My Biggest Mistakes Regarding Investment Decisions

By Dr. Peter Lorange

Since the sale of my shipping company business in 2007, which was 100% owned by me, and generated considerable liquidity, we have made several investment decisions in various ventures, some good, and some less good. ("We" are my son, Per F. Lorange, my son-in-law, Frode Lervik, and myself). Mistakes are always painful, but are perhaps often well suited to reflect on, and to learn from. Here are what I consider to be my five biggest mistakes, and what may be reasonable learning points from them.

1.

When my shipping company, S.Ugelstad, was sold in 2007, the liquid proceeds, all in cash, no stock, nor earn-out, were "burning in my pocket". I felt that there was an urgent need to reinvest these funds. In retrospect, I probably put far too one-sided considerations into the potential upsides of most of these new investments, but with not enough considerations of what might go wrong. The urgency to reinvest resulted in a lack of realism on my side regarding the risks we were indeed taking, i.e. an unintentionally too high appetite for risk.

From talking to others who have recently sold their firms, I often hear similar stories. There tended to be a hurry to reinvest, with a resulting lack of thoroughness in the analysis of the potential downside. So, what are the key learning points?

• Avoid over-investing early on. Avoid going in too heavily!

• Try to be realistic regarding the upside/downside balance. If in doubt, wait! There shall always be new opportunities coming.

• There is no stigma in saying "no", or to invest a relatively smaller amount! (Too many relatively small investments may, however, lead to too much follow-up work, perhaps for a relatively small upside!)

2.

When investing in new ventures, I often under-estimated the potential financial needs for further financing in these ventures. This financing need often became a dilemma, in the sense that, by not investing in follow-up rounds, we faced the prospect of becoming diluted in our ownership. This dilemma was often further accentuated by the fact that some of the other investors might have been unable (or unwilling) to participate in new rounds. In other words, what to do - let the firm go bankrupt, or take the other investors' share too.

The learning for us was two-fold:

• To try to be more realistic regarding future potential financing needs in a given venture

• To try to assess the financial solidity of the other investors in a given venture - would they be able to participate in follow-up rounds?

3.

We found that, when considering investments in new ventures it would make sense to distinguish between those that were basically "a good idea, but with no actual revenues nor a positive cash flow profile", versus established businesses, where there would be actual sales, real customers, and a reasonable cash-flow. We thus concluded that, to invest early, but not too early, was key. Too early investments tended to be too risky for us. To come into a venture a little later would typically be much more realistic, even though some of the potential upsides might be lost.

The key learning point was:

• Products or services that are actually now being sold in the marketplace are key. There is a big difference between this, and wishful thinking about future sales, which may not yet be proved. (Prospectuses from start-up entrepreneurs often present their companies as being more established than they actually are!)

4.

We felt that to assess the qualities of the key promoter of a given new venture would be key. What was his or her previous track record? Have they been successful before? Clearly, a strong sense of enthusiasm and belief in a venture is key. But, can this belief, paradoxically perhaps, actually be too strong? Would there be a lack of realism? Might there even be a risk that a promoter's convictions are so strong that he/she might end up at the other side of what might be ethically acceptable? Might the promoter even run the risk of taking criminal actions as a result of his/her convictions?

The learning here is key too:

• Always assess the key promoter carefully regarding realism and his/her ethical side. Is there a risk that he/she might become more focused on themselves rather than on the investors?

5.

We initially allocated considerable funds to various established banks. These would have their own in-house "products", and their overall fees, declared as well as hidden, would invariable be high. We were typically told, in the banks sales-pitches, that the risk might be expected to be low, relative to an expected steady positive return. These bank offerings were typically standard and with little-to-no room for inputs from our side when it came to asset re-allocations, such as changing some of the stock or bond mix in such funds, for instance.

The financial results, regrettably, tended to be disappointing. Considerable funds were lost. What were our key learning points?

• Avoid funds managers (particularly banks) that are promoting their own in-house "products".

• When the fund manager seems uninterested, or even unwilling, to enter into an ongoing, realistic dialogue regarding asset regarding allocations, then consider this as a "warning light", and disengage from this given fund manager.

General. The above five areas of mistakes, and some of the key learning points that we have gotten from these, are perhaps not that unique. We have heard from many other investors that they have had similar types of experiences. Perhaps we might have a dialogue around these types of issues here in the Lorange Network?

About the author

Currently Chairman and CEO of the Lorange Network, a digital platform set up for supporting family offices and family business owners regarding their strategic decision-making. Before that he was the owner of the Lorange Institute of Business, Zurich, and earlier, President of IMD, Lausanne, for 15 years, and President of BI-Norwegian School of Business. He has also been a professor at Wharton and at MIT's Sloan School. He got his doctorate at Harvard Business School, a Master's from Yale, and is the recipient of 6 honorary doctorates.