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Interview with Roger Ehrenberg from Information Arbitrage

Adrian Bye: Today, I'm here with Roger Ehrenberg who is from Information Arbitrage. He is a Wall Street guy that's turning into or is now an investor in the tech scene in New York. I've been reading Roger's blog for quite awhile and he had some pretty interesting thoughts.

Roger, thanks for joining us.

Roger Ehrenberg: Yes, thank you, Adrian. I'm happy to be here.

Adrian Bye: Maybe you can just tell us a little bit about you, who you are and what you want to be when you grow up?

Roger Ehrenberg: I'm still trying to figure that part out. In terms of where I've been. I was in Wall Street for, gee, over 17 years starting in '87 right around the crash and I was an M&A. For four years, I did M&A focusing on the financial services sector and then got into capital structuring which was kind of designing these structured capital, raising instruments for large corporations.

Adrian Bye: Did you meet Mike Milken?

Roger Ehrenberg: I did not. I did not. His heyday was slightly before I came onto the scene and of course he was based out in LA. I ended up going to work for Citi, in the old city, the real city… in New York City. So unfortunately, no, I've never met Mike but he certainly dominated the discussion at the time that I got into the business. Then I went to business school for a couple of years while working for Citi and then I went into derivatives which is not at all what I expected I would do. I was much more thinking of going buy side but my mentor at Citi had kind of insisted that I meet with the global head of derivatives and their view was that somebody with my corporate finance background, not from sales and trading would be actually very effective in advising large corporations on all manners of management strategies. I took that bet and ended up being right. I love being in the derivatives markets and advising large corporates in the '90s was a great time to be doing that as the derivatives business just increased exponentially in corporate derivatives became commonplace. I did that from '93 at Citi all the way through the beginning of '99, then when the Travelers merger happened, I didn't like the way the culture of the place changed and then went to Georgia to run equity derivatives structure and origination, and did that until the end of '02 , and it was terrific. It was just a great, great team and great culture, just real can-do attitude, very exciting time to be on the Street. Then I was asked to take over a trading business called DB Advisors which was a multi-strategy hedge fund platform that was a combination of running Georgia's own capital and running $2 billion of client capital. I was brought in to institutionalize that business, and build a risk-management culture and an institutional infrastructure around it. I did that for a few years and then at the end of that which was end of '04, I decided to leave and to really change my life. That's when I went into early-stage technology investing.

Adrian Bye: How come you decided to leave?

Roger Ehrenberg: I was asked to restructure the business. The bank decided that the regulatory risk associated with running third-party money, given the structure of the business, wasn't worth it since we made the vast majority of our profits through trading on our proprietary capital that I started to spin out my best managers. So, QBT, big New York based fund, Gindara based in Hong Kong, GSA which is a top-performing start-up fund, Ultima which is a special fund based out of London. Once I did that and got rid of the client side of the business, and it reverted to being a pure trading platform, they said, "What do you want to do?" It was a natural inflection point for me to consider what did I want to do. I really always was a lover of technology and kind of consumed massive amounts of technology in my positions on the Street. It is kind of complex ends of the financial products backroom. I had started doing some angel investing while I was still at Georgia and decided, you know, it's been a great run and I had a tremendous time, met great people, learned a ton and decided I wanted to try my hand being on my own.

Adrian Bye: I've actually never talked with someone like you. I mean you've really been out there and done battle on Wall Street. You've seen it all.

Roger Ehrenberg: Hand-to-hand combat.

Adrian Bye: The one comment that I've heard from the one guy who, I guess, was in it for a little while but basically got out and is a fairly high-profile guy – what he told me was he felt like most of the Wall Street spaces were pretty unethical and just aggressive. It's kind of really all rather unpleasant. Would you agree with that?

