Ask the Expert

Craig Weiss

Flagstaff Ventures

BurlesonSeminars.com

ASK THE EXPERT
DUSTIN BURLESON SEMINARS

I've now come to view late stage as high risk. There's so much disruption, there's so much change, and the pace of change has increased. Many of these late-stage companies won’t be around in 15 years.

Craig Weiss, Founder of Flagstaff Ventures, is a former patent attorney turned serial entrepreneur.

As the former CEO of NJOY, he led the company to a $1B valuation, raising $200M in equity.

Recognized by Goldman Sachs as one of the 100 Most Intriguing Innovators and a Forbes Disruptor, Craig’s expertise in scaling consumer brands makes him an invaluable partner for startups seeking growth and long-term success.

Dustin Burleson:

Welcome everyone, it's Dustin Burleson. I'm so excited to welcome back to the program, Craig Weiss.

Craig Weiss:

Thank you for having me, I appreciate it.

Dustin Burleson:

Craig, I want to give everyone a chance because every month there are new people who show up into our programs and they might possibly not have heard from you and I before, they've been hiding out under a rock. So real quick, tell us a little bit about you and about Flagstaff Ventures for maybe the new viewers and the new members who haven't heard about you or met you yet.

Craig Weiss:

Sure. So my name is Craig Weiss. I'm a recovering patent attorney, please don't hold that against me. I spent a decade as a patent attorney before I became an entrepreneur. And so became an entrepreneur in 2010, took over this company called NJOY, it was in the electronic nicotine delivery space. And it's a longer story but the short version is, raised 200 million in private equity, got the company to a billion dollar valuation in about three and a half years. Manufactured about 80 million units of a regulated hardware product that we distributed in 130,000 retail locations, so all 50 states, most of Europe, all the largest retailers, Walmart, Walgreens, 7-Eleven. And we had billboards in Times Square, we had double-decker buses in London, we ran commercials during the Super Bowl in a bunch of

markets, commercials in Europe in a lot of languages, had offices in three continents, 130 employees, so it was a wild, crazy ride.

And then founded a few other companies after I left NJOY, and of course the one that's most familiar to your audience, Retainer Club and Mouthguard Club, which I did with my best friend, Blair Feldman, Dr. Blair Feldman here in Arizona. And we got venture backed with Retainer Club in 2020, literally the month of COVID, April of 2020, and I went out in 2021 to raise additional capital for Retainer Club and a friend of mine introduced me to 10 VCs. And my joke of course that I've told many times, I forgot how much I hated VCs. All the cliches were true, 10 young dumb white guys that had never run a business in their life and thought that the world ran like an Excel spreadsheet. And I was complaining to a good friend of mine who's a very sophisticated kind of Wall Street guy, and he's like, "Well, if you think they're all idiots, why don't you do it yourself?”

So I launched Flagstaff Ventures about two and a half years ago with a focus on investing in early stage consumer companies because that was my background. And of course we invested in Retainer Club, that was the whole reason why I launched Flagstaff Ventures, and we invested in a bunch of other companies as well, it was a great opportunity. First of all, through this whole process is how I got to know you, Dustin, which has been awesome to… I know I've given this joke before, but for this audience, for those who haven't heard it, my realization early on is that you're an entrepreneur trapped in the body of an orthodontist, and I'm sure I'm

not the first person to figure that out. And so we got to work together as well, which has been great. And I wanted to share with your audience today both sort of the story of Flagstaff Ventures, but also at a more kind of higher level, macro level, this field of venture investing or private investing.

Some of your doctors have heard about things like private equity, venture, but this is going to hopefully give a lot more context for them as they think about, well, gosh, I know how to make money, I just did that over the last 20 years and I sold to DSO and I'm sitting on this pile of cash, but now I have to know how to invest money? That's a whole different skillset than the way in which that wealth was acquired, so trying to provide some of that education.

Dustin Burleson:

I want to just highlight, I was thinking of this call, I always enjoy the time I get to spend with you; I was out walking the dogs this morning and I thought, why this is so important to dentists and orthodontists and maybe owner operators who aren't dentists and orthodontists in other countries or certain states, when we were kids, or at least when I was a kid, my dad was, I thought, pretty savvy with investing, but it was very much stocks, bonds, mutual funds, kind of this typical portfolio from the '70s until the early 2000s, maybe little blips here and there, higher interest here and there. But since that time, and I don't have the exact number, we can look it up, I will say that I'm not a financial advisor so this isn't official financial advice, but I've just seen so many companies de-listed from the stock exchange and taken private.

