All right.
Quick break to tell you about another podcast that we're interested in right now, HubSpot just launched a Shark Tank rewatch podcast called Another Bite.
Every week, the hosts relive the latest and greatest pitches from Shark Tank, from Squatty Potty to the Mench on a Bench to Ring Doorbell, and they break down why these pitches were winners or losers, and each company's go-to-market strategy, branding, pricing, valuation, everything.
Basically all the things you want to know about how to survive the tank and scale your company on your own.
If you want to give it a listen, you can find Another Bite on whatever podcast app you listen to, like Apple or Spotify or whatever you're using right now.
All right.
Back to the show.
Okay.
Today's sponsor is Quiet Light Brokerage, and they are a sponsor, and yes, I'm getting paid to say this, but guess what?
I've used these guys.
This is how I found out who they were because I'm a customer.
I've used these guys a bunch of times.
So, what Quiet Light Brokerage is, it's a platform for buying and selling businesses.
A lot of times, I just go to QuietLightBrokerage.com and I just look at what companies they have available.
I've actually bought a few of them, and me and a couple of partners, we've actually sold some businesses through there, and I called them up and told them we were doing this podcast and they said, yeah, we're in, we're going to sponsor.
So, this is kind of the best of both worlds because I love it and they're paying us money to say this, which means you win.
So, QuietLightBrokerage.com slash my first million course.
They just launched this really cool course that teaches people how to sell their companies for seven, eight figures.
I mean, these guys sell a lot of companies.
If you want to go and check it out, it's actually free.
So, QuietLightBrokerage.com, that's quiet, like, be quiet, light, like a light switch, light and brokerage.com slash my first million course, and it's a course that talks about selling your online business and what you can do to plan for your exit.
So, go ahead, check it out, QuietLightBrokerage.com slash my first million course, peace.
What's up, guys?
Sean here.
Sam is out, so I am doing this episode solo.
And I'm going to do something a little bit different.
I'm going to start by talking a little bit about some of the angel investments I've made.
You know, in our Facebook group, I posted something about angel investing and a whole bunch of people had questions, and so I thought I would come on the podcast and actually talk a little bit about it.

When I wanted to learn about angel investing, I would only ever read things from the people who had killed it, usually over the last 10 years, you know, somebody like an Elad Gill, Jason Calcanus talks a lot about angel investing, and I would read their stuff, and it was sort of like, I'm an angel investor, I've invested in 100 companies, here's the five huge ones that you know about where I've made millions, and let me talk to you about what I look for in angel investing now.
And that was cool, but it didn't actually tell me sort of their thought process at the beginning, how they decided to do it, how they got started, how much money it required, all those, just the actual tactical questions about doing it.
I didn't hear a whole lot about that.
I'm sure somebody has blogged somewhere about it, but that's what I want to talk about, because that's where I'm at.
You know, when it comes to angel investing, I am by no means an expert, and I don't mean that just kind of in a, you know, sometimes you say something and you're like, you know, but I'm not a financial advisor, don't listen to me, this is not that, because when I say that, that means, hey, I really think this is true, but don't sue me.
This is, I'm for real when I say I'm not an expert, meaning I'm actually kind of like a beginner, I'm just one notch above a total beginner, a total beginner hasn't even taken any action yet, they don't even know which direction they're going, they're just lost in the middle of Disneyland.
So I'm one level above that, where I've been on Space Mountain, but you know, I just have a map in my hand, I'm just trying to figure it out, I'm still looking for a hot dog.
Disney World analogy went pretty far.
So anyways, point is, I'm a beginner, I'm learning, as I learn, I say this stuff out loud, so there's me just learning in public, and if somebody out there is listening, because I know a bunch of people who listen to this, they are actual investors who have been doing this for a long time, feel free to correct me and say, hey, you know, that thing you said made no sense, you should do it this way instead, those are my favorite types of messages.
So feel free to message me if that's the case, but all right, let's talk about angel investing.
So my angel investing life started truly about six years ago, seven years ago, when I first moved to San Francisco.
So I moved to San Francisco, I get a job as a product manager at an idea lab called Monkey Inferno.
So PM, kind of a boring job, PM, but not at a boring company.
This was a very interesting company, it was a company that builds companies, an idea lab.
And I was the only product manager there, I was the only product guy, everybody else was an engineer.
And I make $120,000 a year.
And so I don't think of myself like an investor, right, 120K living in San Francisco, paying California taxes, you're not like rolling in money at all.
I had a little bit of money saved up from my previous company, but again, I didn't think of myself as an investor.
So the first thing was, the first lesson of angel investing was think of yourself as an investor because those first three or four years I was in San Francisco, I had the opportunity,

