DAY ONE
MANIFESTO

BROWNRIDGE
RESEARCH

Day One Manifesto

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On Thursday afternoon, June 17, 2010, an e-mail was sent to a group of investors about an early-stage company raising capital.

There wasn't much to go on.

It simply read:

> *UberCab is everyone's private driver. We're solving the taxi scarcity problem with on-demand private cars via iPhone and SMS.*
>
> *After two weeks in the app store, their alpha set of 10 drivers is doing 10+ rides on weekend evenings in [San Francisco].*

That was it.

The smartphone application had only been in the app store for two weeks, after all. And there were only 10 drivers providing rides using the platform.

Out of all the investors that received that e-mail, only five invested in the seed round. Just five. And for those who chose not to, they missed out on mind-boggling wealth. It has become a decision that they'll regret for the rest of their lives.

The company, of course, was Uber.

It's not the Uber we know and use today. Back then, it was just an idea… an experiment designed to determine if an entire industry could be disrupted through technology. It was a chance to empower a product or service capable of doing something faster, better, and cheaper than anything else available at that time.

It was *day one*.

And there is no better time to be an investor. Yes, the risks are much higher. But with a portfolio of *day-one* companies, all with incredible potential, the winners more than make up for those that don't survive.

With the right strategy – and the right time horizons – the returns that come from investing in a disruptive *day-one* company are simply life-changing. They can result in generational wealth.

Take the seed round investment in Uber as an example…

Cyan and Scott Banister were two who invested in Uber's seed round. Their $50,000 investment turned into $248,275,800 at the time of Uber's IPO. Naval Ravikant invested $25,000 in the same round, which grew to an incredible $124,137,000.

These returns generated 4,965 times the original investment. That's enough to turn a:

- $100 investment into $496,500
- $500 investment into $2,482,740
- $1,000 investment into $4,965,000

Just $100 can grow into nearly half a million dollars. And $500 can grow to nearly $2.5 million.

That's all it takes.

There is no need to invest $50,000 or $100,000 in each investment to generate life-changing returns. Which is why investing at *day one* is the single best way to set ourselves up for the retirement of our dreams and give our families financial independence for generations.

DAY ONE INVESTOR

Welcome to *Day One Investor*. My mission here is to profile and recommend private deals with the potential for 10X, 100X, even 1,000X+ returns. My name is Jeff Brown, and I will be your editor.

Longtime readers will already know my background. But for those who don't, I'm uniquely qualified to publish a product like this.

Not only am I a technology executive and analyst, I've been an active angel investor now for more than 20 years. I have deployed my own capital into more than 450 private deals. And I have seen returns on my investments measured in thousands of percent and, in a couple of cases, tens of thousands of percent.

I don't say this to brag. But it's important to me that readers understand that I'm not a "hobbyist." I have invested millions of dollars over two decades fine-tuning my strategy for analyzing private investments. I've put my own capital on the line based on that analysis.

And the returns I have seen have guaranteed that my family will be comfortable and secure for decades to come.

As I said, this sort of financial freedom is what investors dream of. But sadly, that dream has been off-limits for far too long.

THE DARK SIDE OF PRIVATE INVESTING

Ironically, U.S. politicians have been perfectly fine allowing normal people to gamble in a casino, but they have made it illegal for nonaccredited investors – everyday people – to invest in private deals.

Historically, these early-stage private investments have only been permitted for accredited investors, high-net-worth individuals, venture capital, and private equity firms.

Everyone else was left in the dark and excluded from the opportunity to invest in bleeding-edge companies with unbelievable return potential.

The Jumpstart Our Business Startups Act – otherwise known as the JOBS Act – was supposed to correct this lack of access. But it didn't work.

Signed into law on April 5, 2012, it enabled small, private companies to raise capital through crowdfunding vehicles. Crowdfunding opportunities are precisely what the name suggests. They are early-stage capital raises designed to be open to anyone.

The two most common types of crowdfunding raises open to nonaccredited investors are Regulation CF (Reg CF) or Regulation A (Reg A) offerings. Neither was ideal.

Regulation CF offerings required an extensive filing process. This was manageable for some companies that had the capital to get the work done, but the bigger problem was that the Reg CF offerings were capped at $1.07 million.