When I was growing up, those companies that were on the S&P 500, they had been there forever and they were going to be there forever, and that world doesn't exist anymore.

And in dentistry and orthodontics and medicine, we feel that, right? We've seen a huge interest in private equity in our world. And so maybe for doctors listening, going, hey, I grew up with this mindset, stocks, bonds, mutual funds, 401k, retirement, SEP, whatever you got, what the hell is an alternative asset? They think, okay, gold, real estate, maybe natural gas or some sort of energy investment, let's talk about, what the hell is exactly venture capital? And why do you think there's been this transition from so many companies going, screw it, let's go private, let's grow faster, what's your take on that? Do you get that sense that there's just far fewer companies to invest in publicly?

Craig Weiss:
Yeah, I mean it's really interesting, there's a couple of things, dynamics that are at play. When I was growing up, those companies that were on the S&P 500, they had been there forever and they were going to be there forever, and that world doesn't exist anymore. And so those established companies like Sears and Roebuck and Macy's, these are companies, in some cases, that are more

or less out of business, and in other cases, I don't think anyone's going long Macy's.

Dustin Burleson:
No?

Craig Weiss:
And so what's interesting is, it used to be that the average tenure on the S&P 500 was like 50 years, and now, I mean it's definitely less than 15. And they're seeing, I think some economists think that in 10 years, the majority of S&P 500 companies not just won't be on the S&P, they won't exist, they'll be out of business. So change is happening, but the pace of change is increasing.

One of the analogies I give is, literally, I think in the 1880s, 82% of Americans were farmers, and today it's 2%, but that took a 100 and whatever, 60 years for that change to happen, now you're seeing disruption happen at a much faster pace. And so investing in those late public companies are by definition, late stage, they're mature companies, they went public, you don't go public when you start the company. And late stage, I've now come to view as high risk. So I look at late stage as high risk, there's so much disruption, there's so much change, there's AI, there's all these new technologies, and those companies are bureaucratic, they're large, they're slow moving, and so they just aren't well equipped to deal with this new pace of change that I see.

Dustin Burleson:
And at the time of this recording, can't keep up with inflation. I think of companies that have been around, like

you said, forever, hate to pick on Coca-Cola because they've been around forever and have a nice dividend, but I mean selling sugar water, maybe we're all waking up to the fact that that's not really healthy for us. And how do you justify maybe a 1 or 2% growth rate when inflation's 8, 9, 10? It's really, really difficult.

Craig Weiss:
Absolutely.

Dustin Burleson:
Again, not picking on individual stocks but that one came to mind for some reason. I think it'd be interesting for viewers to learn because it opened my eyes, that inside this world of venture capital there's a million different ways to do it, there's a million different segments. And I think sometimes we all think obviously of Silicon Valley, we think of the companies, Ubers and the Airbnbs of the world that are all in tech, but you play in a very unique place and a very profitable place inside of venture capital, that's what got Ashley and I really excited, and I'm curious if you can kind of walk us through that and maybe kind of share with us how you got to that segment of VC.

Craig Weiss:
Sure. So I'll start with this really interesting group, Cambridge Associates. So when you hear about the Yale Endowment or the California Teachers Association Pension Fund or these just massive, massive organizations that are investing insane amounts of money, they all either go to Cambridge Associates to advise them or Cambridge Associates manages their own money. So you see $548 billion in assets under

advisement. So those are all the major endowments and pension funds in the United States, and they themselves directly manage $67 billion themselves, so this is like, they are the authority. They have all the data because they're tracking all of the stuff because they advise it, so they're in a unique position to see who's doing better than who and why. And the people who are doing the best, what is it about their portfolios that are different than the weaker or lower performing?

And what they found is, the best performers, the top performers, are putting up to 40%, sometimes more than 40% in private investments. And so what are private investments? So they're not publicly traded stocks, those are public investments, anyone can invest in those. Private investments, only certain people can invest because it's private and so you have to have access. And so what's sort of that range look like? So I wanted to give you this information, it's a little bit of an eye chart, but I'll walk through it sort of gently, which is, private is like growth equity, real estate, oil and gas, private equity, late stage venture, early stage venture, there's all of these different areas.

