LUCK AND RISK are two of the most important words for anybody who wants to be great.
But they kind of, I think for most people, feel like it's something that's outside of your control, right?
Because this magical thing that either happens to you or it doesn't, or risk is this thing that you either get screwed by or you don't.
And I don't think that's true.
I think there's a lot more to risk and luck than most people recognize.
It's the same way that, I think Eskimos have like 40 or 50 words for snow, right?
When we see something just falling from the sky that's white and fluffy, we just think that's snow.
Whereas they have 40 or 50 different words to describe the different types of snow, as you would.
If you lived in an extremely snowy environment, you would develop that vocabulary.
And so similarly for an entrepreneur who is going in an environment of trying to make great success happen, maybe we need some nuance, some differentiation between the different types of luck, the different flavors of risk.
And so that's what I'm going to tell you today.
These are the four flavors of luck and the four flavors of risk.
Let's start with luck.
So this I got from Mark Andreessen back in the day.
He had a blog that he used to keep up.
It's down now.
There's an archive of it up online somewhere called PM Archive.
And I still remember reading this post like 10 years ago, and it was about the four different types of luck.
I think he originally read it in some book and the levels of luck are as follows.
Level one is called blind luck.
You just sit around, you get struck by lightning.
And you didn't do anything, you just happened to be you.
And it's not something you can count on either, right?
So this is blind luck.
And for me, I was just born with the use of my limbs, and I was born healthy.
I was born in the right country.
And I remember one time my cousin gave me a bunch of raffle tickets that he had bought.
He gave it to all of our cousins, and I ended up winning this Dolly painting out of the raffle.
I literally didn't do anything.
I just sat there, he handed me a ticket, and my ticket happened to win.
And so that's an example of blind luck.
That's level one.
OK, can't do much with that because it's sort of either going to happen or it's not.
The next one, you can increase the odds of luck in your favor by going to level two.
Level two is what the phrase around fortune favors the bold.
And it's the same as the one above, it's sort of a lucky chance.

But you increase the odds of it happening by adding motion or action to the mix.
So you're doing a bunch of stuff.
You're running around.
You know, if the first one is you're standing in place and lightning strikes you, this one, you're running around all over the place, kicking up dust, stirring up the pot.
And something happens as a result of your motion, your motion increased the surface area you were covering where you might happen to get lucky.
And so this is a chance encounter, right?
Maybe you're just out and about.
And in doing so, you bump into somebody who's really interesting and opens up some opportunity for you.
And there's a phrase, there's a quote that I like, which is, you know, I've never heard of someone stumbling on to something good while sitting down.
And this just emphasizes the importance of simply taking a bunch of action, of being out there, of having some motion and carrying with you some good vibes so that good things happen during the during the way.
So that's level two, motion, create a fortune favors the bold.
Level three, this is where it starts to get interesting.
This is chance favors the prepared mind, right?
So this is where you notice that something lucky has happened where other people may not have noticed.
And it is your years of preparation of looking at things to even understand this.
So any investor knows this, right?
You look at a hundred deals, it's not because all 100 are going to be good.
It's so that when that hundred and first deal comes, that really has killer metrics, you're able to recognize that that deal is unique, that that price is a fantastic price or these metrics are off the charts because you have a benchmark of what normal looks like.
This also happens in science.
I mean, there's an amazing story about the discovery of penicillin, right?
This drug that has saved millions and millions of lives in the course of history.
Well, the way it was discovered was the scientist who was who was studying, he just noticed that some mold had fallen on his petri dish as an accident, right?
So that was not in his, he was not the result of his action, but he was, he had a prepared mind.
He noticed that around the mold in the petri dish, no bacteria was growing and he started to wonder, maybe there's something about this mold that kills bacteria.
And he wrote that down.
He tried to convince others of it and nobody cared.
No, no, none of his peers cared and then, you know, 10 years go by before somebody else picks up this paper and says, huh, that's weird that the sort of the staff bacteria was not growing around this mold, the mold seemed to kill staff bacteria.
What I wonder if we could go back and revisit that.
And then they tried to try to actually revisit it.
So they had the prepared mind to read that paper and notice, huh, there's something interesting