Roger Ehrenberg: No, I think it's easy to use a very broad brush to paint Wall Street in kind of that negative light. I didn't find it that way. Were there pockets of that? Absolutely. Are there people that are at themselves unethical and act in inappropriate ways? Sure. But the vast, vast, vast majority of the people that I worked with at Citi and at Georgia as well as friends of other firms did business the right way. Did they want to make money? Sure. Did I want to make money? Of course. But that didn't go before giving the right advice to our clients and if we could get paid in a way that we felt good about through doing the right things for our clients, it's kind of a win-win. That's the way I felt of Wall Street in my tenure.

Adrian Bye: You did leave. I mean what were your reasons for wanting to move on rather than staying in the space?

Roger Ehrenberg: Sure. After this job of running a $6 billion RIA reporting to the head of the equity division two steps away from Joe Ackerman, I looked around. I didn't really see a role that I wanted. I had been a banker. I had been a derivatives professional at a very high level and then ran this massive hedge fund. What other job is there on the Street short of running the equity division or running the whole firm that would've been exciting, stimulating, whatever? Honestly, I didn't want to do those jobs if they were available to me which they weren't. So it was really just a very natural inflection point for me where I had been fortunate to make a few bucks in my time on the Street, and had the ability to go, take personal risk and to really reinvent myself in ways that both kind of balance my personal and professional objectives. It kind of gave me a rebirth. These last five years, I think arguably I've become a pretty respected venture investor, I mean, from nowhere. It's taken five years of doing some good stuff, making some mistakes, learning from them, writing a blog, learning how to really become an internet denizen and just really immersing myself in the community to the point now where I'm part of it. Swell.

Adrian Bye: …and here we are talking today.

I'm interested from what you've learned from Wall Street. Have much of what you've learned there helped you in the startup community?

Roger Ehrenberg: That's a great question, Adrian. I think probably more than I would've expected how to build high-performance teams, how to assess talent, how to network, how to manage relationships, how to analyze complex situations. Those are the things that have been invaluable in my transition from Wall Street to the venture investing start incubations community.

Adrian Bye: Have they been really valuable? I mean if you hadn't learned those things and you're just starting out when you were are a fresh-grade 22-year old kid and you had the money that you had now, you might have been a little bit slower but you still would've gotten there or do you think it made a tremendous difference to getting to where you are now?

Roger Ehrenberg: I think both from a skill set perspective, it made a tremendous difference, and also the fact that I had achieved the level I did on the Street and had the reputation, the network of relationships clearly jumpstarted me in this new business because people took me seriously even if I didn't necessarily have the domain expertise when I was first starting out…

Adrian Bye: I understand…

Roger Ehrenberg: …in the venture capital arena. It takes time to kind of build one's tech shops where you're viewed as somebody who understands as opposed to somebody who's just money.

Adrian Bye: Right.

Roger Ehrenberg: I worked very hard over this period to really connect with entrepreneurs and to really understand the technologies underpinning a lot of the companies I invest in. It's a little bit old-dog-new-tricks but I've learned some new tricks.

Adrian Bye: Cool.

One other thing that I'm interested to ask you about just down that Wall Street topic before we move on – you're obviously and M&A on Wall Street – do you think some of your learnings there are going to apply to internet stuff, and how are you using that or do you plan to?

Roger Ehrenberg: I would say it does from a tactical standpoint. Certainly, the kinds of things that acquirers look for, the way to best present a company, creation of key metrics. Yes, I mean that's helpful. Honestly, M&A is technically very easy. It's not the kind of the arcane tax rule that heavily impact the way deals are structured. Straight down, most certainly M&A is not complicated. It's just stuff that's really interesting, or the strategies and the tactics, also the relationships and the ability to open doors. If you look at the highest profile M&A bankers, it's not that they're necessarily structuring gurus. It's that they have an immense amount of trust and credibility with decision-makers as potential acquirers and potential targets. I think that's something also that my kind of legacy relationships with large corporate has been very, very helpful with, and then the time that I've spent building credibility in the entrepreneurial community and with venture firms has given me the other side of the equation.

Adrian Bye: Interesting. Okay. Now are you an angel investor, a VC investor? Where do you sit?

