Craig Martin of The Family Wealth Consulting Group

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall Martin. I'm the host of the show in which we interview angel investors, venture capital, family offices, private equity and many other investors for early stage and growth companies. I hope you enjoy this episode. Investor Connect is a 501 C three non-profit dedicated to the education of investors and startups for fundraising. Please consider donating $100 to the program to help others in their investor and entrepreneur journey. You can find the Donate button on the Investor Connect org website. Hello, this is Hall Martin with the Investor Connect. Today, we're here with Craig Martin, founder and president at the Family Wealth Consulting Group. The Family Wealth Consulting Group is a family owned and operated fee only financial planning firm that has been a fiduciary with clients in Silicon Valley, California, for over 35 years. This family centric team focuses on helping families maximize financial resources for today, as well as for generations to come. Craig, thank you for joining us.

Speaker2: [00:01:03] Glad to be here. I'm anxious to do this and congratulations on what you're doing.

Speaker1: [00:01:10] Well, thank you. So tell us about your background before working with early stage companies, what did you do before this one?

Speaker2: [00:01:17] My goodness. So I have been a financial planner in Silicon Valley for decades, and some 15 years ago, Client dragged me to a Angel Investment meeting with Kiraitu Forum. President Forum is now the largest angel investment group in the world. And since that original meeting, I was intrigued with with what they were talking about and joined as a member every year since then, and I've performed dozens and dozens and dozens of due diligence reports with other members. So we build a team of members and produce a report on an investment opportunity began to build that into an offer for my clients talking about what I was doing and clients were interested. So we began to to to co-invest with clients, and I put together a fund in 2010 to manage these investments because in 2010, the SEC told us that we were we had custody of all of those investments, which was an accounting legal nightmare. So we put together a fund and do those angel investments inside that fund. We've added things since then. We do an immense amount of real estate also, as well as have an alternative, a second alternative income fund.

Speaker1: [00:03:01] Great. So what excites you right now

Speaker2: [00:03:05] About doing angel investing is a is a 10 year commitment. And during that time frame, I'm most involved, engaged with the CEO and helping business planning, sometimes financial planning. And the exciting part is watching that business grow and achieve milestones. We've got a company right now that we invested into four years ago at fifty two cents a share and got warrants. At the same time, they're going out for a third level of funding starting January at two dollars and fifty cents a share. Give or take and that that's a five x return for us. And I can buy warrants back at fifty two cents. So just got out of a meeting with a client and they're most anxious to participate in buying those warrants.

Speaker1: [00:04:11] Also great. You see a lot of startups and a lot of investors in your line there. What's your advice for people investing in startups? What do you tell them to do before they write that check?

Speaker2: [00:04:22] Join an angel investment group taking a lot of due diligence for one year before you write your first cheque because it's that due diligence. It's sitting with other angel investors and watching them make decisions, as well as participating in the due diligence that will will greatly enhance your skill at determining what you want to invest into. The risk you suffer in an angel investment, of course, is business what we call business risk. That means the business could go to zero value. So that's true in the public traded stock market, and most people are saying somewhere between 15 and 20 stocks is how many you need to buy to eliminate business risk. Same is true in angel investing, but the number goes up significantly because the failure rates are much higher in startup businesses. So you need to you need to be willing to commit somewhere between 30 and 50 different companies. To build a diversified portfolio and eliminate business risk.

Speaker1: [00:05:39] Right. Know on the other side of that table, what's your advice for people raising funding? What do you tell that founder to do before they go out to raise funding from your investors?

Speaker2: [00:05:48] You need to build a a solid business plan that you can explain and understand in detail that includes financial projections. How you get funding can be either through angel investors who who are who, who like to invest in the seed level before you have revenue, maybe before you have a product and they're willing to fund the first milestone. So you want to decide what it's going to. How much money it's going to take to achieve your first milestone, say, build your product. And and once you've done that, you can go back to the angels and get second and third level of funding. Another alternative for funding is to find one person who can write a check for the amount that you need to fund your milestones. And good news is that if you get one person, once you find that one person it, it's much easier to get funding. But you're stuck with that. One person may or may not. Compliment you or your business the way you want, VC's get an awful lot of press, all the talk about funding startup companies is is in the press is about venture capital funds are doing. It's my experience. We live in venture capital center Silicon Valley. So my experience with VC funds is that that they're not willing to write that check at sea level. They want the company to have revenue and can't afford to write a check for $50000 to a seed seed startup. They want to write a check for five million. So finding funding for your startup company is harder unless you find out why angel to write that big check, you're not talking to dozens and dozens and dozens of angel investors.