This meant that there was a lot of cost and work to raise a relatively small amount of capital that typically wouldn't last a private early-stage company a single year.

And Reg A offerings were even more onerous. The Securities Exchange Commission (SEC) filings required for a Reg A were on par with what is required for an initial public offering (IPO). And while Reg A offerings could raise as much as $50 million, very few private early-stage companies had the capital to spend on all of the legal and marketing fees to make a Reg A offering successful.

This caused an unwanted distortion in the market.

The very best technology and biotechnology startups inevitably went the route of venture capital funding for their seed and Series A rounds simply because they could raise more capital – several million compared to just $1.07 million. There were very few exceptions.

And even fewer companies had the wherewithal to pursue a Reg A offering due to the time and costs involved.

Generally speaking, this meant that lower-quality deals went the route of crowdfunding, and the higher-quality deals remained accessible only to accredited investors, high-net-worth individuals, and venture capital funds.

But in late 2020 everything changed… for the better.

NO LONGER OFF-LIMITS

On November 2, 2020, SEC then-Chairman Jay Clayton announced that the regulations around crowdfunding would be updated.

Most relevant was a nearly five-fold increase in the cap for Reg CF deals from $1.07 million to $5 million. The cap on Regulation A+ (Reg A+) deals was also lifted from $50 million to $75 million.

And here is the best part… the limits on these crowdfunding raises are for a 12-month period. That's right. An exciting private early-stage company can go out and raise $5 million each year using a Reg CF offering.

And those regulatory changes were implemented on March 15, 2021.

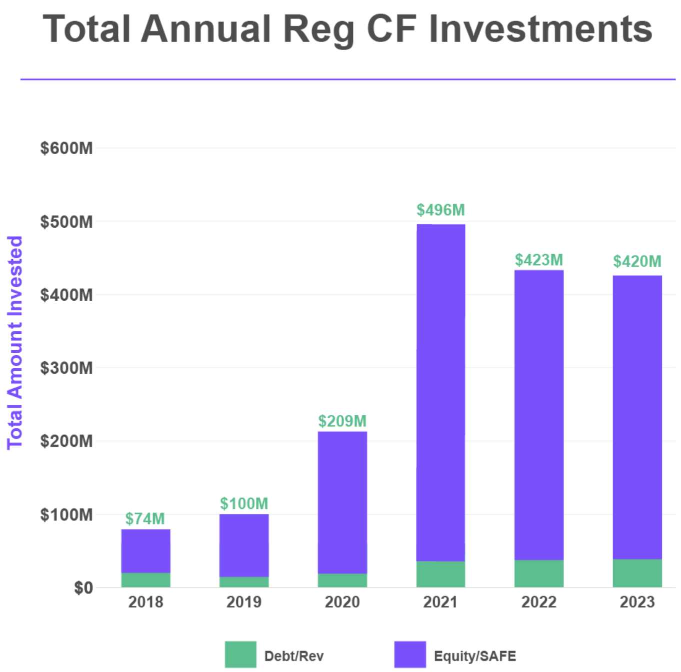
With a $5 million cap, a fully funded Reg CF offering is now on par – if not better than – most seed rounds traditionally raised by venture capital.

And the terms offered to private companies pursuing a Reg CF will be much more favorable for both investors and founders than what is common in early-stage VC rounds. Put simply, crowdfunding raises are now a very attractive route for great private companies.

As we can see in the image on the next page, the impact on the Reg CF raises in the crowdfunding industry was striking as a result of the regulation changes.

Reg CF crowdfunding raises had been on a steady uptrend, rising to $209 million in 2020, but the jump in 2021 was impressive, reaching nearly $500 million.

Even more impressive was that during the bear market in 2022 and 2023 – caused by the record pace of Fed Funds interest rate hikes – the crowdfunding market was thriving and sustained levels above $400 million raised during both years.



Source: Kingscrowd

More than $1.3 billion has been raised since the regulatory changes for crowdfunding took place, the majority driven by non-accredited investors.

The result of these regulatory changes will quickly become the opportunity of a lifetime for normal investors. No longer will they be blocked from accessing the kinds of life-changing investments that only industry insiders, accredited investors, and high-net-worth investors have had access to.

