Eric Tait of Vernonville Asset Management LLC

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall T. Martin and the host of the show in which we interview angel investors, venture capital, family offices, private equity. Many other investors for early stage and growth companies. Hope you enjoy this episode. Interested in raising money for your startup? Where you been raised, consider TINC Capital Syndicate Platform, an online portal using a special purpose vehicle. The syndicate platform allows for online investment and access to over 12000 accredited investors. Log into the King Capital Syndicate platform to find your next investment. To learn more, go to TINC Capital DOT Group Slash SPV.

Speaker2: [00:00:44] Hello, this is Hall Martin of the Investor Connect. They were here at Eric Tait, founder and fund manager at Vernonville Asset Management. Vernonville Asset Management is a private investment firm created to provide investors the opportunity to invest in real assets. Their focus is creating and maintaining investor wealth through alternative investment strategies in terms of generating for the clients by directly investing in companies and development teams with a proven track record of profitable operations along with experienced management. Eric, thank you for joining us.

Speaker3: [00:01:13] Thanks, Hall. Appreciate being here.

Speaker2: [00:01:15] Great. So tell us more about your background. What did you do before you started investing in early stage companies?

Speaker3: [00:01:21] Well, interestingly enough, I actually came to Houston. I did a dual degree MD MBA at Baylor College of Medicine and Rice University. So I actually came here and went through training, decided that I really didn't want to invest in the stock market, and then started looking at investing in kind of I guess they call it alternative assets. But what I like to call them kind of real assets. So that's really kind of my background and how I started.

Speaker2: [00:01:44] Great. So what excites you right now?

Speaker3: [00:01:47] Right now, I'm kind of digital transformation in our Covid is accelerated. A lot of what's happening. So we probably have condensed 10 years of transformation into the last 18 months. So anything that is taking old legacy type processes and putting them in the cloud or creating a digital way in which to do them, that has all been accelerated. And so we're very interested in kind of that digital transformation in kind of large addressable market areas.

Speaker2: [00:02:15] Great. So you see a lot of startups and a lot of investors out there. What's your advice for people investing in startups where you tell them to do before they write that check?

Speaker3: [00:02:24] Yeah, so it's interesting. With our venture fund, we actually have a whole angel, one on one kind of webinar series that we go through. We do it in conjunction with the eye on the new kind of technology center here in Houston. And we really go through all that. But the number one thing I can say is management, management, management really dig into the management and their ability to execute on what their plan is and their ability to be coachable by those who are more experienced than them. And so that they are willing to pivot as needed based upon kind of market conditions. And so if everything don't fall in love with the product, fall in love with the management team and their ability to execute

Speaker2: [00:02:59] Great, then on the other side of that table, what do you tell startups to do before they go out to raise that first round of funding?

Speaker3: [00:03:04] Actually, what I do. Well, interestingly enough, I always believe that people should have their own cheerleading fan base. And so as soon as you think you have an idea, you should start socializing that to people, putting them on an email list, giving them updates, because ultimately those people that you keep in contact with and let them know what you're doing are going to be your funding base to get you started. And so let them see your let them see your foibles. Let them see the mistakes that you make, because nobody's going to invest with somebody who was perfect, because we all know that you're going to fail. We don't want you failing first with our money.

Speaker2: [00:03:36] Ok, great. So let's talk about the state of startup investing. How do you see the industry evolving here post Covid?

Speaker3: [00:03:43] It's interesting right now, there's just a lot of money sloshing around the country, so valuations are very, very rich, let's just say. So, you know, and I can go on and on about kind of Fed macroeconomic policy and the amount of currency being created and where that currency is ultimately flowing. But all assets right now, I would argue, are very much very rich. And so you're going to have to as an investor, you're going have to pick through and kind of find value where you can, because there are a lot of people chasing the same kinds of deals and there's a lot of money chasing those deals. And so pricing is going up even on just ideas. It feels very frothy.

