Doriot Venture Club:

Newsletter Feedback & Crowdsourced Investment Insights

March 8, 2024 - Poll:

Generally, what's your strategy for re-investing in new rounds?

⬜⬜⬜⬜⬜⬜ **Invest Again - "I'm in it for the long haul" (0%)**
⬜⬜⬜⬜⬜⬜ **Hold Off - "One investment is enough for me" (0%)**
🟩🟩🟩🟩🟩🟩 **It Depends - "I'll take it case by case" (100%)**
⬜⬜⬜⬜⬜⬜ **Other (share your thoughts) (0%)**

Sonu:

> “The decision making thinking for us is this: 1) Are they making progress and increasing ARR while simply traversing the valley of death, or 2) are they missing milestones and we are backing a lemon? For us, you've got to look for data points that tell you whether the startup is on vector 1) or is on vector 2). So what are some examples of "data points" that help you figure out if you are 1) or 2). Symptoms/ data for 1): - Increasing traction - PO from client - Increasing insights - ARR beginning, some even with contracts - Real view on monthly info updates Symptoms for 2) - Always late in responding to Qs about progress - More PPT charts/platitudes than data indicating progress - No product-market fit updates/No market traction - Lack of use case understanding - No sustainable business model - etc”

Chris:

"Never throw good money after bad. It's very easy to do thanks to FOMO, but you need to train yourself: If it doesn't feel right then you just have to pull the eject handle and let your existing investments ride. And if it turns out to be the wrong decision, ignore the Hindsight Bias and thank yourself anyway for following your personal process to protect your capital. Without protecting your capital, you may not be able to stay in the game. And you can't win if you don't stay in the game."

Nolan:

"Generally, I will likely not reinvest unless the case is compelling (i.e. they don't seem in dire straits and I like the offer to contribute more). If I was a large investor with big dollars at risk from a company failing (and enough money to help make/break their ability to stay afloat)… I might be more apt to consider supporting when they are in "last resort mode" but right now, I don't see a real benefit in pouring more money into a sinking ship. I get that I could possibly get a good deal if they turn it around, but I'd rather not double down most of the time. In a similar but different way… if a company is having a huge "up" round, I am likely going to stay out of it as well because I like the returns to be outsized in my favor. There's always exceptions to all this, but this was a good thought exercise! Also - one could make the case for dollar cost averaging on either up/down rounds, but I do that enough with my publicly traded stocks. :)"

March 29, 2024 - Poll:

What is your Red Flag Tolerance Level™?

🟨🟨⬜⬜⬜⬜ **Low Tolerance - "If I see one thing I dislike, I'm out 🙅" (29%)**
🟩🟩🟩🟩🟩🟩 **Medium Tolerance - "I can accept some if the pros outweigh the cons 🤔" (71%)**
⬜⬜⬜⬜⬜⬜ **High Tolerance - "I can handle the risk… That's startup life 🤙" (0%)**

Casey:

"I'm the first out on a flag unless it's a product so good I anticipate myself using it."

Sonu:

- 1. Most of what you identified as a red flag is now pretty standard with "battle scarred" investors, so agree with your assessment.
- 2. Uncapped notes for $375k is instituted by YC - to supplement their $125k post money SAFE for 7%. And the money they make on the 7%, hopefully more than makes up for the uncapped note. But the $375k is really for those folks who finish the YC program, without the founder getting further "unreasonable" dilution.
- 3. If there is one thing that really bugs me about founders with fab ideas, is that they don't budge on their valuation. Fortunately, to get a 10X ROIC at terminal value/exit value, you can reverse engineer the post-money valuation (or pre) for the round. Some founders recognize that and will play ball. If they don't play ball, we will over-index for investor protection, using stringent liquidation preferences and anti-dilution clauses in the term-sheet.
- 4. Always, good to remind founders, we are taking the most risk as we are not collateralized debt, we are not even securitized debt (e.g. credit card)...we are not even revenue-based financing. We have virtually no risk - and our payoff is entirely based on the founder ability to deliver. Period. Most founders, understand this, others don't.
- 5. At the end of the day, it's like a marriage - and better to walk away before you tie the knot...and regret it later. As my Dad said when we used to take the public bus to school, "the next bus will come in 20 min." And my mom said about falling in love..."don't keep both eyes close, keep one eye open"

April 19, 2024 - Poll:

Is it important for founders to engage with the community in a RegCF round?

🟩🟩🟩🟩🟩🟩 **Yes - "It's called a Community Round for a reason!" ✅ (57.14%)**
⬜⬜⬜⬜⬜⬜ **No - "The founder should be focused on growing the business" 🙅 (0%)**
🟨🟨🟨⬜⬜⬜ **Sometimes - "It depends on the product, amount raised, etc." 🤷 (42.87%)**
⬜⬜⬜⬜⬜⬜ **Other (share your thoughts) (0%)**

Nolan:

- “I think founders need to balance their time, and while responsiveness is nice… I think they need to find a way to have detailed initial resources with thoughtful answers to the right types / amount of questions to show they are interested but maybe not so eager that they respond to everything (depending on the amount of questions, etc.) Someone being too eager could signal to me they are desperate and/or bad at prioritization. Just depends though!”

Sonu:

- “Sometimes..... Quite frankly Reg CF is a bit of a zoo. I’m sure there are exceptions. In RegCF, the most marginal/uninformed investors are investing in a company whose "due diligence" support is minimal at best. As a RegCF investor, it's a good feeling, to make the claim that "I did a deal"....but you wouldn't do it, if you knew what due diligence was and risk mitigation strategy was about. Even investing only $100. That's why we need the SEC to accelerate accredited investors’ qualification by skills.... so you exercise diligence even on $100. Maybe that's how the rich get richer. Just saying. In any case, would love to see some kind soul do some research on outcomes of companies that got funded via RegCF...over the last several years. ”