These investment opportunities are open to all. And Reg CF and Reg A/A+ crowdfunding offerings often have minimums as low as $50-100, making these deals accessible to almost anyone.

I had been anxiously waiting for these changes to happen for years. Put simply, I know of no better way to consistently generate life-changing investment returns than by getting in on *day one* when companies are still private and have their best growth years ahead of them.

And I wasn't willing to launch an investment research service focused on private investment opportunities until I could ensure it would be widely accessible to non-accredited investors and that the quality of early-stage companies raising capital via crowdfunding improved.

With the regulatory changes now cemented in place, and the industry ecosystem stepping up to support raising capital under the new regulations, there is no better time to start investing in *Day One* companies than now.

What's happening right now in the world of early-stage technology and biotechnology companies is like nothing I've seen in my almost 40 years as an investor.

There are incredible opportunities everywhere, and the pace of technological development has accelerated thanks to the latest developments in artificial intelligence (AI).

But there is one major problem for normal investors...

Initial public offerings, which used to give normal investors a shot at the kind of gains shown earlier with Uber, simply aren't what they used to be.

THE DRAMATIC SHIFT IN INITIAL PUBLIC OFFERINGS

In the 1990s and 2000s, it was common to go public if a company was generating $50 million a year in revenue and preferably at cash flow breakeven.

Take Amazon for example.

Amazon went public on May 15, 1997. At the time, its enterprise valuation was $438 million. It generated $147.8 million in revenue that year and generated a mere $2.7 million in free cash flow the following year in 1998.

Amazon recently had its 20th anniversary as a public company. Have a look at the first chart on the right to see what happened over the two decades that followed.

On a split-adjusted stock basis, Amazon rose from $1.54 per share to where it is trading today around $966 per share. That is an incredible 642 times your money – or a 62,564% return on investment.

The best part... every retail investor had an opportunity to "get in" on those investment returns. Anyone with a brokerage account could have enjoyed those kinds of gains.

Sadly, the opportunity to invest early has almost disappeared.

Amazon's First 20 Years as a Publicly Traded Company

10-year U.S. Treasury Yield Since 1997

TWO KEY FACTORS CHANGED EVERYTHING

What happened since then? It was a combination of two factors.

The world experienced technology-driven economic growth unlike anything it had seen before. Advancements in semiconductor technology and software development hit an inflection point enabling the creation of smartphones, the modern internet, and extraordinary developments in machine learning and artificial intelligence that impact our lives in ways that most of us aren't even aware of.

And during the same time, interest rates plummeted. At the time of Amazon's IPO, 10-year U.S. treasury yields were an incredible 6.5%. (See second chart above.)

At that kind of yield, any investment bank or investor could double their money in 11 years... completely risk-free and without any leverage at all.

But that kind of yield didn't last forever. The yield on a 10-year treasury bond went on a two-decade downward trend, dropping to an almost unbelievable 0.69% in 2020.

Since that low, the yield has climbed to around 4.3% as a result of inflation caused by economic and fiscal policy, but over time we can expect interest rates to drop, and with it the 10-year treasury yield.

This downward trend in yields caused the investment community to look for other investment opportunities capable of generating much higher returns on investment.

And this is precisely why high technology became the asset class that it did during that time frame.

During that 20-year window, the broad-based S&P 500 index rose 171%, compared to the technology-focused NASDAQ composite index which returned about double that – 360%.

Uber Technologies Share Price Since March 2019 IPO

Venture capital, private equity, institutional money, and family offices all knew what was happening. They were using the same investment playbook. What did they do? ***They decided to keep the most lucrative investments for themselves.***

Instead of taking a company public during its early years as Amazon did back in 1997, they changed the game. Rather than giving retail investors access at such an early stage, the strategy quickly became keeping the most promising companies private as long as possible.

By doing so, private investors were able to consistently increase the value of their investments with each successive venture capital or private equity round.

And after 8-10 years on average, these private investors would look to take their companies public at incredible valuations.

By being patient and waiting for the right time in the market to take these companies public with the most hype and the highest valuation they can maximize their profits and leave nothing but table scraps for normal retail investors.

Let's use Uber again as an example.