And this information was presented to me, I presented on venture at this conference in New York City and the person who went on right before me was this Virtus Group, it's the eighth generation DuPont family. So you're talking about the richest family in the world for decades, for decades and decades, and they're now on generation eight. I mean, it's literally, I think there's thousands of them, descendants from the first DuPont, and they've been managing wealth for an incredibly long time, it's

probably the most sophisticated private family wealth in the world. And so, what was really interesting was he said, "Listen, we're going to open the kimono and we're going to share our data. We've been doing this for a long time." And so there were two things that jumped right out at me, looking at this, which was, if you go to the left two thirds of the slide, you see that the biggest number is late stage venture capital, 20.3%, is that mean net IRR, so they're returns. And if you think, hey, 20%, that sounds pretty good, right? I'm not getting that in lots of other places.

But what they found was, within venture, it's actually early stage on the far right, that's the sweet spot, that's where they're making all of their money, these massive high returns, in fact, four times higher on average than every other private investment. So once you sort of see from Cambridge Associates that the people who are making the most money are not in the stock markets, the people who are making the most have the highest percentage of investments in private. And the DuPont family saying, and within private, the best performing is not just venture but early stage venture, so that was the big takeaway from this. I actually walked up to him and I said, "I'd like to pay you for what you've just said because I'm going on next and I really appreciate how you've set the table for me.”

And so one of the other things, this data came from Cambridge as well that was fascinating is, they've been tracking for 25 years, all venture capital, and as an aggregate if you add them all up, multi-stage, late stage, early stage, all these different venture, the average is

about 17.5% net IRR over 25 years. Again, venture outperforms every other asset class. It's the most illiquid, which is the trade off that you're going to be apart from your cash for years, but you're going to do the best with that. But again, like what we saw from the DuPont family, within this venture that's outperforming everything else, it's actually early stage venture that is significantly outperforming the rest of venture. And that's actually what's amazing about their data is, that's true if you look at a snapshot at three years, five years, 10 years, even 25 years early stage is just outperforming every other type of venture, and that's obviously our focus.

There's something else that Cambridge noticed when they were looking at the data of who is performing the best, and this one for some people may seem counterintuitive, which is, you think, well gosh, the best, or Sequoia and Kleiner Perkins, Andreessen Horowitz, these big giant established venture capital funds that we've all heard of in Silicon Valley that have $10 billion under management, they've been doing this for decades, they know what they're doing, and that is actually not supported by the data. So the data is showing that of the top quartile funds, the top, top performing funds, 70% are what are called emerging managers, meaning they're either brand new, it's fund one, or they're emerging. It's like fund one, fund two, fund three, it's not fund six, it's not fund nine, it's early.

And the reason for that is because, I can at least speak from personal experience, as you know, failure is not an option for me and for some of these people, failure is a perfectly acceptable option because they've got a billion

Within venture, it's actually early stage on the far right, that's the sweet spot, that's where they're making all of their money, these massive high returns, in fact, four times higher on average than every other private investment.

dollars under management, they're making $20 million a year on a 2% management fee. They can go golf all day, it doesn't matter to them, they're making money regardless. For me, the only way for me to succeed is to return an enormous amount of money to my investors, demonstrate an incredibly high net IRR, better even than the 17.5% that venture has been averaging, in order to attract the capital that I would need to be able to keep doing what I'm doing and make returns. So this I'm seeing because we can't get fat and happy, we can't go play golf, we have to perform, and the later stage funds, they get sort of fat and lazy and happy on the farm, not always, but at least a lot of them do.

And so what are we focused on? We're focused on consumer. Why consumer? Last time I checked, it's two thirds of US GDP, that's why we're called consumers, we spend, right? That's what we do in this country, that's what most humans do on the planet, but obviously in this

country better than others, we spend money. And what our sort of thesis is, consumers are spending not so much on products as they are on brands. We don't buy generic toilet paper, we're buying Charmin. We're not buying smartphones, we're buying iPhones. And so we really are buying products that are essentially brands that we believe in that we have a relationship of trust with. And so when you look at consumer spending historically for the last 60 plus years, it's just increasing, it continues to go up and to the right.

And you see that sort of dip there, which of course is COVID, in the upper right hand corner, which we quickly rebounded from and kept spending like crazy as soon as we could. And I know for a lot of people they might be thinking, yeah Craig, but aren't we heading into a recession and there's a lot of uncertainty and well, what's going to happen to consumer spending as inflation's higher and everyone's starting to panic? Well, we've kind of seen this movie before, everybody who's on this webinar is old enough to remember the global financial crisis in 2008. And so when we look at that, what were people saying? Well, people were freaking out, right? I mean, you had a Nobel Prize winning economist say, "This is a second great depression." You had the Wall Street Journal say, it's the worst crisis since the '30s, there's no end in sight.