Roger Ehrenberg: Kind of right in-between. I've made 35 investments since I started doing this. I've left rounds. I've followed on rounds. Generally with my strongly-performing companies, I continue to participate in follow-on rounds. So my behavior is very much that of a small venture fund. Still obviously to this point, I've been investing using my own personal capital, not partner capital. But I am in fact going to be starting a small venture fund where I will have LP Capital which is something I've considered for quite some time but I'm going to be doing that shortly.

Adrian Bye: Why have you decided to do that?

Roger Ehrenberg: Aside from investing, I also incubate and I've been incubating a trading company for the past 18 months. It's kind of at the intersection of the stuff that I used to do and the stuff that I've done over the past five years so it's kind of a mix of quantitative trading and semantic analysis, natural language of processing, kind of interesting database architecture to solve very complex problems in the analysis of techs for trading. When I kind of started this project, it's something that I don't really talk about very often. I don't blog about it. It's just something where there's not a PR benefit to it. It's just something that I'm doing myself but word got out kind of quietly in the community and the composition of my personal deal flow started to change where I had been receiving classic syntax, and then tons of digital media and ad tech stuff which is principally what I've invested. But I started to get a lot of really interesting business plans in the sphere of big data. So tool technologies for the management of massive amounts of data – database architecture, high performance computing, anomaly detection, predictive analytics – all this kind of stuff… stuff that directly relates to the work that my trading company is doing.

These deals, because of their strategic nature, they didn't feel like angel deals. It's not like I wanted to be bigger and more significant with these companies, and to potentially have a joint investment and business relationship with them where there would be kind of this discipline of only investing in companies where my trading company could kind of use the technologies, use the analytics, use the data in its own business.

What I decided to do is to identify potential limited partners who themselves were strategic, strategic in the sense that they were interested in the same kinds of things that I'm interested in from the standpoint of my trading company, who would want to potentially see the filtered deal flow from the fund and who themselves could be early datas, potential early-paying customers and in certain cases, potential acquirers of these businesses. When I set out with the idea of wanting to do this fund, there was no way in a million years I was going to go on some 12-month fundraising tour, going to, punching them down and doing the standard thing, firstly because I'm not a multiple-year institutional VC. My reputation is very much as a super-angel investor type person so LP Capital I didn't think would be there for me and honestly I didn't want it because they couldn't be helpful to me. They were possibly very heavily restricted on the things I wanted to do. So I ended up doing these series of strategic through a no-need, personally-trust-me and at the same time heavy-interest.

Adrian Bye: What strategic?

Roger Ehrenberg: One of the largest data companies in the world, a massive trading company, a massive hedge fund, some prominent venture capital investors, a few very prominent entrepreneurs who have built companies and sold companies in the big data round. So, we're kind of LPs and advisors intersect, where every single one of my investors is respectively an adviser, too, because of their domain knowledge. There's no dead money in the front. It's all active money.

Adrian Bye: Dead money means… I can't get it because I'm so far removed from Wall Street, I have no idea. Dead money, I guess, that means people that invest but aren't involved. They just like sit back and the money they invest where it fills. When you say "active money", it's saying people with actual understanding of the space and potentially the ability to add value.

Roger Ehrenberg: Precisely.

Adrian Bye: Right, okay.

Roger Ehrenberg: That's exactly right. When I raise this possibility with this in a small group of trusted strategists, the idea really resonated with them. I had the idea three or four months ago, and I'm doing it.

Adrian Bye: Cool.

Roger Ehrenberg: So it's going to be again doing the very early stuff that I do in my capacity as a personal investor but with greater firepower to potentially lead deals to be more significant equity owners of these companies, and then to really dig in and assist with the business because of my rolodex, the ability to help fund business development and the fact that I've got an associate the helps these early companies with their financial modeling, their budgets and their plans. It's just a very hands-on approach.

Adrian Bye: Let me ask then. You've built up a good reputation. You've obviously done a lot of good. You've raised this money. What happens if it like all goes down in a big ball of flames and you lose everyone's money? What happens to you then? Are you like shut out from Wall Street and you're done, or does that like accept then you go on and just start another thing?

