SEVEN STEPS TO SUCCESS IN THE START-UP BUSINESS

ALAN ALZFAN OF MCGLADREY & PULLEN OFFERS HIS EXPERTISE ON LAUNCHING AN INVESTMENT START-UP BUSINESS, AND OUTLINES THE STEPS THAT SHOULD BE TAKEN TO ENSURE INVESTORS HAVE TRUST AND TO MAKE THE BUSINESS A SUCCESS

Alan Alzfan, partner at McGladrey & Pullen, works with a range of clients from start-up funds to funds with over $3.5bn under management. His clients include domestic and offshore hedge funds, private equity funds, registered investment advisors and related entities. He provides financial reporting, compliance, planning, and financial-management consulting services to investment partnerships and related entities.

Starting an investment advisory business in today's environment is much more difficult and complicated than it was only five years ago. Constantly changing regulations, the difficulty in the current credit environment and choosing the best service providers for your organisation are only some of the issues that need to be dealt with.

Once you have dealt with these items you then have to address one of the most important issues: raising capital to manage. Investors have become very conservative with their investments, and convincing an investor to allocate assets to a new investment advisor is not an easy task. The first part of the process is the introduction and setting-up the meeting. Before you even begin the process you have think about your potential investors, what type of investor you expect to attract (high-net worth individuals, institutional or pension plans, for example) and what each type of investor will look for in your organisation. Once you have identified your target, the next question is where and how are you going to meet them. Even before you get the first meeting, you will need to consider the following:

1)Have a solid business plan:
You are asking investors to trust you with their capital and they want to know you have a solid business plan, you understand how to run a business and that you will still be in business in the next two years. Many portfolio managers who are starting out know how to do research, trade securities and have good ideas, but that is not enough for investors to give you capital, especially the larger investors who want to see you have developed a strong organisational structure and have considered your business operations from an accounting, investor relations, budgeting and control point of view. Can you describe where you see your organisation in two, five, or eight years time? Have you worked out a budget based on different revenue streams and expenses, and have you considered how you will live personally while you ramp up your operations? I always ask a start-up or new fund these questions. In today's world, investors want to be comfortable that you will not be using their assets to live on and pay the bills, or you are not going to have to take extra risks in the hope you will hit the home run to keep you organisation going.

2)Set-up good policies and procedures:
These should be in place before you begin operations. Who will be performing what functions, and who will be overseeing those operations? What are the best practices in the industry and can you leverage off of them? Even though you may be a small organisation with just a few people, it is important to be able to make your potential investors comfortable and believe that you have thought about your organisation operationally and, to the best of your ability, you have put policies and procedures in place to safeguard your business and the investor's assets. It may not be a bad idea to document some of your key items. Remember, investors want good returns, but more importantly they want to know that their assets are safe.

3)Make sure you are set up operationally
Have a plan for how you will function on an operational basis, and be able to explain it clearly to a potential investor. Have controls and proactive monitoring in place, so investors feel comfortable that operationally you are in control. Investors will want to know that you have an organisation behind you, and a team of people in your organisation to support you and provide back up. Can you explain who your backup will be if you are on vacation or not available for a day or a week? Potential investors will want to understand who will be watching and protecting their investments.

4)Choose the appropriate service providers
You should choose services providers that will service your organisation well, fit into your strategic plan and complement your operations. While cost is always a concern, your service providers are an important part of your team and they add a level of confidence to your potential investors. This does not mean you need to hire the largest and most expensive service provider, instead it means that you should consider the ability and expertise of your providers and how they will help you grow strategically. You want to be able to leverage off their expertise and know they will be able to service you appropriately at your current level and as you grow (again, back to that strategic plan and where you want to be in the next five years). Your investors want to feel comfortable that you are working with experts in the industry and with organisations they will be comfortable with.

5)Think strategically
Again, put together a plan and an organisation that is not just a fit for today, but that looks forward to the future.

6)Know how to sell yourself and your organisation
You are the best sales person for your organisation. Unless you are going to have a professional marketing team you are going to have to sell yourself and your organisation to potential investors. This is not easy for many people, but an investor may be meeting several potential managers and you have to be able to make that positive impression, get them comfortable with you and your organisation and be ready to make sure they know why they should invest with you. And remember: at the end of the day, you have to be ready to ask for the investment.

7)Be prepared for the interview and follow-up process
Be prepared for the meetings. You will have to be able to address the items above, be ready to discuss your trading strategy and be ready to answer investor questions. Have a plan to follow up with potential investors and let them know what you are doing. The process can be a long one, especially with institutional investors, so you have to remain diligent (along with everything else you need to do). There may be large due-diligence questionnaires from the large institutional investors so you have to be ready to respond.

These are some of the key items to have prepared before you meet with that potential investor. Many institutions will want to see a one to three-year track record before they invest with you. In addition, they will have certain allocation minimums and limits on the percentage of your assets they can represent, so even if they want to invest they may not be able to due to your initial asset size.

Be realistic when targeting your potential investors. Be prepared to meet with your friends, family and contacts that will be able to make the $2-$3m investment to launch your organisation. Getting the process started is both exciting and challenging, but with a lot of hard work and dedication you will be able to succeed. ■