Speaker2: [00:04:23] Right. And so what do you think is the biggest change we'll see in, say, the next 12 months,

Speaker3: [00:04:28] The next 12 months? I actually don't know if I can say what the biggest change will necessarily be. I mean, the a big trend that is going is much more democratization of the venture space. It's something that we do kind of on our urban capital network, on our on the venture side of our platform is allowing investors who who never had access before the ability to get into venture. So a step further or a step past the angel investing space. You're going to see a lot more of the crowdfunding type platforms getting venture deals and allowing smaller investors access.

Speaker2: [00:05:03] That's great. And so tell us more about your investment thesis. Where exactly do you look for and what is your thesis?

Speaker3: [00:05:10] Yeah, and so I actually have two different companies that I founded. So Gordonsville is the one that kind of brought me in the front door here on that. We do a lot of real estate investing, private debt and angel investing. And to reverse that, the angel investing, I usually will have to either be an advisor for the company or I will have a direct contact in the C suite or a direct referral with somebody who works for the company. You're not going to really solicit us to be an angel investor at Burtonsville without me having a direct kind of understanding, a direct connection with you in some way on the real estate side of the world. Just value. Right. The great thing about real estate is you can get cash flow determines your value. And so if things become too rich, you just don't buy it. So you get the choice to say, hey, we're not going to buy this because it doesn't give us the return that we want to have from a threshold standpoint. And on the debt side, because bonds aren't generating returns higher than the rate of inflation, there's really no point in putting money in, in my estimation, putting money into treasuries and things of that nature or even junk bonds at this point. And so there's an opportunity to create lending for companies that have good cash flow and be able to give investors rates of return that are higher than that of inflation on the urban capital network side and the venture side. There is there's just a lot of good deals flowing right now. If you have the right connections. And so there's, again, that digital transformation piece. There's a lot of aggregation happening. There's a lot of money flowing into space for companies that are already established. So specs have been a game changer for venture funds and venture companies that are looking to kind of up value and get money in quickly without having to go through the IPO process. And so what you're going to see, I think, is a lot more and a lot faster growth and progression of venture portfolio companies over these next 12 months.

Speaker2: [00:06:54] Read on the angel investing side. What what type of strategy are you looking for? Tech, health care otherwise? And what what's your specific criteria for looking at a deal or passing on it?

Speaker3: [00:07:04] I'll be honest with you, I am agnostic on the angel side as it relates to on Verne Angel, the angel side. Again, it's for me, we're opportunistic. So if it's interesting, we'll look at it as long as I have a direct connection to the to the company on the urban capital network side, we actually don't put investors into angel projects in on that. But at our management level, the founders, there are three other founders with myself included. We actually invest from our proceeds in our management fees. We invest a portion of that in founders of color and women founders. And so we've been finding a lot of deals in that space because they tend to be underresourced, but not necessarily under Édouard. So we're able to find value there. And so on the angel side, we're agnostic about industry, but on the urban Cappel network side, from the management side. If you're an underrepresented founder, founder of Color Woman, we will look at your projects.

Speaker2: [00:07:56] Ray, can you talk about one or two angel startups that you've actually funded?

Speaker3: [00:08:00] Yeah, we can go back earlier and then go forward. So one of the early ones we did was a company called Data Gumbo here in Houston. There are a block chain technology company that started the oil and gas space, but now is spreading out into the ESG space because they can essentially track kind of carbon usage across a portfolio. And so that one is done pretty well. We also invested in a company called Mid-term, which is a KBD company, CBD cream company. People don't realize it technically CBD. You can't ingest CBD. It's technically illegal from the FDA standpoint, but you can put it topically all you want. Now, people still put it in stuff in in just a long time. I'm just letting you know from from the Fed's standpoint, kind of where that stands. And they're in probably eight thousand stores across the country, and so they're they're percolating along, hoping, hoping for an exit in the next two to three years on that one. And a couple of other companies that we have invested in is a company called Humanity here in Houston. And what they do is they connect people with resources. So let's say they went to the city of Houston and the city of Houston is looking for is looking to get from the community kind of hot spots and problems. This company has a technology that uses geolocation. They can tell you there's a problem here. You can ping the city, a city will see it and get workers out there or let's say your nonprofit and you're like, hey, we need volunteers at this site to do this thing. You can then broadcast that out. People can see it in real time and go and participate in that in those types of events. So those are kind of three companies recently that we've looked at and invested in.

