

Mike Jarmuz of Lightning Ventures

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 nonprofit dedicated to the education of investors and startups for fund raising. 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.

Speaker2: [00:00:44] Hello. This is Hall Martin with Investor Connect. They were here with Mike Jarmuz, general partner at Lightning Ventures. Lightning Ventures is an exclusively Bitcoin focused network of investors, operators and developers dedicated to supporting lightning network adoption worldwide. Mike, thank you for joining us.

Speaker3: [00:01:01] Hey, thanks for having me. This is great.

Speaker2: [00:01:04] I'm looking forward to catching up with you today. So let's start with your background before joining Lightning Ventures. Can you tell us more about it?

Speaker3: [00:01:11] Yes, sure. So I spent most of my life in the music business. And I loved it. And I had a record label back in high school and I was a concert promoter and we grew that business to be one of the largest independent concert promoters in the Southwest. We did about 35 concerts a month in Phoenix, Tucson and Albuquerque. I lived above and ran the world famous Nile Theater, which was a lot of fun. Also a place called Modified Arts. So we did that. And then I managed a band on Elektra Records and we got \$1,000,000 deal when I was like 21. And we all bought houses and we thought life was great and it was great and spent a bunch of time with them on tour and went on to tour, manage and spend a lot of time with other bands. So I've done considerable traveling in my life. And I've done a lot of other things. I had a small retail store. I owned a bar in New York City. We had a cafe here as well that we just sold a little flower shop, done a lot of different things. I love small business and I have a definitely an eclectic experience of a lot of different.

Speaker2: [00:02:23] Great. Well, so what excites you right now?

Speaker3: [00:02:27] What excites me right now, the opportunities in early stage investing, that's what excites me. You know, I just fell in love with it. I've invested in over 2000 deals. About 1500 unique companies. And then when you count the follow on just the numbers over 2000. So these are a lot of small checks, but the learning experience and everything that comes along with each one of those investments is what I love the most. Right? So I've had definitely more than 50 exits or so, you know. And there's something to learn from every deal. And I find that even a small check in a company that does great or doesn't do so great is such a valuable experience for what can happen moving forward. So I've tried to learn as much as I can from every deal that I've been in. And now with Lightning Ventures, we're focused on what what I know most, which is the Bitcoin space. So we're really trying to be impactful for Bitcoin companies.

Speaker2: [00:03:28] Let's talk more about that. You've seen a lot of investors and a lot of startups, but what's your advice for people investing in startups in the Bitcoin sector?

Speaker3: [00:03:37] In the Bitcoin sector in general.

Speaker2: [00:03:40] In the Bitcoin sector, for sure.

Speaker3: [00:03:42] The bitcoin sector is keep your eyes on the price and just invest in bitcoin companies. We come from a place we like to call the real world where old school bitcoin or so your medical records are not going to be on a blockchain, the dtv. Your house is not going to be on a blockchain. If you want to sell an NFT for your condo, that's a fun idea. And all. But people who are standing on stage right now telling you the best thing you can do is sell commercial real estate and some kind of metaverse alternate universe. We come from the real world, which is that Bitcoin leads. Innovation will continue to lead innovation, and this is where the smartest people in the world are offering. This is where nations are going to adopt. They are going to adopt Bitcoin. They are going to go on to a Bitcoin standard. They are not going to go on to some other metaverse token coin, whatever thing, right? When the big boys get in there getting into bitcoin and that's what will continue to be the place to be. So don't get sidetracked with Oh, it's like bitcoin, but it's better or don't go down this energy nonsense about how it's bad for the environment and don't go down all this. Oh, it's, it's faster and it's this and it's that there is

no better bitcoin when there is a better bitcoin, that will be another time. But as of right now, there is nothing better than Bitcoin. So just stay the course and cancel out the noise.

Speaker2: [00:05:16] On the other side of that table. What's your advice for people running startups in the Bitcoin sector? What do you tell them to do before they go out to raise funding or run a business?

