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Entrepreneurs and Their Portfolios

Does the entrepreneurial approach translate to personal investing?

Not every startup business venture nets a big payday for the entrepreneur behind it. But when that does happen, an important question emerges: Who should manage the money? Should entrepreneurs manage their own portfolios, or should they rely on a professional advisor?

Some would dismiss this issue with the easy generalization that entrepreneurs thrive on risk and will gamble away their spoils on needlessly risky investments. While this may be true for some, to paint millions of entrepreneurs with a single brushstroke oversimplifies a very diverse population.

The pop culture caricature of entrepreneurs as a class of Richard Bransons – charismatic, adventurous and fearless – is far too simplistic to capture the diversity of the entrepreneurial population. A few startups rocket to prominence on the bold visionary moves of their founders, but most entrepreneurs start with humble businesses that grow quietly and slowly through years of blood, sweat and tears. Yes, entrepreneurs must continually weigh opportunity against cost, but the idea that they crave risk for its own sake is largely an empty stereotype.

What really sets entrepreneurs apart may not be an appetite for risk, but a bias for action. Having built their businesses by continually exploring opportunities – from revamping products and entering new markets to luring top talent from competitors – successful entrepreneurs rarely just sit and wait for their business to perform to expectation.

Running a portfolio is different

By tinkering, experimenting and reworking, an entrepreneur can turn a struggling business into a thriving one. However the same approach may not deliver the same success in investing. Reaping the benefits of a sound investment plan not only requires specialized knowledge and skills that a business owner may not have; it also often demands the discipline to not tinker when the urge is strongest – during economic slowdowns, political uncertainty and market dips. Whereas entrepreneurs succeed in business by making tough decisions on a day-to-day basis, success in investing is often about resisting the temptation to make more decisions once a plan is in place.

Successful Entrepreneur	Successful Investor
Maintains 24/7 involvement in and control over business	Exerts no control over the companies in portfolio
Has inside information on business's technology, competitors, customers, employees, cash flow, etc.	Has no inside information on investments
Creates wealth by concentrating all energy on one business	Preserves wealth by diversifying across thousands of businesses
Makes decisions and takes action every day based on new opportunities and constraints	Creates a long-term plan and sticks to it, even when markets are turbulent or weak



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Investors can upend the long-term performance of a portfolio through many behavioral missteps. These behaviors include:

- Extrapolating past performance to the future
- Overestimating one's ability to pick winners
- Failing to adequately diversify
- Quickly abandoning securities that do not meet short-term expectations
- Overweighting investments in companies, industries or geographies of personal experience
- Chasing media darlings and other fad investments
- Seeking exotic or "exclusive" investments
- Ignoring the impact of expenses and taxes

Entrepreneurs are not immune to these mistakes, and driven by a bias for action and desire for control, may make them sooner and more often. Seeking to make the most of their investments, entrepreneurs may actually reduce portfolio returns or take on more risk than necessary to achieve a given return. It may be hard for entrepreneurs to accept the idea that working longer and harder than everyone else – which made them wealthy in business – can lead to poor results as an investor.

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Working with an advisor

In addition to their own hard work, many entrepreneurs achieve business success by capitalizing on the knowledge and skills of experts – whether they be engineers, programmers, chefs or mechanics. A similar approach may be appropriate in investing, working with a trusted advisor to avoid the perilous decision-making errors that can derail even the most diligent individual investors.

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