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opportunities to work on side projects while setting up the fund, go for it, as it can be a good source of revenue, but don't let that become an excuse for not moving forward with the fund. Remember, it's important to have a sense of urgency and not waste time. It might be helpful to consider your mortality and use a "memento mori" (a reminder of death) to motivate you to take action and focus on your deals and goals with focused conviction. If that's what it takes for you to get your deals done, then use it as a tool to help you stay focused.

To ensure success, it's crucial to focus on your mandates and not get distracted by random opportunities. Starting something from scratch over and over again requires a lot of energy, and it will be far less efficient than investing that energy into something that already has momentum. Don't let distractions pull you away from what you're working on - stay focused and committed to your deals to maximize your chances of success.

2

DEFEND YOURSELF AGAINST FRAUD

"Don't Lose. All of these masters, while driven to deliver extraordinary returns, are even more obsessed with making sure they don't lose money. Defense is ten times more important than offense. You have to be very focused on the downside at all times." - Tony Robbins

You are on the way back from a nice workout and suddenly get a phone call from an ex-FBI agent that a fraudulent business buyer is on the loose in the community.

Oh boy.

There's nothing worse than closing, or about to close an acquisition, than to realize last minute that you've been doing business with some criminals masquerading as deal makers. It sounds like a leap to some, but it's more common than you think.

Acquisitions, mostly driven by debt capital, are usually less regulated than equity markets, so the amount of scrutiny some actors in the acquisition space get can be far less at times than when equity and limited partners are involved.

When you're raising money for your new acquisition, how do you avoid getting seriously scammed and encountering some fraudsters when you're working on building your reputation with investors for the first time?

You've worked hard to read books like this, learn, originate, negotiate and get to the finish line. Do heed these lessons and learn from the mistakes of other acquisition fans to avoid getting in acquisition "bed" with someone on the run from the law. You won't want to tarnish your name forever and realize the company you purchased forged bank statements. After building new relationships with lenders and equity investors, you won't want to be left stuck with that legal liability.

The biggest way to prevent getting scammed seriously when you're working on raising money to acquire business real estate is by doing a proper court case lookup of all the people you're associated with. Consider anyone who owns more than 10% of any associated business acquisition, more than worth looking up (although, even if they own nothing and are associated, it still is worth looking them up).

It's worth taking yourself and anybody you do business with as seriously as possible. Not just the sellers of the company you're buying. All parties (lenders, investors, sellers, lawyers, consultants) matter.

Talking about millions of dollars requires an attenuated level of detail. It all starts with a simple court case lookup.

If you're in the United States of America and that's where you're doing business, the US is probably one of the most, if not the most, litigious places on Earth. As a result, it happens to be very easy to find court cases on people and find court cases.

The service we recommend is Pacer (http://Pacer.gov). It's only a few cents for every

lookup you do. Go to their website, follow the prompts, and sign up; it will take a few weeks to get your package in the mail to get the password to log in, and you can use Pacer. That's the most common way in the United States.

Another method you can use is a third-party service that integrates with Pacer. The problem with Pacer is that, sometimes, it's mostly focused on bankruptcy law or business owners who went bankrupt. While tracking who had business failures in the past or did not pay their rent can be helpful, digging more into crime or petty disputes could be even more helpful. Sometimes third-party services are better if you want to find people more involved in criminal cases.

The main third-party resource that I recommend for the US is Unicourt.com. Unicourt is probably the best way to find criminal cases on US residents. Doing your homework will lead to you seeing many lawsuits ranging from child custody and divorce paperwork to murder. Understand the context and type of lawsuit: lawsuits aren't always bad. Sometimes they're a good thing. In general, you want to ensure that the people you're looking to enter an acquisition with are not the defendants of a criminal court case. Suppose they're the defendants in some small claims court case, or a contract dispute. In that case, it can depend, obviously, on the context; if you're able to get the information on the case and if the case has been disposed of, it may not be a big deal.

The danger is if the acquisition prospect has many active, ongoing criminal court cases, then that's probably that's the biggest red flag you'll see. Even worse, you'll be able to get yourself in danger if you're working with somebody who has active court cases

and then they've been found guilty of anything, especially for a crime. It then becomes a high-risk type of transaction.

The problem is that when you work with lenders and investors in the future, and they look you up, they're going to see all the people that were attached to you and people that you work with because they'll do background checks on the people that you do business with. So just be careful and be safe by doing the lookups.

If you're outside the US, they have different court case systems, many of which are free. For example, Canada has something called Canlii.org, which is essentially the same thing where you can find court cases on different types of people, and it's usually the same process. In the UK and Ireland, you have Bailii.org.
Another type of accusation someone can face is securities fraud, which is another type of fraud mainly associated with deceiving and misleading equity investors.