Speaker3: [00:05:25] I think you have to look at all of the ways that you can raise as a founder. Right. And a lot of founders don't understand how many options they really have. Maybe they could just start their own roll up vehicle and every time they get off a fundraising call, they can kind of funnel some of those five K and smaller K checks directly into their own vehicle. They don't know how to create those things on their own. They don't even know that that's really an option that they can do. Or look at the syndicates that are out there. Look at people who really specialize in this sort of thing. I mean, this is all we do. All we do is bitcoin companies. So if you're a Bitcoin founder and you're building and you're trying to make a strategic take on some strategic help for 100 K, 200 K. Allocation, you know, we leverage our network and we really try to get everyone involved, right? So they're all accomplished people. We read the asks and the updates from the founders. We try to roll up our sleeves and actually be impactful and help. Right. So those are the people that you want on your table, right? If you're going to take 100 K, you're going to take it from Lightning Ventures with this awesome group of people. Where are you going to take 100 K from a family office somewhere? It's the same 100 K, right? The money's the same. But, you know, what do they do moving forward? Right. So I would just think about. Who you're taking money from, what the goals are moving forward, and kind of how strategic those people can be. Right. You could even look at crowdfunding stuff, right? Sometimes the fees don't really make sense. It's unfortunate. Some of these websites, they really kind of gouge you. You know, it's 7% here and then 2% there. And then by the time that you're done with the thing. It might not be as great as it was if you're if you're raising south of \$1,000,000. It might not make sense with all the fees and things, but that's certainly an option for you. Can you spin up your own crowdfunding thing? Can you leverage your own captive audience to kind of forego the fees of refund or republic whatever and just put that button on your website and send it out to the people that you have and really do that for a lower fee. These are all options that that exist. So I would just just look at every option that's out there and kind of think about what's important to you and and make the make the next step.

Speaker2: [00:07:48] Let's talk about the state of investing in Bitcoin startups. How do you see the industry evolving from here?

Speaker3: [00:07:55] As far as Bitcoin startups go, right? Well, it's a crazy time, right? I mean, right now we have days, days where the major indexes are down 5% or more. You know, that's not really normal. So everything tightens up and things get real very fast in the private markets. You know, immediately as soon as there's any kind of hint of trouble ahead, things really tighten up. So. You know, I think that investing in Bitcoin is, first off, the best thing that you can do, right? You have to buy Bitcoin first. That is that is the foundation. Once you have a nice Bitcoin position built up, maybe you have some untapped funds in a Roth IRA or a 401k. Maybe you roll that into an algo IRA and you can invest in some early stage stuff, get your own checkbook, IRA. You can do some things with that money. You can you can allocate it other places, right? I believe that investing in Bitcoin companies is the best thing you can do to complement your whole position of Bitcoin. And if I didn't honestly believe that Bitcoin companies were going to outpace and outperform the price of Bitcoin, I would never do this. I would just simply buy Bitcoin and do nothing else. But I believe that the investments and the things that we're investing in and a lot of these founders in the Bitcoin space. It's decoupled from price action, right? With the exception of mining, which has a lot of hardware components that are tied to the price of Bitcoin. Besides that, price goes up, price goes down. People are going to keep spinning that fold wheel. They're going to keep getting rewards back. They're going to keep earning that. They're going to be buying gift cards and hardware wallets and payment processing and all of these things. It doesn't matter whether the price of Bitcoin is up or down. That's one of the reasons I love to invest in these things.

Speaker2: [00:09:58] We talked a moment ago about what's not going to happen, such as putting nfts on the blockchain and doing your real estate mortgage and the metaverse and those type of things. But my question is, where do you think the Bitcoin startup is going to go and where will it be successful in running and building startups?

Speaker3: [00:10:19] Well, now there's a lot of interesting things that are happening with with Bitcoin, right? Like. Like one of my favorite investments that we've done is in a company called Coin Homes, where you can get a mortgage, you can secure a mortgage in with zero

underwriting, you know, next to zero. Besides, like your name and your driver's license and whatever that state requires, there is no underwriting. So you want to buy 100,000 home, you're going to put up X amount of collateral of Bitcoin. This is a traditional 30 year fixed loan, right? With zero underwriting process, no paperwork done. The collateral is then re sent back to you after a few years. Right. So there's a lot of interesting ideas that are happening in Bitcoin. We haven't even gotten started yet with all the things that you can do, you know, so people think, oh well Bitcoin maybe there is exchanges and these little hardware wallets that are that are sitting around my house. But there are so many things you can do. There's stuff with art. There's things with payments and gift cards. There's things with. You can call the smart contract. Right, but. You know, wagering and betting and people entering to sort of an escrow agreement. Right. There's a lot of things that that Bitcoin fixes. So I just I don't really think that we've really gotten going. I think it's like 1996 and we just started with the Internet. You know, I think that we haven't even seen the full potential. I mean, if you went back to 90, 95, 96 and you said, oh, well, we're all going to be connected, we're going to have smartphones in our pocket. I mean, remember, a website took like 3 minutes to load. You know, I mean, if you wanted to watch a movie, it took like four days to download the thing. So that was another time, right? We couldn't ever envision where we're at today. And that's what's going to happen with Bitcoin, right? We think, oh, it's well, it's just Internet money of whatever, but like to reduce spam for you to never get another email spam and for you to turn on it costs a thousand cents. If you want to email how it costs this amount of Bitcoin, right? That's an innovation. You could turn that on. You could create your own paywall on your own email or LinkedIn or chat messaging or whatever. And people would literally have to pay a couple whatever you wanted to send you a message, right? So there are so many use cases with lightning and things that you can do. Right. And and streaming. All right. And pay per usage. Right. For every video, for every paywall, you know, you're going to go to a New York Times article and you're going to you're going to sign up for this whole sort of thing that is built for Bitcoin, that is designed for Bitcoin, that QR code pops up. All right, whether it's a browser extension or on your phone, and you're going to pay right there and you're going to read the article. These sorts of things haven't even really started yet, and I'm excited about it.

