# How to turn acorns into oak trees

Want to advise on building a business? Want to turn acorns into oak trees? Want to stack the odds in your favour?

Take these seven guiding principles – or pillars of wisdom – and adhere to them with zeal.

## 1) Back proven entrepreneurs

Back those who have done it before, who have built a business from scratch and who know the trials and the tribulations, the agony and the ecstasy. They know what the stock market expects of them – the rules of engagement – and have an existing fan base of investors who made good returns from them in the past and will back them again.

## 2) Real skin in the game

The chosen entrepreneurs must have real skin in the game; they must risk their own capital and not just play with other people's money, otherwise known as 'opium'. Ideally, they should hold up to 20% of the equity, but no more, so they don't develop imperialistic tendencies.

Too much control is almost as bad as not enough. They must be totally committed, not just involved. Think of bacon and eggs: the chicken is involved, but the pig is committed. We're after the pig. A sizeable shareholding does not, of course, guarantee that things will never go wrong, as invariably they do, but it ensures that the entrepreneur leaves no stone unturned in their quest to fix things.

## 3) Relationships really matter

Back only those you know, like and trust. People buy people. Don't waste time pitching for new business from management teams you don't know and where you have probably only been invited to make up the numbers and to give away your best ideas and valuable time for nothing. Instead, rely on good old business to win you good new business. Reputation is all. It is priceless. It cannot be bought; it must be earned – the long way, the hard way, by doing the right thing every time, all the time. No shortcuts.

## 4) Invest in businesses you understand

Only invest in businesses you understand. If you don't understand a business, you won't be able to value it – and, if you can't value it, you can't raise the funds to grow it. Price discovery is the key, and understanding the business model and how it generates cash unlocks it.

## 5) Go where the growth is

Back businesses in growth areas with structural tailwinds to which investors will, in turn, be interested in allocating capital. Avoid talk of land grabs and TAMs (total addressable markets) at the expense of profits. With free money gone and higher interest rates here to stay, there is no point in backing a business based on future vision, global domination and other gobbledygook. Go for cash generation and the here and now.

> **"Profit with purpose has been at the heart of every decent, long-lasting business built since time immemorial"**

## 6) Stick to your knitting

Back businesses that obsessively focus on growing the top line and controlling the costs to ensure a healthy bottom line and a sustainable dividend stream. The best investment is one that pays a progressive dividend twice a year. Don't over-concentrate on ESG (environmental, social and governance) and DEI (diversity, equity and inclusion) issues at the expense of the core. Profit with purpose has been at the heart of every decent, long-lasting business built since time immemorial.

Look after your employees properly and they will look after your customers, which, in turn, will produce good returns for your shareholders.

## 7) Don't underestimate cultural differences

The further you go, the riskier it gets. People underestimate cultural differences and assume that if something works in the UK it will work in Europe and work in the US, where they speak the same language.

Wrong. Conquer your own backyard first and then, only then, look for opportunities further afield.

Meanwhile, be obsessive or be average.