

Selling Disruption™ Show

With Mark S. A. Smith

*Money Disruption: Insights from a Hedge
Fund Manager and Venture Capitalist*

Joel Block

Mark S A Smith: Our guest today is Joel Block. I met Joel about a year ago as I joined him for his symposium on syndication and crowdfunding, and he blew my mind. I spent three days with him, and I had a serious upgrade in my understanding of how financing works. As Joel taught me, the money is in the money. So welcome, Joel, to The Selling Disruption Show. I can't wait to share this podcast with my friends.

Joel Block: Hey, Mark, thanks. Happy to share.

Mark S A Smith: You're doing the summit again. You've got a new book that you released on building business. You've got, always, lots of things going on in the pipeline. What do you want to talk about today that makes sense to The Selling Disruption crowd?

Joel Block: Everything is about selling. My symposium, which is really to help people who are pretty sophisticated financial and real estate people organize pools of capital. The hard part isn't the real estate. The important part isn't even the real estate. What I always tell them is the most important part is the money. Now, a lot of people will disagree with that, and they'll say, "Listen, if you've got a great deal, the money will show up." Not true. The money doesn't just show up. You can have an awesome deal, and it can die on the vine. Raising money is a selling business, and you have to really get out in front of your audience and really have a great understanding. Different products require different sales approaches, and that's it.

Mark S A Smith: You taught me early in the session that money is made when the deal is bought, not when the deal is sold.

Joel Block: Always.

Mark S A Smith: That was a massive eye-opener for me.

Joel Block: You've got to understand that that's the way that professional investors think. Retail investors, which are everybody else, doesn't think about it that way. They don't think about how money gets made. They do things, and then they hope it works out. Professional investors don't hope, they don't gamble, they don't speculate. They bet on sure things, as much as is possible. They have a lot of information. They know pretty much exactly what's going to happen and how much money they're going to make within a very narrow margin before they ever move forward. That's really the big difference. That's why professional investors generally make more money in five days than most other people make in five years.

Mark S A Smith: Yeah, wow. Share with me a little bit of your insights on how you do professional investing.

Joel Block: The first thing is that professional investors have a lot of intel. I love to sell, but my training, my foundation, I'm a CPA. I wasn't cut out to be in that business. It really wasn't for me. My handwriting was bad, and I didn't get the dimes and

pennies in the right columns. That wasn't for me. I took those technical skills and applied them to other things. I really think that you have to have deep expertise of some kind. It doesn't have to be as an accountant or an attorney or engineer, but you have to have deep understanding of whatever it is you're doing, and that [inaudible 00:02:46] confidence about moving forward and working with you. When you understand what you're doing, people appreciate that and they respond to it.

Mark S A Smith: I think that's a really important point, and I want to make sure that my listener gets that. Confidence is what turns from a conversation to a transaction. As you point out, it's that intel, that insight, that expertise that does it. It has to be illustrated clearly in a way that doesn't destroy trust. You've mastered that.

Joel Block: Every person does it their own way, but people can see through the fluff. When there's a lot of fluff, they run away. That's not what they're looking for. They don't need a lot of fluff in their life. They've got enough fluff in their life with media and social media and all the other stuff in our world. What they want from professional people is straight answers, and they want an understanding about how they're going to be better off by the result of a transaction.

Mark S A Smith: That's it.

Joel Block: Then, they'll open their wallets.

Mark S A Smith: Then, once that wallet is open, business proceeds. One of the things you taught me is more money is made on the second transaction than the first transaction.

Joel Block: That's true. I'll tell you, even more simple than that, business is really very simple, and the concept is this. If somebody's got a problem, they will give you some money to make that problem go away. That's how simple it is. The more complicated the problem, the more they'll pay to make it go away. That's it. It's well known that businesses don't have problems; businesses have expenses. It's move money and money makes things go away. So if you've got a lawsuit, you pay an attorney, lawsuit goes away. Different things cost different amounts of money, but it's very, very simple. Sometimes people over-complicate what it is that they're doing and what they need to be doing. Keep it really simple. The only way you can keep it simple is by having a really high-level understanding of what it is you're doing.

Mark S A Smith: A high-level understanding and then be able to drill down into the specific tactics to make it happen. You've had an extraordinary career. You do a lot of interesting things with a lot of interesting people. What would you say is the basis of your ability to drill in and connect with what I consider to be some of the top business performers on the planet. How do you approach that?