I was doing mastermind dinners, I was organizing dinners and my friends were the founders of other companies.
And if I had just stopped working on my company, if I had stopped, quit my job, and all I did was just write 20K checks to all of those friends, it might have been, I might have needed 250K, but I would have turned that into at least $5 million just off the success of those friends companies.
And I was helping them and I thought a lot of their ideas were good, I thought a lot of them would succeed.
I remember I talked to the founders of Calm early on, when Calm was struggling, they couldn't even raise their next round, you didn't know what was going to happen, it was just kind of Alex toiling away, and I remember thinking, hey, this guy's really committed to this and this guy's really creative, and I think he's right about the world.
I think he's right that a lot of people will want this, a lot of people will want to have more calm in their life, and I think more people will meditate, and obviously it wasn't clear cut, but I would have bet on that company, and I would have bet on six or seven of those companies, and several of them did really well, Calm now is a multi-billion dollar company, so out of just that group of friends, I think there were probably two or three companies that have reached over $500 million in valuation, and I would have been investing when they were under five.
So the lesson I learned four years later was, why the hell was I investing in these guys companies?
I believed in them, I had access to them, I just didn't think of myself as an investor, the excuse I gave myself was I didn't have the capital, but the reality was, if you are creative enough, if you're resourceful enough, if you're persuasive enough, if you're determined enough, you can get capital, you can get any resource you need, and so that actually brings me to my first angel investment.
So the next company I got really excited about, fast forward four or five years, I still don't have millions of dollars on the bank to go write these checks, and I see this company called Lambda School, and I had been thinking about a product like this or a project like this to go do myself, and when I saw it, I was like, whoa, this guy's doing a much better version of what I was thinking might work, what's something I thought about doing.
So I started calling the guy, started talking to him, and I told him, I want to invest in your company, which was true, not a lie, I did want to invest in this company.
But I didn't tell him, I've never invested in any company, so I definitely withheld that.
And I said, tell me about your company, I want to invest, and he started sharing his slide deck, sharing the materials, and I'm like, I have to find a way to invest in this company.
And I thought to myself, okay, I need to invest 25K in this company, okay, no problem, I can sell a stock that I own, or I can just take some of my savings and do this.
One company was never going to be a problem, but with angel investing, you need a portfolio of companies, because you're investing in early stage startups.
This is extremely high risk of failure.
So in a portfolio of 10 companies, you would expect some kind of distribution where you're going to get four or five of the companies to go to zero, two or three of the companies

to return somewhere between one and three X, and then hopefully you end up with one or two companies that actually break out and do 10X+.
Ideally you get to something that does 1000X+, or 10,000X+, those are the early investors in Uber, for example.
So anyways, I always knew I could invest in one company, but you need about 30 bets to really be an angel investor to have enough of a portfolio where you give yourself a chance to succeed.
So I was sitting there doing the math, and I said, if I need to invest $25,000 in 30 companies, I need $750,000, I didn't have that.
So that's why I didn't think of myself as an investor, but what I did was very smart.
I got to give myself credit on this one.
When I knew I want to invest in Lambda School, I said, okay, how do I get the money to invest in this?
And so I talked to a friend who I knew invested, and I said, hey, I have this company that I think is really great.
I want to introduce you to them.
And in general, I see a bunch of companies that are really interesting, and I know you like to invest.
Do you want to do a deal where I can sort of be a scout?
I can be a sort of venture partner, an entrepreneur who can help you with your investments, and we can set up a deal.
The first deal we set up was cool.
Any deal we invest in, I get 10% carry, meaning I don't have to put any capital in.
I take zero financial risk, and I get 10% of the upside after he's paid back his investment.
So it's not huge returns, right?
Like Sequoia Scouts, Sequoia is one of the biggest venture capital firms.
They had a scout program, and they gave 50% to their scouts.
They were extremely, extremely generous, so 45%, something like that.
So this wasn't that, but then again, Sequoia didn't pick me.
They didn't even know who the hell I was.
So I took what I could get.
And I realized in order to get into good companies, if you talk to one company, they usually want to know what other companies have you invested in.
And so I knew I needed to start building a portfolio of labels, so a bunch of logos that I could point to and say, yep, I invested in that company, I invested in that company, and that company, you would be in good company if you were with those companies, right?
That's the core idea.
So I said, let me start building this portfolio.
This guy's willing to put up all the cash, I get a piece of the upside, let's do it.
So we wrote the check into Lambda School, and I'm very grateful to him for bankrolling me in that.
And I think it was a fair enough deal.
And so we invested when it was, it was still a pretty expensive deal because by the time I organized this, the valuation had gone up about 3X.