Roger Ehrenberg: That's a great question, Adrian. I have no idea. My motto has always been failure is not an option and given the 5½ years of experience I've gotten doing this, I feel like I've learned enough to take a risk-managed approach to building a portfolio and company selection, and the fact that given the strategic nature of the companies in which I'm going to be investing, and the fact that I've got an operating company that can actually do due diligence of these companies and be a user of their IT together with the strategic LPs, it substantially de-risks the investments. I actually think the likelihood of success is very high.

Adrian Bye: Strategically, it all makes sense. I'm just wondering from the point of view of Silicon Valley, right? It's okay to fail a couple of times in Silicon Valley because you just dust your feet off and get going. It's not like you're going to be locked out of everything in the valley. I mean people accept that as long as you handle things right. I was just kind of interested in the perception on how that might happen in Wall Street if a similar thing happened.

Roger Ehrenberg: I'm not on Wall Street. I live in New York but I'm not on Wall Street and in fact, making money on the investment is secondary. What they're really most interested in are the insides to being on the bleeding edge of technologies that they can actually use in their operating businesses which has a much greater scale effect than the return on any investment that they would be making.

Adrian Bye: That's a killer.

Roger Ehrenberg: Yes, it's pretty cool.

Adrian Bye: Even then, everything could burn down and as long as they're getting their insides from it then they've done unusually well.

Roger Ehrenberg: Exactly.

Adrian Bye: Fascinating. Okay. You mentioned ad tech. Have you been doing investing in the ad tech sites?

Roger Ehrenberg: Heavily, yes.

Adrian Bye: Really? What kind of stuff have you been investing in?

Roger Ehrenberg: Are you familiar with Invite Media?

Adrian Bye: No, I'm not.

Roger Ehrenberg: There's a bunch of companies in the ad optimization, ad server space that I've invested in as well
as some companies that are less techie but have very scalable platforms that are heavily used by the big brands and by the big advertisers. Buddy Media is a great example in their Facebook page's application. But, yes, ad tech is a very, very important space for me and something that really is a place where I can really add value because just what I invest in tends to be very, very data-driven and very quantitative.

Most of the stuff I do, Adrian, has a heavy data component either directly in that it is consuming meanings from massive amounts of data or it is something more of a data exhaust and the metadata can be used in another way or even kind of the core strategy to business. That's kind of the unifying theme and so ad tech is great for that.

Adrian Bye: No, I mean I know the ad tech space pretty well. At direct response there, I've spent a fair amount of time in it so we probably have quite a lot of mutual friends.

Roger Ehrenberg: Undoubtedly.

Adrian Bye: On that point, one of my closest friends, we talk a lot about sort of where we're both going to go in the future. He's made quite a bit of money and I've made some money. We're sort of like thinking about, well, do we need to work with angels, VCs and all that sort of stuff because for a guy like him, he's really good with operations and keeping the mechanics of the company running well. I mean I'm pretty good at the biz dead side, the bigger picture and that kind of stuff. We're looking at this and saying, "Well, do we really need to bring on." The cost for going down for starting companies, there's more and more angel investing happening. It's more amounts being invested. It's causing the entrepreneurs to be frugal and all that sort of stuff. The cost for starting a company overall has just dropped dramatically. I understand that makes sense that angels can be more investing but it's just getting to the point now where individual entrepreneurs can just go incubate a bunch of companies, see what works. Where you have the 10 companies, right, the standard VC model where five of them, you lose your money and then two or three of them, you get some money back, and then one of them is a slam-dunk and then one of them does okay. But you make all your returns on the slam-dunk. Other barriers are intriguely getting low enough now that individual entrepreneurs can go and do that stuff themselves rather than even bringing in investments.