I would argue, these were much, much sort of more alarmist messages in '08 than even what we're hearing today in 2023. People were much more concerned, I mean, there was a concern the whole global financial system was going to collapse. So what did that look like in

terms of consumer spending? Well, that little tiny dip, that's what that was, that little tiny... It was not nearly as severe as what we saw with COVID, when restaurants were shut down, everything was shut down, and so there was this little tiny dip. But what's really interesting is what happened during that little dip? Well, all those companies you see at the top, Airbnb, Warby Parker, WhatsApp, Uber, all of these companies were founded between 2008 and 2010 during the worst global financial crisis ever. And these are all consumer companies, we've heard of these companies, these are name brands to this day.

And so that's what we do, we focus on early stage consumer investing. And so we launched two and a half years ago in fund one, this is how we did. I would say for your audience, the only number that really matters on this page is the second number, the net IRR, so 35% net IRR in the first two years of fund one. I like to say, venture outperforms every other asset class and we outperform venture. And part of that is the fact that we're early stage, as we discussed, we're an emerging manager. We kind of have all of those, the wind at our backs with those features, but we're also focused on consumer from a place of experience. So this is one of the companies in fund one, it's essentially an app for hiring a lawyer, this is just giving you a flavor of the kinds of companies that we invest in and why.

And their thesis I thought was fascinating, which was, most Americans don't have a lawyer, but if you get pulled over for a DUI, you're served with divorce papers, guess what? You need a lawyer. So what's your process for

getting that lawyer? Well, you either have to tell your friends and family some embarrassing or private thing that's going on in your life, or you got to go on the internet or remember the jingle or look at the billboard, and then it takes you days to get in front of this lawyer. And then you essentially have two questions like, how much is this going to cost? What's going to happen? And the lawyer says, well I charge 7.50 an hour. Well, how many hours? It depends. Well, what's going to happen? It depends. So what these guys did that was really brilliant was, they hired their own lawyers so they have their own in-house attorneys. They have algorithms for outcome prediction, cost prediction, so they've really tried to solve all of those pain points.

They appreciated the fact that I was a recovering attorney, that I'd built a unicorn in the consumer space, and they allowed me to invest in what was at the time an oversubscribed round. So I invested a hundred grand at a $21 million pre-money valuation personally. When I launched Flagstaff Ventures a few months later I moved that investment in, the cost basis was a little higher because they had raised some money at a slightly higher valuation by the time I'd moved my investment in. Four months later they became a unicorn, they raised 80 at 920 pre, I sold one third of my a hundred grand for $760,000 in the secondary market. And then a few months ago, they raised about 50 million at a billion and a half dollars valuation, so my remaining two thirds is worth $2 million. So it was neat for me because I knew as a first time venture capitalist as a new manager, that sophisticated institutional investors would say, okay fine, Craig, you built a unicorn, great, but do you know how to find them?

Airbnb, Warby Parker, WhatsApp, Uber, all of these companies were founded between 2008 and 2010 during the worst global financial crisis ever.

It's a different skillset. And so now I got to check both boxes, built one with my own two hands, first investments a unicorn, maybe we know what we're doing. And so that was the first one.

And then Frites Street's near and dear to my heart, for those of us who've had the french fries, we understand, better french fries than McDonald's, and it's really a beautiful story. This young guy, Flip, of course, what better name? But I've been with him to the great potato fields of Idaho to see how they take these Kennebec potatoes, these small watermelon sized potatoes, out of the ground. And then he takes them through a proprietary process of soaking them and brining them overnight at a specific temperature to balance out the sugar and starch content.

And these potatoes are about 30% water, so he takes 50 pounds of raw potatoes and turns them into about 37 pounds of french fries, and then he fries them and he refreezes them and he sends them off. And they're re-fried at these stores, at these restaurants, rather, throughout the United States. He's the most expensive

french fry in the entire Sysco, Shamrock food distribution system. In fact, Gordon Ramsey just launched a fish and chips product at Walmart, he's the chips of the Gordon Ramsey fish and chips, and he's in Au Cheval in New York in the Four Seasons and all of these top restaurants and steakhouses throughout the United States. For me though, I said, "Okay, that's awesome. You're shipping 50,000 pounds of fries a week to 150 restaurants. We manufactured 80 million units, we got into 130,000 points of distribution. I can help you scale your business." But that's actually not why I invested.