So I lost a 3X return just in the time it took me to get sort of a backer.
And on the deal, if it was just my own money and I could have invested after that first phone call, I would have.
But anyways, it's gone up about 10X in value since then, so that investment, which is illiquid, but that's the sort of paper valuation of that company today.
So that was the first dip in my feet in the water, and I said, all right, that was good.
And I made a deal with myself, which is, cool, I'm going to try to invest in about 5 to 10 companies per year.
This is what my goal was.
I said, but I think 5 is the right sweet spot unless I'm, if I have free time, I'll go do 10 a year.
But I'll do 5 a year, and whether it's my own money or other people's money, now I'm thinking of myself as an investor.
So that'd be the first thing I would say to you guys is, if you ever want to invest, if you ever want to be an angel investor and play this extremely high-risk, high-reward game of startup investing, the number one advice I would give to you is, don't wait until you're rich to do it, because at that point, the financial returns, it'll just be a part of a broader portfolio.
It's not going to be that exciting.
But if you really want to do this, start thinking of yourself as an investor from day one and find ways to access the capital.
There are a ton of people out there with capital, myself included, who would love for you to be bringing them deal flow and would happily give you carry on any deal that they invest in.
And remember, there was a guy named Sarush, who was a 13-year-old kid living in Canada, and he used to use our product.
We built this website called Blab, it's kind of this Zoom type of product, but he used to use Blab all the time, and he came to me and he said, hey, I don't even remember what our arrangement was.
But basically, I told him, I said, you want to learn about this stuff?
I want you to go scout out three companies a week, email me the best one that you saw and why you think it would be a good investment, why you think it would be a bad investment and your kind of overall recommendation.
And one of those companies, now several years later, he's, I think, 20 years old now, so seven years later, the very first company he sent me is a company called Apply Board that just raised money at a $1.1 billion valuation.
He brought that email back up to me, he emailed me again being like, hey, why didn't you invest in this thing I told you about?
And I was like, I don't know, you're 13, I didn't believe you.
But yeah, there's a bunch of examples like that where you can bring deals to other people and if they invest, you can get carried and you could bring it to multiple people.
So you don't have to be exclusive with any one person.
You could say, great, these five people all agree that if I bring them a great deal, they'll give me a slice of the upside, great, you could do that with five different more established

investors at any given time.
Okay, enough on that.
So since then, I've invested in about, I've looked at about 50 companies, I've invested in about four or five.
And some of the questions that came up when I posted about this were, first question was how do you approach these companies?
Are they sending stuff to you?
Do you go reach out to them?
And I told, my answer to this is if you looked at the quantity, I get more coming to me than I reach out to.
But if you look at quality, the best stuff is me going direct to a founder or the maker of a product that I see that I love and just saying, hey, I'm a big fan of what you're doing.
Like I love this.
I think this could be really big, you know, would love to chat and potentially invest in the company.
And then I'd get on a phone call and then I ended up investing in the company.
And so that's one way.
Another way is just through friends.
So if now if I have a friend who's doing something, my goal would be to be the first check into them.
There are exceptions, of course.
My buddy Tyler worked with me at Bebo before we got acquired.
And when we got acquired, he didn't want to join us.
He wanted to go do a startup.
I said, fantastic.
What are you going to do?
And he said, I'm working on this crazy robotic arm, robotic arm for amputees, you know, if you have your arm amputated, there's this amazing, you know, I don't even know what you'd call it, prosthetic.
Yeah, it's sort of a robotic prosthetic arm that is basically, you know, as close as you can get back to what a normal arm would be.
And I said, Tyler, that's amazing for the world.
I won't invest in that because that sounds super hard.
It sounds like it's a ton of risk and I'm just not going to do it.
But most of the times I would love to back my friends.
And so that's the other way that I get deals.
Okay.
And somebody else asked, what is the bankroll that you think is required to get started?
I'll tell you what my answer is.
My answer is, I think you're going to need to get down 20 or 30 bets.
So let's take 20 as the low end.
And I think you want to assume you're going to invest $25,000 on average into the companies.
Typically you can get away with a little bit less if you need.