Roger Ehrenberg: I think it really depends on the nature of the business. Adrian, I think you're right. The cost of enabling technologies has plummeted so the ticket to hacking something together that you can then prototype and even put out there – an alpha – the barriers are just sort of low. The reality though is that probably most of the entrepreneurs I know don't have the money to even do that multiple times. But even though the cost of enabling technologies has gone down so much, it still costs money. Even the opportunity cost of not working costs money. To work on a problem nights and weekends as opposed to saying, "I'm really devoting myself for this 150% of the time," leads to a very long, slow, painful death cycle. So if somebody is really wicked passionate about something and decide this is really what they want to do then most of the time given the use and the kind of lack of bankroll that these early entrepreneurs have, it doesn't matter how low the cost is of enabling technologies as the opportunity cost of not working is too high. So they need something.

I think what I've seen is that angels have become the first op for many, many, many businesses that may or may not need venture capital down the road but where $500,000 that's either based on milestones or where there's an agreement on very concrete metrics that need to be fitted to find some time where by seeing these metrics, you are then in a position to either raise an additional angel capital or potentially do a venture round if the capital needs of the business warrant that. Even in many of these technology-oriented businesses that are very inexpensive to actually hack together, the fact is you still need a sales force. You still need some headcount to actually get the product out there. Not everything is a viral online application. In fact, relatively few are viral online applications do you do need more money to enter that rapid growth phase because you're using it on the street. So raising $1 million, $2 million is probably going to become necessary to really become successful.

So I see it as being an evolutionary process, Adrian, where, yes, a lot of businesses may never need venture money but will most likely need some degree of angel money, I think the answer is yes.

Adrian Bye: Okay.

You write on your blog, you talk about some of the trends you see happening. I'm interested maybe if you could tell us a little about some of your thoughts on where you see things heading from your perspective.

Roger Ehrenberg: Yes, sure. I touched on this kind of big data theme and I do think that it's…

Adrian Bye: Did you read the book, *Super Crunchers*?

Roger Ehrenberg: I did not.

Adrian Bye: Oh, it would seem like it would be right up your alley. It's all about using data to analyze and stuff. A lot of guys in my community have found it very useful.

Roger Ehrenberg: Oh, will you send me the link?

Adrian Bye: Yes.

Roger Ehrenberg: Cool. I mean there's so much to read out there, Adrian. I'm just fighting to stay afloat right now. I can't believe what's going on.

Adrian Bye: Where that recommendation originally came from is a guy named PV Kannan who runs a company called 24/7 out in Silicon Valley. He distributed call center stuff to 6,000, 7,000 seats or something like that but probably a lot more now. He said that book just sort of set the direction for their entire company. So I'll send you a link.

Roger Ehrenberg: No, I appreciate it. There is kind of the inenarrable rise of this kind of wall-less data, and managing it, making sense of it is only going to continue becoming more queue whether you're talking about antiterrorism in government, fraud detection in the financial services space or data privacy in healthcare – everything from…

Adrian Bye: …figuring out who's a potential terrorist on a plane, right?

Roger Ehrenberg: Yes, yes. I know I've been.

But have you read the book, *Looming Tower*?

Adrian Bye: No, I haven't.

Roger Ehrenberg: That is an unbelievably damning kind of expose of how we in the US had access to information which it would've been quite easy to have stopped the September 11th attacks but because of a lack of coordination, a lack of unified systems and poor horizontal communication across agencies, the file of information killed us literally.

Adrian Bye: Pretty interesting, yes. You would think at this point, and at this day and age that we would be able to manage that a lot better. I mean just recently we had the Nigerian guy in Detroit. You would think at this point now that all of that stuff can be mined and put together properly, that I guess the analytics still aren't there yet.

Roger Ehrenberg: It's getting there. There's no question it's getting there. But once you had the information, what do you do with it? That's part. It's not a technology problem. It's an organizational structure and a political problem.

Adrian Bye: Who do you think is leading the way on that? I would've thought if that can be best leveraged, it'll be the Wall Street guys making money on it or are we going to see it in fighting terrorism? Is it going to be in credit card fraud? Who do you think is leading the way on that sort of stuff?