I invested for a different reason, which is, I was like, "How is there no premium consumer brand for the most popular food in the world?" When I was a kid you'd go to the supermarket, it was Ore-Ida, I think it still is, it's not a great product. So that was sort of my focus, was how do I… How is it? It's crazy to me that there's no premium consumer brand for such a popular food.

And then this one is one of our sort of, I think, sexier companies. By this time next year, I think most people will have heard of Dorsia. And it was a brilliant idea, we invested $1.2 million into this company, we were the first institutional investor, and we invested pre-revenue. So this was a high conviction investment into a company that you'd say, how could you invest so much money into a company that had no revenue? But I loved their business model, which was essentially, you go to the top restaurants, Michelin Star restaurants that billionaires can't get a reservation, and they basically go to those restaurants and they say, listen, you don't think you have a revenue problem because sold out every night, but

actually you do, because you didn't realize that Dustin and Craig just wanted to say, we were eating at Carbone in New York, we're going to order water and split a salad, and you guys took a bath on that table.

So you know what your average four top generates for you at 8:00 PM on a Saturday night, 500 bucks, we'll give you a grand. In exchange, you give us the inventory and we'll charge a seven and half percent commission on the first three tables, a 5% commission thereafter. And they created a marketplace with sort of supply and demand, but the supply is from the top restaurants in the world and the demand is from everybody who would love to eat at those places but we can't because you can never get a reservation, and they've essentially created just a guaranteed minimum spend.

And what's genius about it is, you land in New York, and I know some of the people listening on this have the Dorsia app, they've launched in Miami, they're in New York, they're in LA, I think they're about to launch in London. And so they go to these top restaurants, they get this inventory, but what I loved about it is you land in New York, you pull up the app, and when I presented in May in New York City, I pulled up the app, there were three separate Michelin Star restaurants that you could go to that night with no reservations.

Dustin Burleson:
Tonight, yeah.

Craig Weiss:
And so you press the button, you're charged whatever it is, the amount that you're willing to spend. But when you get to that restaurant, this isn't a Ticketmaster service fee, you have a $1.000 credit. Well, you're not going to do that all on food. You're going to get a $500 bottle of wine, but that's a 90% gross margin product for the restaurant. So everybody wins, everybody gets value. And for a lot of people, you were going to probably spend that amount anyhow, right? You're out to celebrate, it's your anniversary or you've got an important client or whatever it is, and so you're really just, it's a guaranteed minimum spend to get access.

And what I loved about their business was they said… Because of course the next question is, okay, but that's a great idea, how are you going to get these top, top, top restaurants to give you inventory? And they said, well, we've already got all of the top restaurants who've not only signed exclusives to give us their inventory, they're investors and are on our cap table. So they're not going to go to some competitor because that would not be in their self-interest. And so Carbone, for example, in New York, that's one of their restaurants, one of their investors, one of the top restaurants in the country.

And so Index Ventures, which is one of the top VC funds in the world, their famous investments are Slack, Dropbox, and Etsy, three pretty well-known products and services. They invested earlier this year, $12 million on a $44 million pre-money valuation. So it was a markup for us, our second markup in fund one, but more importantly, it's validation of our thesis. They wouldn't have invested 12

And so Index Ventures, which is one of the top VC funds in the world, their famous investments are Slack, Dropbox, and Etsy, three pretty well-known products and services. They invested earlier this year, $12 million on a $44 million pre-money valuation. So it was a markup for us, our second markup in fund one, but more importantly, it's validation of our thesis.

million if they didn't think it could be a unicorn, which is of course why we invested. And so a little bit of my background, I sort of shared earlier the patent attorney, having built a unicorn, and I've also of course built an amazing team for fund two.

So Andy's British, based in DC, ran a biotech accelerator there, really an amazing human being. And also like me, sort of a fellow former operator who's been in the trenches and knows business. Michael's my New York City partner, my millennial partner who knows more founders than anybody I know. He was a tech recruiter in San Francisco for four years so he just knows all of these companies and knows their needs, which are mostly money and people, kind of like the rest of us, and so lived that and is in New York City. And Robert runs the entrepreneurship program at Grand Canyon University here in Arizona, over a hundred thousand students at Grand Canyon University and has been a very valuable

member of the team. And then I have what are called venture partners, you might recognize one of those pretty faces on the far right of the screen, who are people who I am partnering with because they provide enormous value in so many different ways.