Joel Block: First of all, I have great understanding of my area. I'm in the venture capital and the hedge fund business, so I understand how that works. I understand that world. I understand the capital raising cycle. I understand the documents, and

I'm able to communicate that material to other people in a very clear and easy-to-understand way. That has done two things. One is it's helped me to move into circles with other guys that are very sophisticated. Second, it's enabled me to work with investors who want to be involved with us who are maybe less sophisticated. They don't understand it, and they really want to understand it a little bit before they move forward. If I didn't have great understanding, I'd be making it up as I go along, but because I really understand it well, like I think all people who sell things should do, they should understand things well ... You know what? Understand it well. That's disruptive. Understanding well is disruptive, because how many people understand things that well? Not all that many. So if you're one of those few people that understands things very well, then you're going to see an uptick in your outcome and your output. That's really how it works.

Mark S A Smith: Indeed. You just recently released a new book, Stop Hustling Gigs and Start Building Business: 101 Tips on How to Do It. I was looking through the book, and there's so many great ideas.

Joel Block: I wrote it for entrepreneurs, because entrepreneurs jump around hustling gigs, going from thing to thing, and that's not really the right way to build a business. That's maybe a mediocre way of building a livelihood, but not even great at that, so it certainly isn't a business. Businesses are machines that generate money. You do the same things over and over. You get all the pistons firing. This is really about getting a bunch of different pistons firing all in sync.

Mark S A Smith: I love that idea, getting everything firing versus just focusing on a single piston. It's a great analogy. One of the things that you taught me is to look at business like a hedge fund, a hedge manager looks at money. I'd like for you to explain to the listener what it means to be a hedge fund. The reason why I want to set that up is I ask people, "What do you think a hedge fund is?" They say, "Well, you buy a whole bunch of different stuff just in case." I say, "No, no, no, no, no, that's not it." So would you please give me the definition of a hedge fund and how to apply that to operating a business?

Joel Block: Sure. A hedge fund could be two different things. One is it's a business structure, so there's a private placement. You sell private shares to private individuals. Wealthier people tend to invest in private securities. The United States stock market is public securities. Most people have never heard of private securities before, but what's unbelievable about this is that the private securities market is actually bigger than the entire United States stock market, because more real estate, most of these kinds of investment vehicles, are organized as private securities. It's a huge, huge market that very few people have heard of. It's really designed for the top 3 to 5% of the people. That's not because I designed it that way. That's because the government has written rules that more or less prevent non-high-net-worth people from being involved in this. The government's concerned that they're going to lose all their money. I never really believe they care if you lose your money or not. What I think they care about is that they don't want to have to put you on welfare. You can go to Las Vegas and gamble

your whole paycheck away, they don't care. When it comes to putting your money into something that might return you something pretty good, they get all nervous.

So a fund is either a structure, which is a private security, or it's a strategy. As a strategy, the word hedge means to mitigate risk, reduce risk. What you do is you have one thing that goes up or one thing that goes down, you put them together, and then they neutralize each other hopefully to the positive. Most people think of hedge funds in the equities market, the stock market. We deal in real estate, so we hedge the short-term cash flows against long-term cash flows, because while we're building housing units or other kinds of things, we need to have ways of driving cash flow in the short run. So we put two different strategies together and that's our hedge.

Mark S A Smith: Then, applied to entrepreneurial business structure, the idea is to make sure that you have short-term cash flows and you also have long-term plans that generate cash flows to make sure that your business remains sustainable, scalable, profitable, and ultimately salable. That's how I've applied what you've taught me to the work that I do with my clients. I'm really grateful for that insight. It's a massive improvement in how you look at business.

Joel Block: Yeah, well, that makes a lot of sense. Listen, short term, long term. Most companies are so busy looking at the short term, they don't know what's going to happen a week from Tuesday. That's really smart that you're getting them to look at two different things.

Mark S A Smith: Got to do that. We've got to look at that long term and the short term if we're going to make this thing work. 98% of American businesses go out of business within 10 years. That's a shame. There's no reason for that to happen. It's a combination of things, one of which is what we're talking about here, just looking at things both long term, short term, as well as funding. That's where a lot of people run out of money is just the funding challenges, which you're an expert of. The other thing is just this concept of selling. You are a master salesman. You've got to sell. You've got to sell every time, everywhere, everywhere. People don't necessarily have great skills in sales.

Joel Block: Here's the first thing. Remember I said just a few minutes ago that business is about solving people's problems in exchange for some money?

Mark S A Smith: Yes.