Speaker1: [00:08:13] Great, well, let's talk about the state of angel investing. How do you see the industry evolving from here? Where do you see it going?

Speaker2: [00:08:20] All angel investing is the is the lifeblood of new business. And, of course, is how every business got started and the importance of startup businesses is huge. I think I think small business employs 70 percent of the employees in America. So we read the press about big corp that shut down or moved into town and how many employees they they gained or lost. But the truth, truth be told, it's the thousands of small businesses out there that employ the majority of employees in America, and there's a huge body of knowledge around the internet and A.I. and digital programming that are changing the way existing business is being run. And so when I'm performing due diligence, it's exciting to find a disruptive business model that is doing something at half cost and can scale for the whole industry because they're using digital programs to do that. All right.

Speaker1: [00:09:48] What do you think is the biggest change we'll see in Angel investing in, say, the next one to two years?

Speaker2: [00:09:53] Hole pricing has always been a bugaboo me 15 years ago, a company without revenue was valued somewhere between one and one and a half million prize money. Today they're there, they're approaching $3 million. Three money companies just got an idea. Entrepreneur just has an idea on the back of a napkin, and suddenly the business is worth way too much. Yeah, three million is just really hard. However, that that number is rising in spite of my opinion. And with inflation, impending inflation seems to me that that number is going to jump up significantly in the next two years.

Speaker1: [00:10:47] I agree. I think it's going to be jumping up as well. So let's talk about your investment thesis. What do you look for and what do you invest in for your angel investing deals?

Speaker2: [00:10:57] Well, the humorous response is only the most successful, if if we could, then we would, but we can't, so I don't. I'm a portfolio manager, financial planner, so diversification is your only safety. We've trademarked that term, by the way. And so so I'm I'm not trying to focus on any one industry. We've got just a we've got some 30 different angel investments in our portfolio and very few duplications. So I'm I'm looking for an entrepreneur. I'm looking. We call it the jockey. If you've got a great jockey, they'll take the horse across the finish line. The best horse is, in my example, that's the business model. The best horse doesn't cross the finish line number one without the best jockey. So start out finding the right person. And I do that in multiple interviews and deep due diligence. And then I'm then I'm looking for how how well that jockey, that entrepreneur has prepared their business plan to maximize the returns of investment for me as an investor. My goal is to make 100 percent return per year, 100 percent IRR on an angel investment. I need to get that need to think I can get that number because of the failure rate. Of small business,

Speaker1: [00:12:42] Can you talk about one or two startups that you funded that fit that thesis?

Speaker2: [00:12:47] Sure. We got about 10 years ago, a private equity company came at me with an investment that they which built makes the the fake fish. I don't know the names anymore. When you when you have fake lobster salad, the fish that's used in that was what they were making. And there must have been 10 competitors. And they were not number one when we wrote our check, the original founder of the company retired and we put in a new CEO, so the due diligence was on the original company. The forms, the cash flows of the manufacturing, the distribution, the delivery of the sales, the sales team quite involved, quite a quite extensive. And then we had to hire a new CEO. So that was a very involved process. In four years, we got a return of six to one on that investment that that was a winner. We've got a fair number of companies right now which are really on a j curve of growth, so link to is one we could talk about linked to is spelled LY and WorldCom. They are a their business purpose is to is to commoditize, make private equity easy so they go out and find shareholders. And in non publicly traded companies that that are destined to have an immediate imminent IPO and get that shareholder to agree to sell their shares. That process needs to go through the board of directors also, the board, of course, has the first right of refusal, so with approval of the board, this shareholder can now sell their stock on linked to his platform and the company.
I own shares in the company. The CEO, founder of that company, is a friend through the Koretz, who membership and yeah, lots of lots of security here. So we bought shares in at Gosh, I'm going to save 40 cents a share. Original check. Four years ago, they're selling shares now on the link to platform for the link to Corporation at close to $3. And all of that growth has come in the past year and a half or less. We bought shares of Ripple. You may know Ripple as one of the currency digital. I'll call them a digital company. And they issued a digital currency, digital yeah currency, and the SEC sued them. Coinbase and Ripple to a year and a half ago were neck and neck in capital pricing capital. Yeah, the prices of the value of the company and Coinbase was not sued. Ripple was priced frozen. Ripple and Coinbase went public. If you remember in January, one of my clients works there and some $70 million net worth today. The so ripple we were able to buy a. Oh, gosh. A quarter of a valuation that it that it collected its last funding round out, and the FCC is likely to walk away from this suit and when they do, Ripple's price will come up to match Coinbase. That's a real, exciting investment.