Adam and I've worked together, we helped build the NJOY brand. You've heard of Mad Men, Madison Avenue ad men, he was a Mad Man, he had his own creative advertising agency on Madison Avenue which he sold to Sony Music. Jonah Berger's, a professor at Wharton, he's written four international bestselling marketing books. His last five consulting clients were Apple, Facebook, Google, Nike, and Amazon, so he knows a thing or two about go-to-market. And I think Dustin speaks for himself, anyone who's on this webinar already knows what he brings to the table.

There's something else that a lot of people don't know about, which is, there's this incredible tax benefit to a certain type of investment. So in 1993, Congress passed this Section 1202 tax exemption and it became permanent in 2015. And so basically just to walk through it at a high level, and as you said at the beginning, I'm not an accountant, I'm not a tax planner, talk to your tax specialists. But the way it works is, if you invest in a privately held company that has less than $50 million of assets, and it's got to be a C corp, can't be an LLC or an S corp, and if you hold that investment for five years, then the first $10 million of profits are exempt from federal income tax.

So here's what's really interesting and in what we realized, early stage venture is the perfect vehicle to take advantage of this unbelievable tax break that the federal government has provided, because a lot of people make money in real estate or in stocks, but they're not holding it for five years. The five year hold period is actually the long pole in the tent, that's the part that's the hardest criteria to meet. But the beauty of investing in an early stage company is you're looking at a 5, 6, 7 year time horizon before they get to a place where they're going to have a liquidity event, go public or get acquired.
So that exemption, I mean it's actually, what's amazing, it's actually more than 10 million because it's per investment. So it could be you get 10 million, Ashley gets 10 million, I mean, your kids get up to 10 million, as long as it's under different names, each individual gets that exemption of up to $10 million. So this is a massive, massive savings that even further improves their performance.

So we're getting ready to launch fund two now, we're trying to target $50 million, I'd raise up to a hundred, we call that a hard cap, and it's a million dollar minimum investment. The only thing I'll say about that is for existing investors, so if they invested in fund one, which is now closed, or if people invested in our special purpose vehicle, which is a vehicle we created, we raised a couple of million into that to just do follow on investments into the original fund one portfolio companies like Retainer Club, like Frites Street, then we can waive the minimum for those people.

And so otherwise, for new investors, it'll be a million dollar minimum investment, and hopefully we've sort of demonstrated both in terms of our track record with fund one, but also our focus on consumer, early stage consumer, there's not a lot of people in that space. And when I meet founders and when my team meets founders, we're realizing, the fact that we were operators ourselves is another big advantage. Because just like my frustration that I had when I spoke to those 10 VCs, our founders are in the same boat. They also don't like VCs, they're also frustrated when they talk to investors who don't really understand how to build a business.

And they're so grateful that they're like, oh, you get it, you're the only one who's asking me the right questions. And they feel comfortable to tell me what they're struggling with because they know I also struggled and I know that the real world's a messy place. And I can't help them if I don't know what's wrong, and so one of the things I brag about is that my founders call me with bad news. They're not worried I'm going to freak out, and if I know what's wrong, I can help them. So that's kind of where we are and what we're focused on now.

And obviously for all of your audience, and I'll stop the screen share there, for all of your audience… Blair refers to orthodontists as my people, and I'm starting to feel like the orthodontists are my people too because of Retainer Club and I've met probably a triple digit number of orthodontists at this point. For all of your audience, I'm happy to talk to anybody at any point about anything, even if I knew they were never going to become an investor I still want my people to succeed and to do well

and to flourish, and so it's an audience that I resonate with and I'm happy with.

And I think there's an interesting dynamic that is at play, which is, the vast majority of people who acquire wealth in this country, assuming it isn't inherited, the vast majority of people who acquire wealth, 80% plus is acquired in their core business, whatever that was. And in your case, and in the case of almost everybody who's watching this, it was in their orthodontic practice and that's where they built all of their wealth. And now they have it, maybe they sold to a DSO or whatever, they have the wealth, but now what do you do with it? How do you invest it? That's not the same skillset that you used to acquire the wealth in the first place. One was orthodontics and the other is financial investing, they're just two completely different things. And I think it's not reality to expect people to become experts in both, the people who are experts in acquiring the wealth are not the same people who are the experts in how to invest it and generate even more wealth.