Speaker2: [00:09:39] Great. Well, you see a lot of startups and investors out there. What do you think is the main challenge started space today that you work with?

Speaker3: [00:09:46] So angel startups, a lot of them is just understanding the formalities and language of the startups. OK. And so much like I'm a physician, just like in business, there are there's a language that people, when they are hearing pitches, they want it to go in a particular sequence. And when I hear specific things getting early founders to put their company and put their pitches in a secret and to think about their companies in a sequence in the way that funders think about them, that I think is probably the biggest kind of bridgeable challenge in terms of what an entrepreneur would naturally think about versus what a funder wants to see. And in the process, in in the process of how they want information sent to them. So I think bridging that gap is kind of a big a big thing. And there are a lot of accelerators out there that are helping founders do that.

Speaker2: [00:10:38] Right. And then on the investor side, what do you think is the main challenge investors face today in the startup world?

Speaker3: [00:10:44] Frothy valuations. I mean, it's just it's just going to take you a while to get your money back if you're getting it. High valuations. You know, it's hard to make money when you're paying up early, right. Because the company's got to grow into that valuation so much so that it could be a very painful process that takes away some it tilts the risk reward balance away from you. Right. The reason why you're willing to take higher risk on the angel side is because you're getting into this evaluation. The reward can be so high where the valuations are high to begin with. That reward is it. You're not necessarily being compensated commensurately with the risk that you're taking at this point.

Speaker2: [00:11:18] What can you do about that?

Speaker3: [00:11:20] You just have to be more selective in terms of the companies that you're you're going to be a part of. You're going to you may have to entrench yourself at earlier stages where entrepreneurs are just onboarding it on ramping and be a mentor to them, maybe get some sweat equity equity in on the front end. Guide them to accelerator's, help them with your Rolodex, things of that nature.

Speaker2: [00:11:40] Right. Well, there's a lot of different sectors and applications out there in the market today. If you had to put one or two at the top of the list is being a really good opportunity for investors. What would you list up there?

Speaker3: [00:11:51] Oh, block chain is a service is a big one. But choosing a winner and choosing an industry in which there's going to be a winner, that's that's still a prosthesis out there. Right. But the block chain is a service that will revolutionize most, as I just say, terrestrial transactions. And so keeping your ear to the ground on companies that are actually solving real world problems with real world applicability and real world cost savings for their clients. That's a big thing. And that's it's a trend that we are heavily invested in and following.

Speaker2: [00:12:25] I remember like came back in the twenty seventeen Icko White Paper era, and it seemed like things have progressed quite a bit further. How would you characterize the market today for block chain applications and investments? Are they real? Are they ready? What would you say?

Speaker3: [00:12:40] Few are ready. There's still a lot of fluff and a lot of hype around there. People still slap the name block chain onto things due to sexy them up and get a better valuation. But what you have to do is look under the hood and say, OK, what transactions are actually occurring on your network? Who are they benefiting? And really, who will you dis intermediating with this block chain? That's really what you're all watching is doing, is it is really just disintermediation, a process where somebody is a middleman right now who's getting paid that that's going to go away. So you really want to look at, OK, who are they cutting out in this process of doing this or what value were they adding by creating a an immutable record that people are willing to pay for? That's always a question you have. I would say you ask yourself is who's paying for this and why?

Speaker2: [00:13:24] So a lot of investors are looking for that killer application that's really going to take bar chain up there early on it was supposed to be payments in the fintech space, but it was quite slow and kind of expensive for that. And today, people are looking at non fungible tokens in fees and they're looking at decentralized finance solutions. Where do you think the killer app is going to come from?