Roger Ehrenberg: Well, what you just described is kind of of my font. It's that we're really focused on enabling technologies that can be applied horizontally across these different domains. It's relevant for all the domains. It's relevant for Wall Street in terms of trade identification. It's relevant for government for finding patterns that would lead to potential dangerous factors and then financial profit, data fraud. So there's no question that an effective idea system that moves beyond all of the classic rules-based systems – those learnings could be applied broadly across the three sectors we discussed. Yes, I mean that is a huge trend but it's not just the analysis then. Okay, you need to manage a massive and rapidly growing corporate of data so kind of classic relational database structures are not necessarily the best answer in a real-time world. What are new frontiers in database architecture that can help manage this massive amount of data when you want to access much of that data in real time? Then of course analytics, right? How do you extract meaning not just in terms of looking at things at the packet level but looking at things inadequately over time? How can you look for patterns in data? What are the next frontiers of language analysis that enable us to identify that kind of stuff? It won't.

Adrian Bye: I used to work at Oracle so just decide if that can help you and help with guys at Oracle at a pretty high level on this stuff. Let me know.

Ehrenberg: No, I appreciate that. In my new fund, I'm going to be backing a new database company and that's a place where I'm spending a lot of time because we are addressing some very, very complex in my trading company and conventional solutions don't work well. That's one of the new things about kind of having this capital. It's to be able to go and really do some groundbreaking work in these highly relevant areas.

Adrian Bye: That's cool stuff.

Let's maybe take a couple of steps back. If I want to raise money from you, how do I do that?

Roger Ehrenberg: If you look at my portfolio, I've been introduced through some channel to virtually all of my deals so it is very rare – almost impossible – for someone to submit a deal through my blog and have that be a deal that gets done. It doesn't mean I don't want to see it and it doesn't mean that I don't very much appreciate the opportunity but what I found is that the filtering that my network provides – the combination of deal quality and domain focus – is very, very powerful, not to mention kind of the trusted recommendation.

Adrian Bye: We don't know if there's a farm boy down the water. Okay, you're blowing me off. I get it. I get it. I'll deal with it. I can handle it. I mean that's like going to recovery for awhile but I'll…

Roger Ehrenberg: That's not it though, Adrian, because you know what, I sent you anything that if you went on LinkedIn, you search for me and you saw how you are related to me, that you could get there.

Adrian Bye: Yes, probably. Okay.

For the guys here listening to this that don't know you, firstly you've got to find a way to get to know Roger. So that's the first step. Now let's say I looked on LinkedIn and there's this two steps in the middle or one step in the middle. There's someone that we know and both of us trust that guy. That guy now is acting as a reference for me to come and get money from you. What's in the next step?

Roger Ehrenberg: The next step is to…

Adrian Bye: I am catching this intentionally in uncomfortable terms because this is how a lot of entrepreneurs are looking at it – how can I come and get money from that guy? Obviously, you don't want that. You want me to come to you and say, "Well, could you give me some advice on this particular business idea," right? You want a soft spell and the entrepreneur just wants the money.

Roger Ehrenberg: No, this is not comfortable at all, actually. This is real world and honestly, I don't have that much time right now for the whole kind of mentoring thing outside of my existing portfolio companies. I'm focused on the money, too. If I'm not really interested in the business, I don't really have a lot of time right now to be sitting down for an hour with every person that wants to do that. I mean the sad reality is I wish I could. I can't.

Adrian Bye: Right. Right.

Roger Ehrenberg: I get dozens and dozens and dozens of e-mails every week.