Speaker2: [00:13:21] So what's your investment thesis for the Bitcoin startup? What's your criteria for making a decision to go or not go into a deal?

Speaker3: [00:13:33] Well. I mean, this is great, right? I mean, you could talk about this for 4 hours. What do people look at? There's some people like Phil Nagle for venture partners. I love him. He does not invest in pre-revenue companies, period. Doesn't care what it is, doesn't care what the sector is, doesn't care what they're doing. He does not invest in pre-revenue companies. Right. So some people have those certain rules. I don't favor revenue, but sometimes you can't avoid, you know. The company who is growing at a record clip and burning less than 5000 a month with a lean team. Who's incredibly capital efficient. I love that stuff. I'll do that all day long. You know? So those are the type of things that we really look for. We've invested in some great teams who've done so much with south of \$100,000 in total spend, and they've went from 0 to 1 and they have a product market and you can count it with legal costs and everything. So we try to invest in a lot of capital efficient teams. With with nice runway and we try to invest in scalable businesses. I know this sounds ridiculous, right? Everyone's going to tell you to invest in scalable businesses, but payment platforms where you can instantly fund a debit card with Bitcoin and that card can be spent anywhere in the US and that company is getting bips every time that it's swiped and used. Those are massively scalable businesses, right? So when we see one of those, we love it and we're in. So. Yeah.

Speaker2: [00:15:20] So what are the challenges in the Bitcoin space for the startup? You deal with a lot of them. What do you see them struggling with the most?

Speaker3: [00:15:28] To be honest with you, the biggest challenge for Bitcoin companies are the banking oligarchs who do not want to give them a helping hand in any possible way. And we deal with founders every week where they are literally debunked. They are deep bank. Their mission is to provide a solution for the unbanked individuals that exist in this world. And they are deep banked because the minute that stripe finds out that, Oh my God, you're a Bitcoin company, that's it, boom, your account's turned down. It's over, right? Chase For no apparent reason. A lot of times, Bank of America, your account's closed. That's it. Now, that's your entire operating account. You know, you've got six figures in there, everything's linked to it, and your bank account is shut down without reason. And they will not give you a reason. There is no reason. There's no person that says, Oh, there is nothing. It's just that's it, game over. So the challenges for these companies is really finding a banking partner. That works. Now, the other thing on that is Bitcoin is immediately deliverable. So when you're selling Bitcoin or you're in the

business of this immediately deliverable, good, you face these chargeback risks that exist with credit cards and other things, and there's ways that you can get it down right.

You can say, Oh, well, we're going to wait five days before these funds are allowed to be withdrawn from our platform or whatever it is. But there's just rampant fraud in the old ACA and credit card model. So that's a challenge to is kind of like bridging that. So where you're not at risk is a Bitcoin company, right? You can't just say, oh, we're going to sell you \$20 of Bitcoin. You can put it on your credit card and then you can start using our platform because maybe we're an Instagram, maybe we're an Instagram with Bitcoin tips and we need you to have Bitcoin. We need you to have some Bitcoin so you can start playing around on our platform, right? But unfortunately, the people it's just it just it just draws in the scammers where it's and they win a lot of the times. So those are the challenges is really the banking regulations and the partnerships and the things that that they can do to get set up for success.

Speaker2: [00:17:47] And on the other side of that table, what is the challenge in this space for the investor that you found?

Speaker3: [00:17:55] The challenge for the investor? Well, I would say the challenge for the investor is really always finding the deal flow. Right. And this is a super niche sort of area. So where do you go to get Bitcoin deal? Let's say that you are a Bitcoin. You're a Bitcoin. You want to invest in Bitcoin companies. You see all the logos on our website, some of these other places, and you want to access to those deals. There is not a lot out there. There's not a lot of places that you can go to even get those deals, you know. So maybe you get into our syndicate or maybe you get into one or two of the others that are out there. Maybe you start contacting some of these companies directly. Maybe your check size is big enough, or they'll let you get on the cap table yourself. Usually not the case, but maybe it is. I think that that's the challenge is where where do you start? How do you get involved?

Speaker2: [00:18:49] We see a lot of opportunities out here for Bitcoin startups. If you could start a Bitcoin start up tomorrow, what would that business be?