Joel Block: To be an awesome seller, number one, you have to like people. I like people. I like talking to people. I like learning about different people. I like learning about their perspectives. I mean all kind of people. I'm interested in where they come from, what their backgrounds are, how they got where they are. If they have a problem, I generally want to try to solve their problem. Now, I can't solve every problem that people have, but there are certain problems that I can solve. I'm very passionate about my solution, and I'm very authentic about that. I'm not

making it up. I don't jump from company to company and then get excited about the company I'm with for two weeks and then move to another company and get excited about another. If that's your situation, that's a tough one. If you really love what you do ... That's the beauty of the entrepreneurial business is that you tend to do things that you like. That's what most of us try to do. We're not just in it for the paycheck. We're really in it because we really adore what it is we do. If you really believe in your product and you really believe in your platform and you really like people and really want to solve their problems and help them, then the perfect storm of all those things happening together is really the entrepreneurial masterpiece.

Mark S A Smith: Beautiful. So like people, want to solve their problems, and be an expert at what you do.

Joel Block: Yeah.

Mark S A Smith: That is your three-part formula.

Joel Block: That's the three-prong deal.

Mark S A Smith: One of the things that you taught me, as well, in your class, which always resonates with me is... If anybody who's followed me has seen this tweet over and over and over again. That is entrepreneurs organize chaos.

Joel Block: That's from the venture business. Early-stage entrepreneurs that really take their companies far, that's what they do. They organize chaos. The ones that do it the best are the ones that are the most successful.

Mark S A Smith: That's it.

Joel Block: Think about Facebook. They organized all different kinds of groups and people and friends, and now we can all find each other. The whole Internet has taken a whole disparate population of people and made it possible for us to all connect together. It's figured out the whole Internet and all the database systems and everything is really organized methods for us to store data and learn and have access to things that we didn't have access even to 30 years ago. I mean, 30 years ago doesn't seem very long ago, but the world is an entirely different place now than it was even 30 years ago. The people who do a great job of organizing chaos are the people that become very, very successful.

Mark S A Smith: So the question that I have for you, listener, is what chaos do you organize? How can you improve that organization so that you can do it best and make the most, as Joel points out, is the way play. If you don't know the answer to that, then you've got to figure that one out.

Joel Block: I think it comes from asking questions. What is in a state of disarray? What around me is chaotic? What around me is not working that great that you can

fix? I think everything good comes from asking questions. You've got to ask questions. If you do a good job with that, then the answer will come to you.

Mark S A Smith: Better the questions, the better the answers. What we've really nailed down is a very interesting viewpoint in how I connect with you in the world of disruption. I know you don't consider yourself to be very disruptive. I consider you to be extraordinarily disruptive in how you approach life.

Joel Block: It's not that I don't consider myself disruptive. It's that that isn't really part of what I think about. I think of myself as innovative. I think of myself as entrepreneurial. Of course, I have to be disruptive. Entrepreneurs break things and then put them back together in a better way. That's what we do. You're focused on disruption; I'm focused on innovation. They're kind of the back sides of a coin.

Mark S A Smith: They are.

Joel Block: They're not that different.

Mark S A Smith: No, they're actually very much the same. What I really like here is this concept of those people that are organizing chaos well really are those that are disrupting the market. You used Facebook as an example. We can look at many other companies that, right now, are creating massive amounts of value in the marketplace that are doing the same thing. They are, every one of them, organizing chaos in some way. We could name things like Uber and Amazon and Airbnb and Netflix. They're all about organizing things and, in the heat of that, disrupting.

Joel Block: Think about it. Every one of those companies, they've all organized markets that never existed before to solve problems. They're real problems. They didn't manufacture the problems. A lot of people, especially scientists and engineers, they sometimes, from a business point of view, will invent a solution to a problem that they don't even know what it is. That's not what I'm talking about. I'm talking about identify a problem and fix it. If the fix is big enough, then it really falls into the category of organizing chaos or somehow putting together or disrupting something that is a mess.

Mark S A Smith: Right on. One of the ways, Joel, that I know you is through the National Speakers Association, which is the association of professional speakers. You are an extraordinary speaker. You are extraordinarily authentic. I've spent three days with you, watching you from the side of the room as you were up front just masterfully delivering your content. You've also recently spoke for the National Speakers Association meeting. The video of that is stunning. A lot of rave reviews from my colleagues. If anybody is looking for somebody who is a solid business speaker with an extraordinary background, that would be a great opportunity for our listener to connect with you.

Joel Block: Absolutely, sure. Happy to talk to them.

Mark S A Smith: Your topics are really across the board when it comes to business. It's just a matter of having a conversation.