In the US, the "bad actors act" requires the US governing body called the Securities and Exchange Commission (SEC) to adopt rules banning specified felons and other "bad actors" from participating in securities offerings of securities under Rule 506 of Regulation D under the Securities Act of 1933. The same principles apply to varying degrees in Canada and different Commonwealth countries to protect the investing public.

In other words, you can actually get banned from raising money on down payments on business acquisition deals if you are a felon. Hence, some

people deliberately enter debt markets, avoiding the regulatory oversight of the SEC (which mainly focuses on governing equity markets…the cash people raise can get a down payment on a business buyout deal), giving the acquisitions world a potential haven for fraud.

The thing people should do is a simple Google search. It is hilariously easy, but some people still do not do it. I've worked with an investment bank that raised $30 billion yearly for companies. The investment bank recommends checking court cases and having a recurring Google search and Google News alerts for any news mention. Simply Google if they've been involved in scams because even senior executives forget the basics.

Googling in the format "FIRSTNAME LASTNAME" AND ("fraud" OR "proceedings" OR "violation" OR "scam") is a quick hack.

I've seen publicly traded company CEOs that didn't Google the people their employees are working with, and one of them was found guilty of securities fraud on the first result of Google, paying the SEC a $600,000 fee. I don't need to say anything more than this.

Finally, do they pass the sniff test? Some people are not even real people, so make sure that the people you're doing business with have a registered company and that you can see the country where the company is operating. Anyone who runs a company has to notify their country's system.

There are also certain qualitative measures and certain gut feelings that people can have about

somebody. Some of it is illogical and intangible, but finding out where pangs of intuition come from often leads to something tangible that makes sense. Your gut feeling comes from experience, so the more experience you have with people, the better you'll be able to tell if something is "off."

Accurate intuition takes time and experience, but it comes from doing the first two things for years.

1. Check court cases

2. Simply Google

3. Trust your guts. Especially if something doesn't make sense from a logical point of view based on the first two things.

If somatically, you have a tight gut feeling, then it's probably coming from your intuition.

If you do all those three things, you're pretty much in a good position to make sure that people are not going to scam you because you check the court cases, you check to see Google, and you've trusted your guts.

With this, I trust this piece makes a little bit of sense in preventing you from getting into trouble. Don't be the person that gets a call after a nice picnic with your family that you're suddenly wanted for wire fraud by neglecting your upfront due diligence.

Optimism without defense is naïve, and too often, in the business buying world, we are thought to be offensive while neglecting the defensive. Wisely, Dan Peña and other renowned experts arm new deal makers with offensive tactics of aggressively raising money which we are used to. Not often enough, we balance our aggressive strategies with defensive and proactive ones, protecting us from a downfall that can wipe us out for a lifetime.

So, if you have all the necessary information, just go out and execute it and protect yourself during your capital raise.

3

BUILD YOUR INVESTOR HYPOTHESIS

"In The Land of The Blind, The One Eyed Man is King." Proverb

On a call with a Raises.com member, I was asked if I could show some capital-raising magic. I replied, "Capital raising is often more science than magic."

By following the scientific process and drawing on the expertise of others, we make an informed hypothesis or a guess on what we think investors would want, and then validate that hypothesis. Others in this line of business may lose because they rely on their memory and react to situations, but we stay proactive and organized by writing everything down and delegating tasks as needed. This ensures that everything is done to the highest standard, instead of acting haphazardly and leaving your success up to chance and chaos.

Everything you know about investors has to be written down and tracked meticulously with almost an obsessive-compulsive level of detail. This is how we win.

At Raises.com/formula, you will see a paper written by our team that explains the details, but basically.

Your success in tracking investors depends on five things.

There are five extremely important variables in the process of courting investors. To prepare for these five things, we will present a flurry of general questions to help you understand what investors want.

The point of these questions is to nail down these variables and understand what type of investors you’re targeting, where they reside, what benefits they like, what fees they can invest at, what deal structures they'll invest in, and the channels they use. This is our hypothesis on what will work, and we'll iterate as needed. Write these all down!

Investor Mandate

This is the criteria of deals an investor is investing in. Check if they list their mandate publicly, such as "passive multifamily value add investing" or "control acquisitions of companies greater than $10m EBITDA".

Types of Transactions

Consider the type of transaction pursued, such as senior debt, junior debt, private equity, or equity in public markets.

Type of Investors

Investors can be categorized into limited partners, private equity firms, family offices, and investment banks.

Financial Services Licenses

If applicable, note any financial services licenses held by the investor, such as a FINRA license.