Just to follow on your question. What do you do? We know somebody in common. You've got executive salary. You've got an investor back. Okay? What you'd optimally like to do is go to that person that knows us that we have in common. Go to them and say, "Hey, can you please do an e-mail intro?" Okay, let's say you know Tony Conrad at True Ventures. Okay? You know that True Ventures is going to do this deal for whatever reason and you say, "Hey, Tony, could you introduce me to Roger? I understand you're on LinkedIn. You have a relationship," whatever. Tony says, "Hey, I know Adrian. Really good guy. Cool business idea. You should talk to him." Well, if somebody in know in my world says, "Hey, you should talk to somebody," then I'm going to talk to them. I will out of courtesy. You send along an investor back and an executive salary. I look through that and then we have a conversation. If you're geographically close, you'll come into my office. We'll chat. If not, we'll have a call. I will know very, very quickly if it's something I want for sale. For me, I'm very, you say – you're Australian – blunt. I'm from New York. I'm blunt. I also appreciate that kind of mealy-mouth BS answers don't help anybody so I'll be like, "Hey, this really resonates with me. This fits well with these three other things that I'm doing." Another thing is if you knew me well, you'd know that I like to invest in clusters where I've got themes and I like to invest around existing investments so I can kind of solidify a position in a sector and get the network effect of my companies working together. That's worked very well for me. So doing some homework on me, eminently do diligence of all – eminently researchable on Google and the various social networks. So you should come meeting me having done homework, not just how to pitch your business to me but what are the kinds of things that might represent my hop-ons.

That's really it. The key thing is…

Adrian Bye: …with the potential to listen to this interview.

Roger Ehrenberg: That's correct.

Adrian Bye: I'll put me in the hot seat. I've studied. I know all about you. I know you like – I don't know. I'll make something up. I know you like fishing and we can talk about some great fishing trip you went on or whatever. We get some things in common and it's relevant to your theme. What happens then?

Roger Ehrenberg: Well, do I like your business or not? We contact all those things for my ears to open.

Adrian Bye: We assume that you do like my business. What happens then?
I'm not pitching someone here. I don't need it. I'm interested just to understand the process.

Roger Ehrenberg: Yes, sure.

If I like your business, it depends on how much capital you're looking for and do I think your plan makes sense. So that's the thing. If I like your business then the question is does your plan make sense because a lot of times, I like a business but the plan doesn't make sense. Then it gets to the point of, okay, can the plan be either restructured, repositioned, refined to make it more consistent with what I believe is the right plan? Is the more coachable? I mean do they want a value added kind of strategic angel or do they really just want money? If they just want money then they should get it from somebody else. If they want it from somebody who is going to challenge them, support them and mentor them then I'm a good person to talk to.

Adrian Bye: So you're one of these tough-love guys?

Roger Ehrenberg: You can talk to any of the CEOs that I've backed and on this course, I've said, "I'm extremely supportive but at the same time, I'm honest, I want to be helpful and if I think something's not making sense, I'm going to say, 'Hey, I don't think this makes sense.'" But because of the fact that the only people I back are coachable, they will take that the right way and they will know the spirit in which it's given. I'm not a meddler but you're going to know my opinion.

Adrian Bye: Right, which makes sense.

Let's say you've liked everything. I've shown you my stuff. We get along. You feel like I'm coachable. What happens then?

Roger Ehrenberg: Okay. Depending on the size of the financing need… Is this me talking from an angel perspective or from my new role on perspective?

Adrian Bye: Why don't we do both?

Roger Ehrenberg: Okay.

If it's from an angel perspective, invariably I'm not going to represent full grounds. Firstly, I don't do that because I think it's important to have a small syndicate of strategic investors in a given domain. I think if you're going to go for angel financing, and you're going to spend the time and endure the pain, you should get the best investors. Now if you can't, that's something. That speaks volumes because if you can and you have kind of a lead high-profile angel then invariably they'll be able to connect you with other of these angels that will look to this lead angel and take their recommendation very, very seriously. What I'll generally do next is make some introductions. I will introduce you to three, four, five angels and VCs whose opinions I respect in this particular domain.

Adrian Bye: That's the form of crowd source on the deal. I go out, try and convince the other guys to get onboard. I say, "Look, Roger's moderately interested in this deal. If we get a couple of guys onboard, it's going to go forward. Do you want to look at my stuff?"

