INVESTOR'S BUSINESS DAILY
VOL 18, No. 176 / WWW.INVESTOR'S.COM CHOOSE SUCCESS WEDNESDAY. DECEMBER 19, 2001

Low-Risk Investing Gets Upgrade

New Venture Fund Idea

InvestorProtector plan gives ultimate safeguard: money-back guarantee.

BY JED GRAHAM

Could the answer to the cash crunch of Silicon Valley start-ups reside in Lima, Ohio?

Maybe not. But a new method of financing risky ventures that carries a money-back guarantee might have saved some of the billions in venture capital thrown away on dotcoms.

And now, despite the risk-averse funding climate, the InvestorProtector program, recently launched by Lima-based Investor Life Services Inc., is already helping start-up firms raise cash.

"I don't think there's anybody who invested money in a dot-com who doesn't wish they had the InvestorProtector guarantee," said Harry Green, CEO of Investor Life Services.

The tech wreck has made a lot of people appreciate the wisdom of Will Rogers, Green says, paraphrasing one of the humorist's quotes: "It's not the return on my money, but the return of my money that concerns me."

With InvestorProtector, if the venture goes belly up, "the only loss to the investor is opportunity," Green said. That, and the loss of value to inflation over the 10 to 15-year period it takes to get back the investment. Here's how the program works:

Say an investor is willing to put $100,000 into a new venture. Half of that money goes into a start-up's coffers. The other $50,000 goes into an InvestorProtector Trust as a hedge against the failure of the investment. It's used to purchase a guaranteed contract of insurance." The trust provides benefits to the investor with respect to protecting their principal," Green said. Even if the start-up goes bankrupt and its creditors are circling to get paid back, the $50,000 in the trust will be protected, he says.

In addition, the trust lets the investor "take advantage of tax-deferred accumulation" so interest can pile up faster, Green said. That way the entire $100,000 can be returned in 10 to 15 years, depending on the interest rate.

"Initially, it didn't interest me," said Walter Miller, CEO of Capital Growth Resources in El Cajon, Calif. "I just couldn't see someone wanting to put up $100,000 to get $50,000 back."

As he learned more, Miller went from skeptic to believer. His firm has signed on as a placement agent and broker-dealer for InvestorProtector clients.

The real genius of the program, Miller says, is a provision that lets investors opt out of the trust and double down on their investment at the original share price if the start-up looks like it's going to succeed.

"It almost sounds too good to be true," Miller said. Investor Life Services spent about two years and several million dollars developing the InvestorProtector program and clearing regulatory hurdles, Green says.

It began a low-key marketing effort two months ago. The timing probably couldn't have been better. First, the dot-com bust and then Sept. 11 have made financing hard to come by, Green says. "Since the attack on America, it's really been tough for entrepreneurs out there."

About 60 firms trying to raise capital have licensed the program, Green says. "We have transactions in process that range from a half-million to $200 million," he said.

The terms of the InvestorProtector program would seem to favor the investor. Since a firm can use only half of the funds committed, one would expect that an entrepreneur would have to raise double the money. If the company does succeed, it faces more dilution when investors opt out of the trust and buy more shares at their original price.

Green says the program offers other benefits. "The question is: 'How much equity is no risk worth?' "Because they're guaranteeing the principal and giving investors the option to double down at the original price, firms will be able to get much better terms from investors, Green says.

On top of that, they'll be able to tap cautious investors who might otherwise have shunned venture capital investing, Green says. The elimination of risk makes venture capital investing safe enough for people to invest money from their individual retirement accounts, he says.

"Now it makes it possible for an entrepreneur to go to his brother-in-law. A lot of people are cash poor, but they have money in their IRAs."