And I think for so many people, their instincts are very natural. We're in an uncertain financial time, we're in an uncertain economy, and people think, well, I'm just going to kind of sit on my cash, I'm going to just sort keep it in T-Bills, or I'm going to just keep it in cash. And from an investing perspective it's the worst possible decision because this is the ideal time to invest if you think you're going to be around in five or 10 years. If you think the world's coming to an end, yeah, probably sit on your cash, buy food, buy guns, buy ammo. But if you assume that the world's going to continue on, the reality is over and over

And so in order to get to those bigger returns, there's really only one way to do it, which is with alternatives. And within alternatives, the best performance is venture. And within venture, the best performance is early stage and emerging managers. That's just the data, I mean, it happens to be good data for me, but it's just the data.

again, the macroeconomic environment says recessionary periods are the ideal time to be investing because you're going to get the best deals, and we're seeing that every day.

Dustin Burleson:
Every single time. Yeah, I had this conversation with a close personal friend who's built a very large business that he owns. It's a consumer service business, and he's like, he had the same questions I had maybe two years ago like, what is this and why should I do it? And I think, again, not providing financial advice, this is my own experience, I would never advise a member or a client to put a hundred percent of their net worth into alternative assets.

Craig Weiss:
Nor would I.

Dustin Burleson:

I think if you swing a normal sized stick, you're at 25% and it looks like the most successful family funds are swinging larger sticks, they're swinging at 40%. And the reason is, there's just nowhere else to get a return long term that beats it. So again, as an orthodontist, I love that real distinction. I'm going to say, hey, listen, you're treating cases that should be treated in 18 months and it's taking you 50 months to do it, maybe you need to update your skillset in that area.

We come over to financial advising and investing, and we're reading... Like CNBC is worthless, I mean a lot of people think they're financially minded, they're watching CNBC whose job is to get you excited every time the market go, oh well, it's been up today, down today. Good God, look at your balance every 90 days and then don't look at it again, is probably the best advice you could do. And you make big decisions and then you kind of tier into them and you say, listen, we're going to deploy 25% of our net worth as a family into alternatives, and we think that's this chunk so let's get into fund one. Or I'm sorry, let's get into fund two, let's see how this performs, and then let's re-up it. I think it's an interesting little math exercise if you take 17.5% IRR and blow it forward for 30 years, your brain should just melt at the number on the screen.

Craig Weiss:

Oh yeah, it's insane. I mean, I think I shared on our previous webinar, a good friend of mine, a colleague said, "25% net IRR." And again, we were 35%, granted it's for over two years, and being able to consistently deliver that

over time is a different challenge. But he said, "25% net IRR in 24 years, you start with $5 million, 24 years later, you have a billion." That's the math, right? So when you get to those big numbers, we talked about it before, your money makes more money for you than you can make for you. But that's not the case if you're putting the money in a savings account or you're putting it in bonds or whatever. At this point I'm not even sure bonds are outstripping inflation.

And so in order to get to those bigger returns, there's really only one way to do it, which is with alternatives. And within alternatives, the best performance is venture. And within venture, the best performance is early stage and emerging managers. That's just the data, I mean, it happens to be good data for me, but it's just the data.

Dustin Burleson:
So I'm just so grateful that you do this because again, before you, most dentists didn't have an opportunity unless they had a family friend or they inherited a lot of wealth or something, they just didn't have access to this and the chance to come on and ask questions, you've been so generous with your time. The other thing I think is neat is that you had your first annual summit for all the founders and all the... And I caught COVID right before that and got to miss that, but I will be there next year in May.

Craig Weiss:
You'll be at the next one.

Dustin Burleson:
Right. As an investor, perhaps in Flagstaff, you don't just get to have access to this amazing opportunity to generate wealth in your family, but you actually learn some really smart stuff, there's some really smart operators who are in these funds who are managing businesses, you can say, oh, okay, that I can take and I can use in my core business. That's really clever, I love that.

Craig Weiss:
Yeah, no, and I'm glad you brought that up, Dustin, because that's something that is a big part of our ethos, which is, I don't view my investors as dumb money. To me, if I've got someone who has acquired a lot of knowledge, they've run their own business, they've figured certain things out, I always say to my investors like, hey, do you want to be more involved? Hey, if you just want to play golf five days a week, have at it, right? I totally get it.