Joel Block: As somebody who was in the venture business and the hedge fund business, I've seen hundreds of different kinds of companies and I've been inside of hundreds of companies, I've invested in many, many dozens of companies, so I'm intimately familiar with a lot of different kinds of things. I really talk about high-level executive and senior management level issues related to negotiation, leadership, selling at a high level. Building a sales culture where everybody sells and where people who are negative are really anti-sellers. I don't care if it's the janitor, if they've got a bad attitude, they're anti-selling. You've got to build a positive culture. Alternatively, I have a new one that I've just developed. I'm writing another new book called *When It Comes to Money, Everything's Rigged*. The reason for that is because, whether you know it or not, when it comes to money, everything is absolutely rigged. I really break down a lot of the things that happen. Really, it's about business rules. It's really about how companies write business rules. How little companies need to write business rules, and how big companies need to review their business rules so that they're customer friendly. There are lots of examples in the marketplace where business rules go out of control and then companies get in trouble. Let me give you some examples.

Mark S A Smith: Sure.

Joel Block: In Las Vegas, it's called the House advantage. The business rules are set up so that they win and you don't win. You know that because you know who built those hotels: losers.

Mark S A Smith: That's right. There's an old strategy. How do we make money in Las Vegas? Own a casino.

Joel Block: There you go. Other companies have business rules, too. Airlines have business rules that if you've got to change your ticket or you don't use your ticket, it goes back in a travel bank or they deduct \$200. If something happens and you forget that you have the ticket, it just evaporates after a period of time. All these business rules are set up to maximize and optimize the company's profits. What I like to say is he who writes the rules rigs the rules. Basically, what that means is that people write them to advantage themselves. Some industries have written business rules, like banks, the way they clear checks. They would clear the biggest check first and then the little checks. What that does is if somebody writes too many checks that are overdrawn, they suck all of the money out of the account with the big check and then they maximize their NSF fees by banging the little ones last. The government stepped in because the rules were egregious.

Leaders at companies ... Again, it's all about me working with leaders and sharing insights that I have, as somebody who's been running companies for a long time. You want to optimize your business rules, but at the same time, you have to

make sure that they're customer service friendly. Especially in a world where social media is so prevalent and people have instant access and they can embarrass companies in a heartbeat, you want to make sure that your business rules are not so one-sided that they're unfair. Even in law, whoever the party is that writes the contract, that contract is generally giving favor to the other party because of that reason. It's the same thing. If your business rules are too unfair, then the media and other people are going to construe it towards the consumer. You want to try to create some balance. Getting that discussion going and really thinking about what's reasonable.

Listen, I want companies to make all the money they can, I want shareholders to make all they can, but at the same time, if they're hurting consumers, it ultimately hurts them in return. That's another really cool one. Most of my talks have themes of sales strategy, negotiation, leadership, and a couple of them are particular like when it comes to money, everything's rigged, which is a really fun topic.

Mark S A Smith: I love it. Can't wait to interview on that one as you're getting a little closer to having that book available. Then, if our listener, most of our listeners are executives of some time, if you are interested in connecting with Joel about fundraising, I have to say, even though his fundraising and syndication boot camp is slanted towards the investor of real estate, I learned so much that I can use even in my own business about raising funds and structuring the organization so you don't give it all away.

Joel Block: The reason that it's really slanted towards real estate, which is true, is because real estate people are serial fundraisers. They raise money over and over and over again. Every deal, every three to six months, they need more money. Whereas, venture entrepreneurs and companies, hopefully one and done. Hopefully they raise money one time, they get a big home run, and they hit the road. They're different businesses. I mean, the fundraising skill is relatively the same. The structures are 90, 95% the same. Private securities issues are 100% the same. But they're different industries. That's the reason that the majority of our people are like that. I don't broker money. My firm doesn't broker capital. But if people are looking for really understanding how deals get done, how these investments are put together, and how they can be a sponsor of a private deal, they should reach out to me, and I'll show them how it works.

Mark S A Smith: The fact that you don't broker money makes you even more trustworthy, showing people how to structure deals and do fundraising in a way that's not going to kill them. Because of your deep experience in fundraising, you really have figured out all the trips, all the traps, all the rigs that will be avoided by just sitting through your class for a couple and a half days. Absolutely worth the effort. Absolutely worth the time. I look forward to doing it again sometime. Well, actually, I look forward to it next time you're at Las Vegas. I'm going to sit in your class again.

Joel Block: We'll be there in October.

Mark S A Smith: Awesome. I want to put that on my calendar so I make sure that I'm sitting in the class in the front row taking notes. I took 35 pages of notes, Joel.

Joel Block: Whatever you distilled and gave to me was about five pages. It was amazing. It was awesome. I love it when students in the class do that. It's awesome.

Mark S A Smith: Thank you. Excellent. What a great interview. What a great conversation. I always enjoy spending time with you. I always learn something new. Your insights on the world of business, in my opinion, are extraordinary, so thank you for sharing your insight. The moment that you can talk about When it Comes to Money, Everything's Rigged, look forward to doing it. Thank you, Joel.

Joel Block: Just say the word and we'll do it.

Mark S A Smith: All right.