I've invested $10,000 into a company before, but $25,000 is sort of the realistic big buy in that you would do for a startup, so take that as the average.
That means you need half a million bucks, but you don't need it all up front.
So you might invest in those 20 companies over a three to four year time period.
Let's take four years and now you need $125,000 per year to put down.
If you need to make your check size go up or down, that's fine.
If you need to do it over a slightly faster or longer time period, that's fine.
The thing I wouldn't do less of is less total companies.
So I wouldn't go below 20 bets, 20 different companies, because at that point you're not letting variance work in your favor.
In fact, Angelist did a study and basically found that the best angel investors or the best returns on average, just like in the stock market, are essentially by indexing.
So some individuals can beat indexing, but not consistently over a long period of time.
And the same is true of startups.
If you could just invest in every credible startup, that would be the way to do it.
Credible being a keyword here that is hard to define, but whatever.
We don't need to go into that.
Okay, somebody else asked, what do you look for when you talk to the founders?
How do you make your decision if you're going to make the investment or not?
So here's what I said.
I said, there's a million intangible signals that you're thinking about and going over, but really it boils down to the following.
Does this person know what the hell they're talking about?
When I talk to them, do I get this sense of confidence and certainty that's not about the style of speech, but that the things they're saying actually make sense?
And when you push and probe a little bit, you can tell that they've already thought through those things.
They have a thoughtful answer about it and they know more about the subject.
They know so much about the subject, which is what you should expect from somebody who's building a company in a space.
The next thing I think about is, are they an executor or just a talker?
Of course you want an executor.
Are they all in on this or are they doing this as a side project?
Do they have a habit of quitting projects or a habit of splitting focus?
I don't want somebody invested to go have a podcast and go speak at conferences and do all this other shit and some people get caught up in that.
And there's a reason I started this podcast after I sold my company, not during.
The last thing I really think about is, are they in touch with reality or are they a delusional optimist?
What I mean by that is, do they actually understand the main risk and challenge of their business?
Have they correctly identified what the big challenge is to make their vision come true?
And are they thinking about, have they appropriately assessed that risk?
There's a lot of people who don't have what I call a credible view of reality.
They're out of touch with reality.

You bring something up that's a risk, they just don't think it's a risk.
And I think that can be a very, very big problem.
And so, you know, the overwhelming feeling I get when I walk away from those conversations is either, wow, this person had a lot of clarity and quality of thought about their business or they don't.
And I basically just don't invest if they don't have clarity or quality of thinking around their business.
You know, the other thing that I sort of think about is, you know, what have you done in your past?
So a track record of doing interesting and unique stuff does tend to carry forward throughout your life.
And so sometimes somebody has zero experience in a given domain, but I look at their background and they also went into other things with zero experience and came out six months later as a winner, as being a leader in a space.
And so I think that looking at somebody's track record for success is obviously a good sign.
Just because they don't have it doesn't mean it's a bad, it doesn't mean, you know, you eliminate them, but it is obviously a huge, huge factor if you can do it.
The other thing is, you know, the other question I got, and this will be the last thing on angel investing is what are the type of returns you're looking for?
Some people think and Sam often talks about like he loves great businesses that are like the hustle.
So this is actually a good example.
So when Sam started the hustle, I had an opportunity to invest because Sam was a friend.
And at that point I had learned invest in your friends, think of yourself as an investor.
But I went to the hustles office, which was this like, you know, tiny rinky dink place and they sat me down, they walked me through the vision.
And I thought to myself, this is totally going to work.
And I totally don't want to invest.
And my thinking was, I don't think this type of business will generate the type of returns I'm looking for.
So what do I mean by that angel investing works best when you put small checks into many companies
and you're not looking for what the sort of median return is, but you're looking for what the maximum return is, you basically need two or three winners in your portfolio to make everything else a rounding error.
And what that means is that you need every company you invest in to be able to get to about 100 million a year in revenue, 100 million a year in revenue is a billion dollar company.
And this isn't about greed, it's about the risk and reward profile.
The risk is so high that you need winners to pay off so, so well to justify the risk that you're taking, because you're taking both you're taking risk and illiquidity, right?
A startup that you invest in is probably not going to be liquid for seven to 10 years.
And so if you have illiquid, if you have an illiquid investment that's extremely high risk, you need the payoff to be huge to make up for those two downsides.

