

How to
JUDGE
*A Potential
Investor*

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<http://www.metamorphblog.com/2010/03/how-i-judge-investors-.html>

PITCHING YOUR STARTUP TO INVESTORS is a deeply personal matter.

More often than not, they—politely or not—call your baby ugly. And that hurts. Good founders, I think, learn to not take the criticism too personally.

But in the end, it is personal. They are judging you. And your baby. Thumbs up, or thumbs down.

And such is life. But how should we, as founders, judge them? Not all investors are created equal, after all. Once betrothed, the investor—unlike the entrepreneur—is unfirable, a step-father to your newborn startup, an undivorcable spouse in an epic marriage.

Like any proud founder, I am extremely protective of my newborn startup. She's my motherfucking baby, after all.

Now, I don't claim to have years of business knowledge or even necessarily to have it right—I'm doing this for the first time—but I do have my own formula.

Do I want this guy on my board? This, above all else, is the question.

Another way to put it: *When the shit hits the fan, do I want to be accountable to this guy? Do I want this to be the guy who has my back? Is this guy good enough for my baby?*

In good times, it's always all smiles. But not all times are good.

In my previous life, I worked for many years as a paramedic in Harlem and the South Bronx. Before that, I fought forest fires on a hotshot crew for the US Forest Service. I have seen what stress does to men (and women). I have seen people die. Lots of 'em. Babies too. I have seen how people react, flip out, and lose their shit entirely. And I've seen people fail then recover with grace despite mortal danger. And in all this, I learned a little bit about judging the character of men. Quickly. For this, I make no apologies.

And it is this experience—combined with my own listening and study of the travails of those who have come before me—that informs what I am about to say.

1. INTELLIGENCE

It should be obvious, but I want to be convinced that the investor is a very smart man. Preferably smarter than me. Steve Young (the 49ers QB with a law degree & his own private equity firm) once said that he aims to be “the dumbest guy in the room.” Amen to that.

The beauty of hanging around and dealing with really smart people is that they have a rub-off effect. Really smart people challenge you and force you to think bigger, harder, and, at the risk of sounding completely vague, better. They pick apart your bad ideas quicker and see through the bullshit that even you might have convinced yourself to believe.

That said, scoring high on the intelligence test is not a dealmaker. Brains is a big plus, but brains without self-knowledge or an appropriate level of humility is just fucking dangerous.

2. SECURITY & SELF-CONFIDENCE

People who are insecure make bad, irrational decisions. We are all insecure in some way, so really it's just a matter of degree. More is worse, less is better.

Generally speaking, being insecure causes you to make decisions based on fear, and people who are motivated by fear alone cannot embrace a big, disruptive vision. They end up being fundamentally risk-averse and drive you to be too. Invariably, this leads to a focus on bullshit, like what other people are doing.

Even worse, you can't honestly call bullshit on people who are insecure without undermining your relationship with them. For me, this is an instant dealbreaker.

People who are secure, on the other hand, like to be challenged. They enjoy vigorous debate. The intellectual swordplay is what they live for.

When someone is secure in themselves and their position, you can be honest with them. And I *only* want to work with people I can be honest with. Life is just too short and I'm just not that patient.

3. REVERENCE FOR THE ENTREPRENEUR

I can see how easy it is for VCs to think of themselves as masters of the startup universe. As a VC, people compete for your attention and pitch you constantly. They are the judge in a never-ending baby beauty contest. It must get tiring. And in their shoes, I can see how it would be easy to think that the world revolves around you.

But it does not.

At the center of the entrepreneurial universe is the entrepreneur. And behind the entrepreneur is the employees, the team, the company. It is they who are the heroes. It is they who operate unhedged. It is they who take the real risk.

In my mind, good investors get this. They understand their place in the ecosystem as enablers. They don't let their celebrity status get to them. Which brings me to my next point...

4. HUMILITY & SELF-KNOWLEDGE

To be humble is to know your strengths and weaknesses, to be aware of your place in the world. It does not mean being non-confrontational or a softie.