But if you want to get back into the business world and start getting some exposure to different companies and how they... I'm happy to provide that because I have an unlimited amount of interesting companies that are involved. And we do do this summit, we did our first one earlier this year, we're going to do it annually, and we're targeting May for this next one. I'm going to bring in some of the most amazing speakers in the world, all of my founders, and if someone's an investor and they want to come, they're more than welcome to join. We do it of course in Flagstaff, we have to do it in Flagstaff, Arizona. But it's a beautiful event, and everyone who came, 100% of the people basically left saying, I learned a lot. And

that's honestly, the thing about what I'm doing right now is, I was a patent attorney for 10 years, every single day someone came into my office with a new invention, with a new idea, and I felt really grateful. I was like, "Wow, most lawyers are suffering in some library somewhere doing discovery on Walmart or God knows." And I'm like, "I'm meeting new and interesting people every day who are coming up with cool stuff that's impacting the world." And I felt really fortunate. And when I left and when I went to go become an entrepreneur, I was like, "I'll never go back to practicing law. My most boring day as an entrepreneur was more exciting than my most exciting day as a patent attorney.”

And now that I've transitioned to being a venture capitalist, I actually feel that way again. Which is, I wouldn't even go back, and I loved being an entrepreneur, and I really did and still do, but this is a whole new level for me in terms of, I'm learning so much every single day. And I'm a big believer in cross-pollinization, so every time I'm talking to a new company, I also am like, "Wow, Retainer Club would really benefit from this." And I'm picking up all of these cool best practices across all of these different areas. And to me, that's its own drug, is that feeling of I'm getting smarter every day. And there's other ways to do it, we listen to podcasts, we can all do that, but seeing it in the real world, not as an academic conversation, but talking to these founders, it's really exciting.

Dustin Burleson:

I had this conversation with Christina Wallace, she was on the podcast recently. She's one of the most popular

professors at Harvard Business School, she wrote a great book called *The Portfolio Life*, which is applying some of these principles to your life, which I think was clever. And she said she has a friend who's an orthodontist, and she's like, "He's been straightening teenager's teeth for 30 years. He's bored. And so his new project is like every three years he builds a new house or renovates a house, and his wife is so sick of moving, so sick of boxing stuff." She's like, "Can you get a better hobby?" And I've got a great idea for him, he should invest in Flagstaff because you get to meet all these people and go like, I can still straighten teeth and still run a business, but on the side, instead of doing things that annoy your family, you can invest and pour into a community where you will learn a lot, not just for your business, but also for your personal development. It's been a lot of fun for me.

Craig Weiss:
Well yeah. And you've experienced it in a way that most haven't, right? You've had Emily and Francesca as interviewees on your podcast, you see how dynamic they are as human beings, as founders, as CEOs. Honestly, the other thing too, talking to these founders is like an antidepressant. I mean, it's easy to get down on the world, especially the world that we're in today, and I meet these young people who are so passionate and so hardworking, and they have tools that we didn't grow up with, like the internet, right? I didn't grow up with the internet. And they're becoming experts, it's like, how did you figure that out? Oh, I watched the YouTube video. And it's like, yeah, I didn't have that. And so they're just iterating and getting faster and faster, it's really inspiring.

Dustin Burleson:
Yeah, I think it's one of the back to the beginning of this, to kind of put a bow on the conversation is, why I think venture capital and my own little noggin is so powerful is because it is the best way to adapt to this world of change that the behemoths just will never, ever be able to replicate and to keep up with. And yeah, I would pity anyone trying to take on the Francescas of the world and the Flips of the world, they're just moving faster, they're smarter, and they have the ability to get real quick growth early in, which is why we love early stage. Man, I love every chance I get to talk to you, I'm assuming we can post contact information below here in the show notes.

Craig Weiss:
Absolutely. Yep absolutely, craig@flagstaffventures.com, so that's easy enough. But yeah, of course you can provide all that contact information. And again, I'm happy to speak to people if they're like, I just got some more questions, happy to talk. Or if they want to ask me questions that aren't even related to Flagstaff, I'm a people person so I enjoy talking to people.

Dustin Burleson:
Cool. Awesome. Great, thank you for doing this, I appreciate it.

Craig Weiss:
My pleasure. Thank you.

This transcript is intended for single Burleson Seminars Members and not intended for distribution. If you would like to distribute these in your organization, please contact support@burlesonseminars.com. For individual memberships, please refer friends and colleagues to join at TheBurlesonReport.com

ASK THE EXPERT

DUSTIN BURLESON SEMINARS

BurlesonSeminars.com