I'll give you an example with Lambda school, I realized pretty quickly, I was like, okay, so it sounds like the average student is worth what, you know, $25,000 for you.
Okay, so you need 4,000 students in a year to generate you about a hundred million dollars.
Okay, 4,000 students, I believe you can get there, that's not a crazy number, that's not 400,000 students, that's not 4 million students, 400,000 students, I think 4,000 students will take up on this offer.
At the time that I invested, I think Lambda school at that time had graduated maybe 81 people total, you know, there wasn't, 81 wasn't 4,000, but it was clear to me that 4,000 was an achievable number and that 4,000 would get them to the point where they're somewhere between $1,500 million revenue business, depending on what the value per student was, was going to end up being.
And so that was believable and that alone was enough justification to say, write the check.
In addition to Austin's an incredible founder, he spoke very clearly about what he was doing, there was clearly evidence that their approach was different than other people's approach and might get a different result than what other people, other companies in the space had gotten.
For example, most of the coding boot camps were in person and Lambda school was online.
Most of the coding boot camps were in a very short period, three months, and Lambda school was like a nine month program.
And what ended up happening was that most online learning things had like a 95% dropout rate, people did not complete the course and Lambda school had like, I don't know what the exact numbers were, but 80 to 90% of people finished the program and 80 to 90% of them got jobs, a high-paying jobs.
And so I was like, well, they've, you know, those are amazing signals.
And I believe that they can get to 4,000 students.
I believe they can give that experience to 4,000 students, which would get them into a $100 million dollar range.
So that's what type of returns you look for.
And so I assume that in a batch of 30 companies, three of them will drive 95 to 99% of all the returns.
I hope that in the end, this nets out into, you know, I put in, let's call it 500,000 and I basically quadruple to 5x my money over the seven-year period.
And so, you know, 500,000 in and let's say I 5x it, that's 2.5 million out.
And, you know, this is not like the biggest, craziest life change ever, but there's a chance it's much more if you hit one of the real winners than, you know, I've seen a $25,000 check turn into 25 million, that can happen.
But you know, I would say the average, or the sort of expected return of what I would call the minimum bar of success is to 4 or 5x my money over a seven-year period, which nets out, I think, to like, I don't know, like a 20% IRR or something like that.
The last thing I would say is the reason to do angel investing is not to make money.
And I don't mean that in a kind of philosophical way.
What I mean by that is there's much better ways to make money.
There's ways where your money is liquid, there's ways where you have a greater chance, a greater certainty of success.

But I do think angel investing gives you one thing, it gives you a front row seat on the future and in a way that owning, like, bowing stock is never going to do for you.
You know, you can go own Apple and you can go make 10% a year return guaranteed and it can be liquid, not guaranteed, but you know what I mean, good chance of success compared to startup investing.
But startup investing will teach you a lot about business, it will teach you a lot about people because every decision is a judgment call about a person.
And the last thing is it will teach you a lot about the future.
As you see what different startups are doing, each one of them is pitching you a thesis about how the future is different than the present.
And I really value that education and I think it's a much better way to get an education.
I'm getting an education from an expert who is somebody who has seen the future and is coming to me and telling me what it's going to be.
I'm going to get to sits alongside every month and get their updates about how it's coming.
And the last thing is I have skin in the game.
So I have money invested in it, if I'm correct and they're correct about what the future looks like, we get paid.
If I'm not, we lose money and that's a great way to learn.
It's a great feedback loop for learning.
So that's everything about angel investing that I've learned or would want to share with you guys.
That went a lot longer than I thought.
If you liked that, we can do another session on that later.
Just ping me, I'm going to put my Twitter and my email in the show notes and get in touch.
That's the best way for me to know what you like, what you don't like.
Thank you for listening to the podcast as always.
Okay.
I'm out of here.
Okay.