

The Long Buy - AVC

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One of the many things that venture capital has taught me is the value of the long buy.

What I mean by a “long buy” is buying shares in a company over a long period of time. We have investments where we have bought shares seven or eight times over a ten to twelve year period.

There are a bunch of reasons why a long buy is so attractive:

1/ You get to learn more about the opportunity before committing significant funds and each and every subsequent investment is based on a better understanding of the business, the team, the market, the product, etc.

2/ You get to build a blended purchase price which is less dependent on the circumstances of a particular moment in time.

3/ There is often a moment, sometimes several, over the course of a long buy when the company or its market is out of favor, and you can aggressively step up your purchase on more attractive terms than were possible in the first few purchases.

4/ When you own a lot of each and every security (Seed, Series A, Series B, Series C, etc, etc), you are less impacted by the specific terms of any one of the rounds.

There is a special place in the venture capital landscape where this sort of investing is possible and practiced, and that is the traditional early-stage venture capital fund.

Seed funds tend to get tapped out after two or three rounds. And growth funds don't come into an opportunity until the company has raised three or four rounds. But the traditional early-stage fund can start in the seed round, and keep investing round after round until the company no longer needs to raise capital. This is super attractive and not appreciated as much as it should be.

There are not that many asset classes where the manager has a pool of long term locked up capital and the opportunity (and the right) to invest again and again in a company. This combination is possibly the most attractive aspect of the venture capital asset class.

The competition to invest in Seed and Series A rounds is not really about the right to make that initial investment. It is about the right to execute a long buy. And the firms that do that, company after company, fund after fund, are typically the best performing firms in the venture capital business over the long run.

