 3

The fund invests \$1 million in 10 early-stage companies.









**“Trust me,  
your idea is  
worthless.”**

- Tim Ferriss

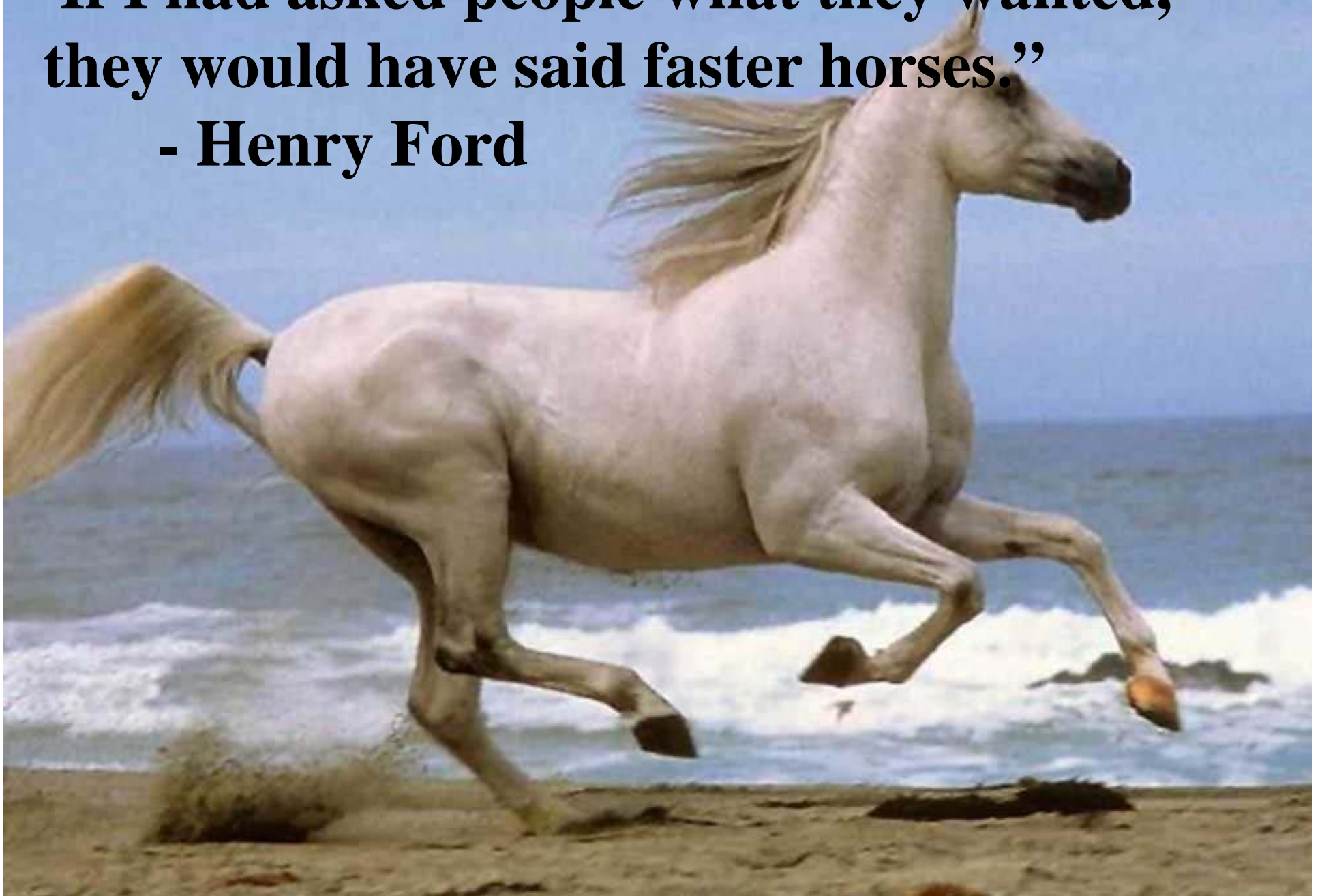
# Early-Stage Companies Must Prove They Can Scale



Nikola Tesla Pitching Silicon Valley VCs

**“If I had asked people what they wanted,  
they would have said faster horses.”**

**- Henry Ford**



## Step 4

The results are in about 7 years later.



**5 went bankrupt.**



**2-3 broke even.**



**1-2 made money.**

# Are We All Rich Yet?



# So, how did the investors do?



**5 companies bankrupt** = \$500,000 \* 0x return = \$ 0

**3 companies broke even** = \$300,000 \* 1x return = \$ 300,000

**2 companies made money** = \$200,000 \* 10x return = \$2,000,000  
\$2,300,000

**\$100,000 in = \$230,000 out**

**130% gain / 7 years = 18.5% annualized yield**

# Oops, we forgot about the “2 and 20”.

**Gross Revenue = \$2,300,000**

**Return Principal to investors = \$1,000,000**

**Gross Profit = \$1,300,000**

**2% annual fee for 7 years = (\$ 140,000)**

**20% Carry (VC fee) = (\$ 260,000)**

**Net Profit = \$ 900,000**

**\$100,000 in = \$190,000 out**  
**(not \$230,000)**

**90% gain / 7 years = 13% annualized yield**  
**(not 130%) (not 18.5%)**

# Questions?



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