there.
And so that is luck favoring the prepared mind.
The last one, the level four luck is luck finds you.
So this is reputational luck.
You've heard me on this podcast say before that my goal with this podcast is not to become well known.
All right.
I'm not trying to be famous.
I'm trying to be known well, meaning I just try to put my brain and my the things I'm most into out there on blast so that people who are like minded will come find me.
People who are building, you know, startups in that space will come find me and I can invest them.
People who are, you know, using a product that they know that I love, they'll share it with me.
Right.
That's the value that I get back out of this because I'm well known.
My reputation brings me some luck.
And so the example I think Naval gives of this, he says, imagine you are known as the best deep sea scuba diver in the world, right?
You are amazing at deep sea dives.
You're just sitting on your couch one day, you're not doing anything and the phone rings and somebody calls you and says, we've discovered a treasure off the coast of India buried deep down below.
Will you come help us retrieve it and you get to share, you know, whatever 25% of whatever we find.
So now you, your reputation has caused you to find a treasure, right?
Luck has found you.
Your reputation of being a great person at doing X will cause people to come find you.
And so, you know, we just did a podcast with Kevin Rose and he talked about this with Twitter.
He had the prepared mind to notice that Twitter was going to be a big deal.
And he's very humbled.
Like other investments, he says, you know, I don't know, you just, I just wrote the check.
I liked the person.
It turned out well.
But for Twitter, I said, did you know it was the, it's going to be a big winner?
And he goes, I thought it was the next big thing.
He goes, because I had seen blank, blank, blank.
I was using it and I noticed, man, this thing has really given me this feeling.
Imagine I'm just a little tech celebrity.
Imagine if real celebrities got a hold of this.
This is going to be crazy.
Like he noticed that Facebook and all the social networks before this were all based on this idea of a friend where I had to request to follow you and you had to accept it in order for me to see your content.

And that Twitter, this new thing that everybody else was making fun of had had one new feature, which was, it was one directional.
I could just follow you and you didn't have to give me approval.
And he goes, wow, that's going to be amazing for celebrities.
So that was luck, you know, the prepared mind.
He then took action.
He reaches out to Eve and he says, I'd love to invest.
Oh, sorry.
The round is closed.
Sorry about that.
So he's turned away.
But this is where his reputation allowed him to get lucky.
A couple of weeks later, Eve calls back and says, hey, you asked about investing, right?
You know, we have this engineer who's leaving.
He wants to sell some of his shares.
We can, you know, you could buy his if you want, right?
I'll let you in because it's you because I love, I like you.
I like the way you are.
I think you got, you have a good eye for product.
You're really active on Twitter.
And I know you really believe in this.
You've made that well known.
Well, here you go.
Here's your opportunity.
$25,000 turns into, you know, $100 million plus payday.
That's luck finding you.
So those are the four levels of luck.
Now let's talk about the four levels of risk before these are not levels.
These are more flavors of risk.
So the first one, the first risk, I'll put it differently.
People think the big risk is you go and do something crazy, right?
I'm going to go jump out of a plane, skydiving.
I'm going to go invest all my money into crypto, right?
Those are obvious risks, but because they're obvious risks, people don't always take them or they take a lot of precaution with it.
So most people don't go skydiving.
They say, that sounds risky, so I'm not going to do it.
And even the people who do, they go with an instructor who's done thousands of things before and they make sure that the place has good reviews and that is good track record.
And they say, okay, great, I'll jump out of this with a parachute, with a professional.
So they do things to mitigate risk.
So think, you know, same thing with crypto, oh, all right, a quick message from our sponsor.
You know, I was thinking about the shortest day of the year earlier.
And while we technically have the same amount of time as every other day of the year, the

lack of daylight makes it feel so much shorter, which is exactly the same kind of feeling as working with disconnected tools.
Our workday is the same length as always, but before you know it, we spent three hours just fixing something that was supposed to be automated.
Thankfully HubSpot's all-in-one CRM platform can serve as a single source of truth for managing your customer relationships across marketing, sales, service operations with multiple hubs and over a thousand integrations and an easy-to-use interface, HubSpot lets you spend less time managing your software and more time connecting with your customers.
Learn how HubSpot can help you grow your business at HubSpot.com.
You're investing in crypto, but you're only investing 1%, 5%, 10%, some smallish percent of your net worth into this risky thing because it was obviously risky.
So the things that are obviously risky don't actually trip you up.
It's the things that are not obviously risky.
So an example of that would be everybody before, you know, 2008 generally thought that mortgages and the housing market was a pretty safe industry to bet in or to invest in.
And that's why if you ever watched The Big Short, you know, all these mortgages were highly rated debt and in actuality, they were much riskier than people realized.
And that's what caused the global financial crisis was because there was this huge, there was this risk that people did not identify as risky.
They thought it was safe, but actually it was risky.
And they therefore relied too much on it, took out too much leverage, blah, blah, blah, and then you get disasters.
And so that's the first thing to recognize about risk is risk is not just the things you think about.
So here's some of the hidden types of risk or different flavors that you should think about.
The first one is mediocrity because when most people go into a job or a business that they want to start, they think that their risk is failure, that I'll try this and it's going to totally crash and burn.
And in actuality, at least for most people in America, that's not that painful of a risk.
You waste a little bit of time, but it failed, you know, crashed and burned and you can move on and you learn to lesson and you have a story to tell and you might have met some people along the way.
You've built some skills.
And so you actually don't take that much risk doing it and you generally will, you know, not put too much money into something at that stage.
So that's one version of failing with us, let's say a startup or a job.
But the other version that I think is much more sneaky and much more people, much plagues many more people is mediocrity, which is the risk of having something that's just okay.
It's not bad enough to obviously fail, nor is it good enough to be amazing.
And so the risk is that you're wasting your most valuable asset, your time on something that is not great.
And so for you listening to this podcast, you're the type of person that wants greatness out of your life, then the biggest risk to you is mediocrity because failing is fine.