My favorite people are those who will push hard and argue vociferously on behalf of an idea but then freely admit that it's possible their assumptions are wrong. They test you, but acknowledge the limits of their own knowledge. Or maybe they really do know something about your corner of the universe. The important part is that they are acutely aware of when they do know something and when they don't.

The other thing that's great about people who possess a high level of humility and self-knowledge is that they are not afraid of being challenged. Because they don't have huge egos, they are constantly listening to the people around them and learning new things, which in turn makes them amazingly capable as teachers. And god knows I need teachers in my life.

5. DOES HE UNDERSTAND WHAT IT MEANS TO BE AN OPERATOR?

The investors that scare me most are those who possess a low level of humility in combination with a non-operational background.

Recently, I met a 20-something-year-old VC from a supposedly top-tier firm who served on the board of several companies. I had looked him up on LinkedIn prior to our meeting and noticed lots of board seats but little other experience beyond a graduate degree from a very prestigious university. He was obviously very intelligent, but after several minutes of opining to me about my industry, I decided to turn the tables a bit and ask...

"I noticed that you sit on the board of several companies. Tell me a little bit about your background and experience building companies that qualifies you for this role. What companies have you founded? As a board member, I'd report to you and you'd have the ability to fire me. In essence, you become my boss. Why should I entrust you with this power?"

Part of me actually wondered if this guy had had some previous experience that I didn't know about. He squirmed. "Well... ahh," he stuttered. "You know, board members are there to, ahh, give... intelligent feedback and, ahh, be there... ahh... as a sounding board... for the entrepreneur, you know."

What amazed me was not the vacuity of his response but that multiple CEOs had allowed this guy to take a board seat and a position of responsibility caring for their babies.

As far as I can tell, there's good VCs out there who haven't really been operators. But they tend to have grey hair and not be involved in super-early, seed-stage investing. As a first time founder, I want people around me who can understand and help me manage the extreme uncertainty of company building at the ground floor.

6. DOES HE WANT ME TO LIE TO HIM?

One of the red flags I look for is seed investors that want me to make things up and lie to them. This typically manifests itself in the form of long-term financial projections. “What will your sales be 5 years from now?”

I have *no fucking clue*, and if you’re asking me that question, *neither do you*.

I am a first-time founder in an immature, rapidly growing market. Pricing, exact business model—these things are all up in the air. My task now is to go out and prove certain assumptions about the product and the market in a way that match the two up and achieve the magical paradise that is product-market fit. Before I’ve done that, don’t ask me for financial projections other than my expenses, because what you’re really doing is asking me to lie to you, and *I hate that*.

7. DOES HE TEACH ME THINGS?

Some of my favorite investors are those who, regardless of whether they’ve said yes or no, teach me something about my industry, product, market, team, etc. Even if they say no, they’re the ones I’m gonna go back to down the road and try to lure into the *yes* column.

My reasoning is this: If in the course of a single 30-minute meeting this person has added value to my company and my life, just imagine how much this person would contribute if he/she sat on my board!

MUST HAVE THIS PERSON ON MY TEAM.

8. IS HE A HAPPY PERSON?

The world is full of extremely intelligent and yet unhappy people. These people are like poison. Their unhappiness rubs off on you, and invariably, they attempt to punish you and take out their frustrations with their own lot in life on you, potentially derailing your company and your life.

Again, I don’t want you to confuse being happy with being soft. One can be both happy and hard-nosed at the same time. In fact, I like to consider myself a happy warrior. I love life and relish in the entrepreneurial adventure, but yet I am (or try to be) ruthless in how I judge and execute that which is important around me and my baby.

At the end of the day, happy people are optimists. And when the world is going to hell, as startups seem wont to do (not to mention life more generally), you need happy, optimistic people around you to stay focused and productive amidst the storm and cataclysm.

Oh yeah, and life is just too short to surround yourself with unhappy people. They suck on your soul, and leave it empty.

I don’t know that this is an exhaustive list or even the right one to use, but it’s how I think. I hope my thoughts are helpful to and have some positive, enlightening influence on those who come after me. I also hope you my readers will add things that I’ve missed.

Mar 21, 2010 1:29:12 PM

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