Investor Associations

Determine which associations the investor is a part of, such as the National Venture Capital Association (NVCA), Angel Capital Association (ACA), or American Association of Private Lenders (AAPL). Also, consider which conferences they attend.

Investor Titles

Check the titles used by the investor on LinkedIn or their websites, such as managing director, partner, or principal.

Location of Investors

Investors may be located in different cities or countries around the world.

Some focus on local investments, while others invest in companies in different regions or countries.

Turning it into a Formula

R(t) is a formula used to track the success of a capital raise at time t. It considers five variables:

M(t), representing the investors with a mandate to invest.

B(t), which means the benefit or transformation the investors will receive from investing.

P(t), which represents the fee that the investors will pay the general partners to invest with the company.

D(t), which represents the deal through which the investors will invest, including the legal entity, share structure, and financial structure.

C(t), which represents the channel through which the company can access the investors, such as introductions, golf clubs, LinkedIn, or YouTube.

This formula can be used to track the success of a capital raise and make adjustments as needed in order to improve the chances of success.

Time t is the most important because the market changes, and what's hot today could be ice-cold tomorrow.

Putting it together, In practice, R(t) is a hypothesis that represents a group of investors with a mandate M(t) (for example, venture capital investors in Australia seeking pre-seed companies). These investors will receive the benefit of the terms of the deal B(t) (for example, capital preservation) in exchange for paying a price of P(t) (for example, 20% of the profits they make) for allocating their capital through a deal structure D(t) (for example, as units of a limited partnership with a Regulation D 506c exemption). You will approach these investors by running email marketing campaigns through channel C(t).

The investor mandate comes first!

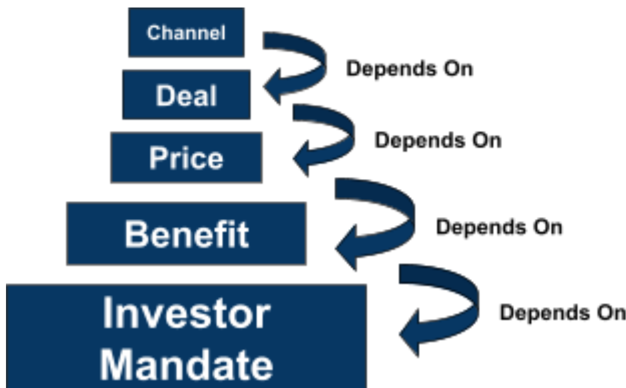
You cannot have a benefit without an investor's mandate (a benefit relative to which investors?).

You cannot have a fee without a transformation or benefit for whom that benefit applies (for what benefit are we charging?).

You cannot have a deal structure without a fee or a benefit (how can you structure a deal without keeping a benefit in mind for the investors?)

You cannot have an access channel without a deal, general partner fees, and an investor set since you can't derive a net contribution before marketing is used to determine the bounds of the access channel (how much can we spend to talk to these people, and wait… which investors are we talking to anyway?).

In plain English, the investors you target at a time is the most important thing, or all else is for nothing. Knowing the investor's mandate comes first.



To build your hypothesis, write down the five variables:

M(t), which represents the investors with a mandate to invest (what deals are they looking for).

B(t) represents the benefit or transformation the investors will receive from investing (how much money they will make).

P(t) represents the fee the investors will pay to invest with the company (will they do a 20% performance fee).

D(t) represents the deal through which the investors will invest, including the legal entity, share structure, and financial structure (Do they like limited partnerships)?

C(t) represents the channel through which the company can access the investors, such as introductions, golf clubs, LinkedIn, or YouTube (should you send emails or meet roadshows?).

Warning

When testing your capital raising hypothesis, only change one variable at a time. For example, if you’ve been reaching out to investors with the following hypothesis:

M(t), Investors seeking distressed multifamily apartments in Detroit

B(t), Seeking 40% IRR

P(t), Willing to pay 50% Performance Fee

D(t), GP/LP

C(t), Direct mail

If you want to change your test, only change one variable at a time, so you will be able to determine cause and effects. If you change your outreach channel from direct mail to cold calling and cold calling works, then you determine the true cause. But if you change two things simultaneously (deal structure to a promissory note and change channel to email outreach), it would be hard to know what caused a difference in your results. After you make any changes to your hypothesis, make a new version so you can track your progress.

Next, we will test this hypothesis!

ABOUT THE AUTHOR

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Hi, I’m Natu Myers. My company Raises.com and I helped over 200 real estate investors and business buyers raise a collective $200m for their new funds and acquisitions. After I helped his first client create an investment bank in Canada, I founded Raises.com which enables real estate investors and business buyers across the world to swiftly create and raise complex private equity offerings with greater ease.