NOTHING BUT TABLE SCRAPS

Uber's seed round was in 2010 valued at a mere $5.4 million. At the time of its IPO in March 2019, Uber went public at an $82.4 billion valuation. For those first investors, that resulted in a return of more than 15,000 times their original investment.

But what happened to those investors who bought into the IPO at $45 a share?

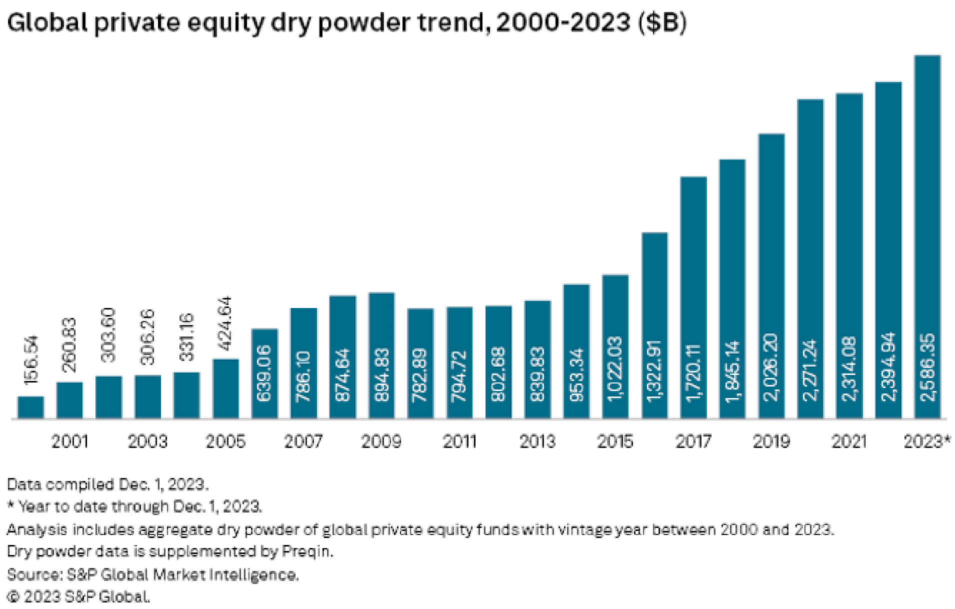
In short, since Uber's IPO in 2019, the stock spent most of its time trading below its IPO price through mid-2023. That represents the first four years post-IPO. And since mid-last year, thanks to the rise in share price, the stock is up 58% since its IPO. (See chart above.)

That's it. Normal investors who purchased Uber in May of 2019 at the IPO and held for more than five years are up just 58%, and for most of that holding period, they were down on their investment.

Meanwhile, those early angel investors and venture capitalists who invested in Uber's seed round are up more than 15,000 times their money.

Not only did the private investors take almost all the profits, but with the help of the investment banks, they were able to oversell the deal and make even more money at the expense of unassuming investors who believed Uber was going to race out of the gates and rocket in share price but didn't understand at all the valuation set by the investment banks.

Record Levels of Private Equity Available for Investment



Source: S&P Global Market Intelligence

The list of examples like this is long. It's normal now for private equity to take 80%, 90%, 95%, or, in the case of Uber, 100% of the profits at the time of the IPO. So little upside is left over for normal investors.

Sadly, this isn't going to get better anytime soon. Why? The world is awash with cash right now. Venture capitalists and private equity like to call this "dry powder." (See chart above.)

And right now, we are at all-time highs. There has never been this much capital available for investment in history. At the close of 2023, private equity dry powder reached an astounding $2.59 trillion.

The historically low interest rates (until recently) and overall poor performance of hedge funds have resulted in high-net-worth individuals, sovereign wealth funds, family offices, and institutional wealth pursuing higher returns through private investments.

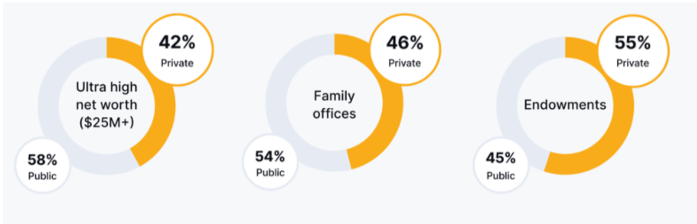
WHERE THE SMART MONEY GOES FOR LONG-TERM CAPITAL GAINS

So, in an environment like this, where does all the "smart money" go for large investment returns? Where do they go to avoid the fate of the average investor?