Roger Ehrenberg: Yes, I mean for me it's data collection if I'm showing this to some more people whose perspective I value and at the same time, they're potential investors. So we're looking at the syndicate as kind of a Venn diagram. They're kind of filling out the white space. Even in terms of VCs, what I'm kind of doing is getting perspective from the next-stage financing source who can provide a sense of what things might need to be achieved before this company is suitable for venture financing. I like, in effect, to kind of pre-sell what and who that ultimate financing source might be.

Really, the network for relationships and the intelligence that you get by taking the business again and again and again to these really smart people, which then sometimes will actually modify the plan and modify their thought process, is worth more than the money I'm giving them.

Adrian Bye: Yes.

Roger Ehrenberg: Then let's say in parallel, what's happening is I'm talking to the entrepreneur and I'm thinking about what kind of a deal makes sense – what valuation, what structure, how big – then my associate will also be scrubbing the financial model to make sure that again we get it the way planned that we believe makes sense given the resources and the nature of the business because some businesses subject themselves to needing more money than others. We don't want to undercapitalize the business. We want to raise the right amount of capital to give it the right amount of runway to hit the right series of milestones to either say, "Okay, let's raise a little bit more money," kind of the go-to-market capital from angels or this really requires the $2 million, $3 million, $4 million – let's position this for a proper series A.

Adrian Bye: Right, which now you can do on your own since you raised all this money.

Roger Ehrenberg: Yes, I would still bring in some key members. But yes, I could theoretically waive.

Adrian Bye: Cool.

Okay. Can you talk about in terms of the investing that you have done given that you've done it for five years? You've had some success, it would seem.

It's kind of pretty studly, really. This dude just comes off Wall Street. He's made all this money. He's like, "I'm just going to go invest in startups," and you go and do that. It's like pretty excellent. I haven't heard that many stories just like that so kudos to going out there and doing that.

Can you talk about how much overall you did invest, your IRR and all that sort of stuff? Obviously if you can't, just tell me to shut up.

Roger Ehrenberg: I have no idea what the IRR is because firstly, I don't compute unrealized anything and most of my dances are realized. My position in isn't realized but I've poured in a lot of money. I've got many investments like that.

But, how much? You know, several million dollars.

Adrian Bye: Yes.

Roger Ehrenberg: In the early-stage domain, a decent chunk of change. Then my investments and my core companies that have done multiple rounds of financing that are in rapid-growth mode – several hundred thousand dollars.

Adrian Bye: Yes.

Roger Ehrenberg: I never start out that high. My median is $100,000 but I've done $25,000 and I've done more.

Adrian Bye: Right.

It would seem like $25,000 isn't a lot of money to get something going in New York City.

Roger Ehrenberg: No, definitely not. I've not done very many $25,000. I've done mostly, as I've said, probably $100,000 as a median. $50,000 is probably the next most frequent. $25,000 – I've done a handful. For me, $25,000 generally reflects businesses where I like the entrepreneur or I like the syndicate where I may like the technology and I want to learn…

Adrian Bye: …and keep an eye on it and make…

Roger Ehrenberg: Yes, I want to keep an eye on it. I want to get close to people. There's some other motivation besides pure financial return.

Adrian Bye: You've bought your ticket to getting in just in case and this way you keep an eye on it.

Roger Ehrenberg: Yes, exactly. It's like I'm not expecting any of those payoffs to be $25,000 in Google but it's more strategic to me as an investor.

Adrian Bye: Yes, right. Cool.

We're running out of time. Is there anything you want to talk about which we haven't covered?

Roger Ehrenberg: Geez, I'm jolted. I don't know, Adrian. I think you did a pretty good job giving me a long-distance pathological.

Adrian Bye: I know you were going to comment on that.

Roger Ehrenberg: Yes, which is to say you're very good at your job.

Adrian Bye: I've got to ask the questions.

Well, thank you. Thank you for being so patient and then trainable.

Roger Ehrenberg: No problem, Adrian.

Adrian Bye: I really appreciate your time.

Roger Ehrenberg: Okay. Have a good afternoon.