You'll just try another thing.
You'll try something else, but something that's just all right.
It's not great, but not bad enough to fail is going to deprive you of your most valuable asset, your time.
So mediocrity is the first flavor of risk to identify.
In what way are you just settling for a bad relationship or a just okay relationship, a just okay job, a just okay level of traction at your startup?
That is one risk.
The next one, safety.
Safety is a risk.
Okay.
How is safety a risk?
Well, there's a risk and not taking enough risk.
So you got to ask yourself, I have a dream.
I have an ambition.
I have a goal that I'm trying to get myself to.
If I keep doing things the way that I'm currently doing them, right?
In my comfort zone, where I'm safe, I'm not taking any risk right now.
Is it going to lead to my dream?
Right?
Am I on path?
Am I on track?
Is my trajectory taking me to where I'm trying to go, because if not, then the safety you have now is actually putting your dream at risk, your goal at risk.
So people usually think, am I putting myself currently at risk?
But what you want to think about is, am I putting my dream at risk?
Am I putting my future success at risk by playing it safe now?
Okay.
So that's the second one.
Playing it too safe.
The third risk is the eyes wide shut risk.
That's the one I talked about with the mortgages, right?
It's one thing when you go in eyes wide open, you say, oh, I'm doing this thing.
But it's risky.
So therefore, I'm not going to bet it all, and I'm going to take some precautions.
That's eyes wide open.
But what about eyes wide shut?
What happens if you think something is safe, but it's not?
You trust the wrong person, and you bet it all.
Or you think that housing is safe, and so you're super levered up.
You think that this is too big to fail, but in fact, it is not.
And so eyes wide shut risk, you want to ask yourself, what am I assuming is safe that it may not actually be safe?
The last one is market risk, first, execution risk, first technical risk.

These are like the Eskimos having 50 words for snow.
There are many different types of risk in business.
So market risk is trying to figure out, well, does anybody even want this at my start?
My previous startup, you know, the studio I worked at, Monkey Inferno, we were building, we had every resource available.
We had all the money we wanted.
We had team of engineers that were super smart, freedom to work on whatever we wanted.
But the boundary was we got to work on something in consumer, and it shifted towards social.
And when we try to build the next social app, you're taking on massive amounts of market risk.
Does anybody want your thing?
Is this going to be the next Twitter, the next Snapchat, et cetera?
That was massive market risk.
You know, it didn't matter that we had a killer team or we could build a killer product, because market risk means if people don't actually want your well-made app, it multiplies it by zero.
And so the next thing is then you take friends like Enduring Ventures or Cody Sanchez and people who buy cash flowing businesses.
That's fantastic.
They're not taking market risk.
The market has already proven that they want that business, they want that product.
It's already cash flowing.
So they take executional risk.
They pay a price, maybe three, four, five times earnings, and they're taking executional risk that can I improve the business?
Can I improve through executional efficiencies or growing revenue or reducing costs?
Can I improve this business?
So they take executional risk.
You know, when I buy this owner out, is the whole thing going to fall over or can we continue to execute?
So they don't take market risk, they take executional risk.
And then you have people who are people who I invest in for my startups that often take technical risks.
So the example I give of this is a pizza-making robot.
Let's say that I'm Domino's pizza and a startup comes to me and says, hey, we have a robot that will replace that worker you have in the back that's sitting there, he's checking his phone, picking his nose, and he's calling in sick every fourth day.
And you know, he's the one who's supposed to take the dough, put it in the oven, put the cheese and sauce on it, and put it in the box.
So here's the deal.
I have a robot that will put a perfectly circular dough with the perfect thickness that you specify, add the exact amount of cheese and never waste too much extra cheese.
It'll bake it to the exact amount of time every single time.
It'll never call in sick.

It can work 24-7, and it'll never complain and ask for a raise.
Okay, that's this robot.
So if you could deliver such a product, there would be essentially zero market risk, because of course Domino's would want to replace more expensive labor that is harder to manage with something that is cheaper and easier to manage.
Of course they would do that.
So the only question is, can you make a robot that actually delivers on that promise reliably?
Right?
Can you actually deliver the promise that's technical risk?
This is with a lot of biotech, pharmaceutical, and like defense contracts, there's things like that where they're taking technical risk.
Can they actually make a product that lives up to the spec?
And so you've got to know what type of risk are you taking.
So those are the four types, mediocrity, the biggest risk of all, safety, not taking enough risk, eyes wide shut risk.
That's assuming something is safe when in actuality it's riskier than you think.
And the last one is knowing whether you're attempting to take market risk, execution risk, or technical risk, and being honest with yourself about what type of risk you're taking when you go into this endeavor.
The goal is not to avoid risk, it's to understand it and then work your way around it.
All right.
I think that's it.
Instead of one question Friday, I did framework Friday.
Let me know what you think.
I'm Sean VP on Twitter, that's S-H-A-A-N-V-P on Twitter.
And so you can find me there.
Let me know what you think about it.
Framework Friday is in the books.
All right.
Thank you.