Speaker3: [00:19:00] You know, I was going to I would say that it's the company it's a company that we actually just invested in. And it's basically something like a Bitcoin backed credit card, right? Where I can take maybe \$100,000 worth of Bitcoin. I can stick it somewhere in an in a

secure area. Right. It's not hypothecated. It's not relent out. And even if it was right, that would be fine, too. But it's not. And then on that \$100,000 worth of Bitcoin, I now have a 35,000 line of credit. Right. And I can draw on that within a or I can spend it with my card. Right. And I have flexible payments and you know, I avoid taxable events by doing so. These type of ways to leverage and use your bitcoin is the future, right? I love it for real estate. I love it for short term cash and loans. I would also like to see it doesn't exist right now that I know of. I would love to see a buy now pay later sort of layaway plan for victim to where if I came in right now today and I said I want to buy \$10,000 worth of Bitcoin at a 31,000 Bitcoin price. I've locked in my amount and now I have to pay \$300 a month for X amount of months, right to finance what I've bought and I can exit that position at any point in time. But those type of buy now, pay later, that pay over time, that Bitcoin layaway plan, it actually still doesn't exist. And I'm kind of waiting for someone to come out with something like that.

Speaker2: [00:20:46] Seem like it'd be here pretty soon. Well, in the last few minutes that we have here today, what else should we cover that we haven't?

Speaker3: [00:20:54] Oh, boy. What else should we cover that we haven't? You know. People get intimidated by Bitcoin, right? So maybe people listening to your show think, Oh, it's so complicated and you have to know all these things and you really don't. And for some reason people come into Bitcoin thinking they have to know all these things and you really don't because when you send a zelle payment through Chase, you're not like, Oh, well, what's really happening behind the scenes and how does that work? But with Bitcoin, people think all of a sudden they're scientists, right? And they have to figure out what's going on. And the amount of you need to know about Bitcoin is the amount that you want to know about it. I have no idea how electricity works. I don't know how it's generated. I don't know how it gets from wherever it does with my meter in the bill and the outlet. But here's what I know. If I plug in my cell phone, it will charge. That's all I care about. That's my personal, like what I want to know about electricity. I don't care. I don't know where it comes from. I know how it works, but I know if I plug it in, it works. And if you just know that Bitcoin works, that it will preserve your purchasing power, it will protect your savings long term, that it is a giant middle finger to everyone in the world.

That is trying to control you or manipulate you or print money or manipulate things. Right. It is the self sovereignty of an individual and it is the way to take control of something because none nothing that you do is actually permissionless. Bitcoin is permissionless when held correctly. When you want to send me a payment through Chase or you want to withdraw with an ATM card, you're actually asking permission. You're saying, Hey, Chase, can I have \$40? I'm out right now and I want to get a haircut. And Chase says, We'll give it to you. Hell. And Bitcoin doesn't work that way. Bitcoin is yours, right? And that's the danger. Because when you make a mistake, it is gone forever. There is no one 800 bitcoin. Oh, I lost my whatever. It's gone. It's gone forever. And that's scary for a lot of people. But if you want that true individualism. You know, and if you want actual control over everything that you have, then you have to ease into that or not and just keep it in an exchange somewhere. Sign up for sworn. You know what I mean? Stack the bitcoin there. You're going to be just fine. And that's another way to go about it. So it's it's don't think that it's too intense. Don't think you've got to, you know, become a rocket scientist overnight. Just move in slowly.

Speaker2: [00:23:48] Well, it's going to be a brave new world and looking forward to it. Thanks for sharing that with us today. How best for listeners get back in touch with you.

Speaker3: [00:23:56] Mike at Lightning Ventures. Lightning Ventures is our company, LTA Ventures. We had a fund that closed. It was a friends and family fund that is over. We're thinking about getting a second fund rolling soon and we have a syndicate and it's free to join and I'm hoping that I can work with you. Hell on investments and deals and companies and all those things that we can continue our conversation. But for people who want to join the syndicate and review our deals, get their eyes on stuff, it's always 1000 minimum and it will always be that way because we want people to invest small amounts and learn right. And you learn from these deals. So. But that's pretty much it. That's the best way to get a hold of me and us. Great.

Speaker2: [00:24:46] We'll put those contact details in the show notes. I want to thank you for joining us today and hope to have you back for a follow up soon.

Speaker3: [00:24:53] All right, Hal. Sounds good.

Speaker1: [00:24:57] Investor Connect helps investors interested in startup funding. In this podcast series Experience, investors share their experience and advice. You can learn more at investorconnect.org/multi. Martin is the director of Investor Connect, which is a 500 1c3 nonprofit dedicated to the education of investors for early stage funding. All opinions expressed by host 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.