Speaker3: [00:13:45] Money will be made in those places. I do not think it is sustainable money. I think it is. I think it's hot money and all right. The sustainable. I'll give you a perfect example that a gumbo saved EC1 or eight million dollars on one drilled oil well, one with eight million dollars in savings. Right. That is tangible. That is real. And when oil was zero or or negative, that's real money, right. It may not make as much sense of oil as 60 and 70 dollars a barrel. When oil is 20 dollars a barrel, that's that's real money that can go back to investors that can be used for energy transformation. So those are real applications, real world things. I'm waiting for it to come in in health care right where I can just walk in. And there will be an immutable record of who I am and what I do. And there will be no more prior authorizations. There will be no more referrals needed. There will be no the physicians can get paid immediately because they know that there is there that I'm covered. And as soon as they drop in what was done, payment is released immediately. Like all like when that happens in health care, you will ring out probably a couple of billion dollars worth of savings there. And then we can talk about it on the real estate side as it relates to titles, title searches, all of those things. Right. These are things that are all coming. Is this who is going to be the winner when it's all said and done?

Speaker2: [00:15:07] I always thought supply chain was going to be the killer app, because I've never talked to anybody in the supply chain industry about block chain where they just weren't jumping up and down, jumping up and down on top of the table, saying, I want that, I want that. It just seemed like it was a really good fit for them. But many people have told me there's just not enough money there for it. What's your take on that?

Speaker3: [00:15:25] Again, it depends on the industry, right, if we're talking about a commodity, a commodity industry. I always step back and say, OK, who's getting paid, who's paying for this and who's getting paid and why will they do it right? That's always the underlying thesis of any for me, for any investment. Right. And in the chemicals industry. Right. That's kind of a supply chain situation. There's absolutely a case to be made for cost savings. Any time something moves physically. Who is documenting it? Who is saying that it that it went where it was supposed to go, like all of those are man hours that are happening for that to happen. So any time anything is moving anywhere that someone is tracking and is going to pay for it, if that's what supply chain is, then, you know, there's a human being that doesn't need to be doing that.

Speaker2: [00:16:09] Very good. Well, in the last few minutes that we have here, what else should we cover that we haven't?

Speaker3: [00:16:13] I think the big thing is for for people to understand that everyday average investors, those of you out there would fall one case and IRAs. And I think that this is kind of a foreign concept of investing in early stage companies. It is not. I would argue to you and I make this point when I when I speak to audiences and I just spoke to a physician group up in Charleston recently, that 50 percent of the world's equity is outside the publicly traded markets. And to create a truly diversified portfolio, you can't be 90 percent wedded to stocks and bonds, especially in today's market, with its overvalued as two standard deviations above normal valuations. Right. So every time you're putting money into that space, you are paying, just like we talked about earlier, you are overpaying for something that you're not even quite sure what's going to happen in the future. And so there are there are ways to construct a portfolio where you have a good balance between publicly traded assets in private traded, privately traded assets and angel investing. I would argue can make up five to 10 percent of that portfolio and give you a good diversification, but also from a risk reward profile can give you a three, four, five, six X return on your investment, the capital. So I think that more people should be looking at this space and trying to become investor and investor in this space as well. And it's not just for wealthy people or hedge funds and things of that nature.

Speaker2: [00:17:33] That's good advice. So how best for listeners get back in touch with you?

Speaker3: [00:17:37] Yeah, I mean, there's two different ways. I'm pretty sure the show notes will have my Burtonsville information. And so just V.R. and oh, in the telecom, you can always contact me through. There are Eric at running Goldkamp, but also on the venture side of the world, urban capital network dot com. And so that's where we do venture investing for individual investors. It's 11000 per unit to get in. You do have to be an accredited investor. But we democratize the process because what we do is put together funds with at least four to eight venture backed companies per fund. And basically with that small amount of money, you're able to diversify across multiple companies in one fell swoop as opposed to just concentrating in one early stage company.

Speaker2: [00:18:20] Well, include those in the show notes to want to thank you for joining us today.

Speaker3: [00:18:23] Ok, have you back for a follow up soon. Thanks all. I appreciate.

Speaker1: [00:18:30] Investor Connect helps investors interested in startup funding. In this podcast series Experience, investors share their experience and advice. You can learn more at Investor Canaccord. Alti Martin is the director of investor Canek, which is a 501 C three nonprofit dedicated to the education of investors for early stage funding. All opinions expressed by hall and podcast guests are solely their own opinions and do not reflect the opinion of Investor Connect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.