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Category: Entrepreneurs File: Higher_Returns_With_Entrepreneurial_Investing_utf8.txt
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Title:
Higher Returns With Entrepreneurial Investing

Word Count:
827

Summary:
Long-term investing in the stock market can offer a passive return around 5-8% if you remain invested for 30 years; but, unfortunately, that return is before taxes and inflation. This is so low because the company founders, backers, early investors, investment bankers, etc., have removed all foreseeable profit from the company before it is ever offered to the public market. There is a spectrum of investments available to you that is dependent on how much effort you are willin...

Keywords:
personal finance,investing,trading,wealth building

Article Body:
Long-term investing in the stock market can offer a passive return around 5-8% if you remain invested for 30 years; but, unfortunately, that return is before taxes and inflation. This is so low because the company founders, backers, early investors, investment bankers, etc., have removed all foreseeable profit from the company before it is ever offered to the public market. There is a spectrum of investments available to you that is dependent on how much effort you are willing to put into educating yourself, networking, and performing your own investment due diligence. If you don’t want to do any work, you are going to receive the tiny return of a CD or mutual fund in exchange for supporting many people (in expensive suits) in between you and the actual business that is making money. For people willing to educate themselves and put forth added effort, they will be sitting across the table from business owners and managers; investing directly into a business that pays monthly or quarterly cash returns from 10 to over 20%.

For example, let’s suppose that there is a great single-family rehabber in your area. This rehabber buys homes in bad condition, fixes them up, and then quickly sells them for a profit. If he or she were very good, they’d begin taking on several simultaneous or larger projects until they run out of money to buy any more homes. Once they run out of money, they start using their credit until that is used up as well. Once a successful entrepreneur is out of cash and credit, the only way to grow is to partner with investors. And to entice these investors, they offer higher than average returns. [I want to make a very important distinction between what I define as a “start-up” and an “on-going business”. A start-up is a few people that only have a business idea who want to spend your money instead of theirs – never invest in them! Leave these to the professional evaluation of a venture capital firm. An on-going business is already being run by someone professional who has current customers, suppliers, location, products, or services – these are the types of businesses you want to invest in].

You may be simultaneously networking with local business owners, educating yourself about their industries and the local economy, and checking the reputation of those with whom you are interested in becoming a partner. Introduce yourself as someone that has been watching their success, and indicate that might want to invest in one of their future projects. It could be a business owner who has four retail stores and that you’d like to invest with them to open their fifth store; or the owner of a local manufacturer needs some capital to startup selling products overseas; or invest in a developer that splits large plots of land into residential lots; or an investor that packages privately held mortgages. There are many local investing opportunities that offer the investor greater control than buying public stock, along with higher investment returns.

Direct ownership requires a few skills that buying a CD or mutual fund doesn’t require, but you will be well compensated for developing these skills. The first skill to learn is some basic accounting because financial numbers is the language of every business. You need the basics to start reading financial statements in order to evaluate potential deals. If your desire is to invest in car dealerships, you need to know the difference between a well-run or a poorly-run dealership from reviewing their financial statements. The next skill is networking to locate deals – get your phone ringing, business card circulating, and e-mail account filling with potential deals. Private equity and debt financing is normally offered to family and friends, then acquaintances; and this will only happen if you are meeting people and talking about what you are looking for. The third skill is performing due diligence; which means independently verifying as much as possible about the individual, the company, and the transaction so that you can be reasonably confident in getting paid in full. Few local private offerings will have a prospectus written by teams of lawyers and accountants who have dissected the offer, so you, personally, have to do the work. No matter if this is a relative or a friend, there are people who will steal your money and disappear or people that mean well but are unable to follow-through and build a successful business. In either case, your hard earned money is long gone so you should take great pains to get independent third-party verification of all the facts and history that you can.

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I personally know a few people that have built their wealth with the high returns from private placement offerings, and wouldn’t invest in the stock market due to the lack of control and lower average return. If you have the willingness to put forth the effort, great returns can be yours as well.