Speaker1: [00:16:47] It's great those are good examples there. Well, there's always a lot of challenges in this space. What do you see as the main challenge that startups face that you deal with in today's market?

Speaker2: [00:16:59] Getting funded and running the business. No funding funding easily can take six to 12 months. That's a lot of effort and the the issue for the founder is that they they need, as I said, talk to dozens of angel investors. That's a, you know, the the CEO thinks they're running their business, but in fact, they're out there getting funded and running their business after five o'clock at night when they can no longer talk to prospective angels. Right? That that makes it 12 15 hour day pretty easy. But then once they get funded, they got to run the business and hit the milestones and and do what they promised they'd do with the money. That makes the CEO a very busy boy.

Speaker1: [00:17:50] Absolutely. And so what is the what are the challenges in this space for the investor? What do you see investors struggling with the most?

Speaker2: [00:17:59] Our lack of knowledge, lack of experience and not diversifying enough. So earlier I spoke about Angel Angel New Angel investors. I recommended they join a group of angel investors. I joined Kiraitu Forum. I got my my my experience in performing, volunteering for dozens and dozens of due diligence reports. Sitting in on research meetings on on on each of the investment opportunities that taught me an immense amount in in the past seven eight years, I've been teaching due diligence to other angel investors, as well as entrepreneurs engaged right now with a team from we're doing due diligence classes virtually for four angel investors in Brazil. Do idea and hold totally different culture, so in America, I can speak to your question was what's the what would I recommend for the angel investors? And in America, it's getting diversified and getting experience. In Brazil, it's a different story. They have a different laws and different culture there. So we teach things a little differently to that group. Interestingly enough,

Speaker1: [00:19:34] Great, will you see a lot of sectors and applications? And you mentioned several on today's interview. If you had to pick one or two that you think are really good opportunities to pursue today, what would you call out?

Speaker2: [00:19:45] Boy, that's that's a good question. Certainly, the internet and the computer has introduced a tool that can be very disruptive in most industries. And so if you if you can invest, if an angel investor can find somebody who's got that, that combination of skill.

Knowing how to operate the computer and adapt it to apply it to an industry that they are very experienced in, that is a powerful combination and a good number of my investments have that general description. But we've also got medical research where we're we've got a company that's taking live cancer samples out of the body and growing them in the lab. And testing, which chemotherapy works for those live tissues. Otherwise, the doctors guessing which chemotherapy to use. And if the doctor is wrong. Probably too late for the patient. In this case, we're able to personalize that chemotherapy treatment. That's that's doing both good for the community as as well as good for our pocketbook because again, they're on a J curve also. So prices of those shares have skyrocketed. Mm hmm.

Speaker1: [00:21:35] Well, great. Well, so in the last few minutes that we have here, what else should we cover that we haven't?

Speaker2: [00:21:41] Investing as an angel investor is fun. I spoke about the the commitment I make to staying engaged with the CEO after I write a check. I don't walk away from that investment. I'm participating as frequently as the CEO can or will allow. And being engaged like that keeps me current on everything that's going on with that company. That is very exciting for me. The difficulty in the industry is that most angel investors. Are apt to make one investment and then and then take a back seat. Make no new investments and wait for that investment to do something. I said it takes about 10 years for that company to to reach an exit. So they're basically out of in the business long enough to write a check and then out and that that's a real mistake for the angel investor there. They've set themselves up statistically to lose that investment.

Speaker1: [00:22:53] Mm hmm. I understand. Well, great. We appreciate your taking time to share that with us today. How best for investors to get back in touch with you?

Speaker2: [00:23:03] I met Craig at F.W. SEAG Dot Net. That's Craig at Family Wealth stands for Family Wealth Consulting Group F WCG Dot Net.

Speaker1: [00:23:18] Great. We'll include those in the show notes, we want to thank you for joining us today and hope to have you back for a follow up soon.

Thanks.

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