The answer is a simple one – it looks to invest in private investments. This has been a "secret" asset class well-known to sophisticated investors and wealthy families for generations. Sadly, very few have been able to access these kinds of investments until recently.

As a simple example, let's take a look at the asset allocations of a few different kinds of sophisticated investors.

Asset Allocations of Sophisticated Investors



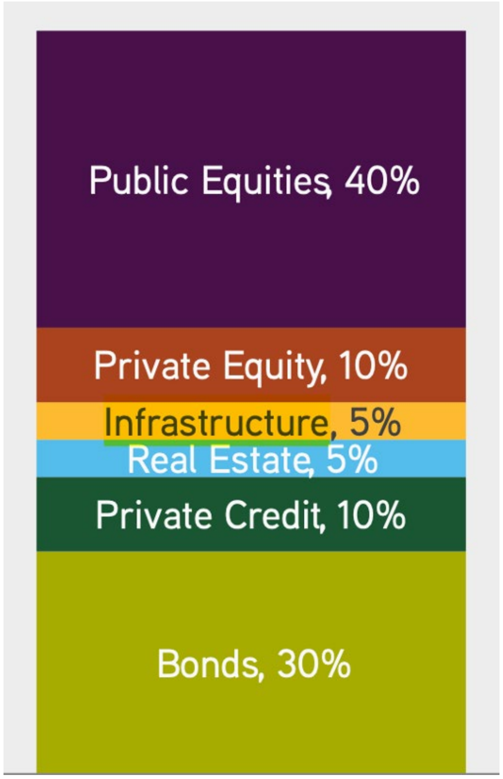
On average, sophisticated investors allocate around 50% of their capital to private investments. This includes investments in private companies, commercial real estate, agricultural land, and private equity funds).

Ultra-high net worth individuals are around 42%, family offices are around 46%, and endowments are even higher around 55%.

We can see in the images above that as the amount of wealth increases, the percentage of assets allocated to private investments also increases.

High-net-worth investors and family offices typically adopt an asset allocation strategy that is split between public equities, private investments, and bonds. The idea is simple, the investor gives up some liquidity in exchange for higher overall returns.

A good example of how an asset allocation strategy works for these kinds of investors is shown below.

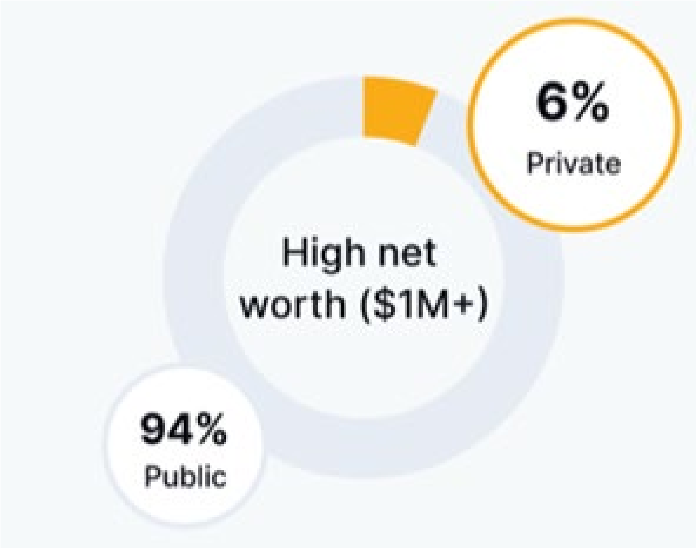


Source: KKR

We can see that 40% is in public equities, 30% is in private investments, and 30% is in bonds. The private investments are made up of investments in private companies (10%), investments in infrastructure like roads, railways, utilities, etc. (5%), real estate (5%), and private credit (10%).

Yet look at how starkly different asset allocation is for individual investors. These are accredited investors with a net worth of $1 million or more.

Asset Allocation of Individual Investors



These individual investors only allocate 6% to private investments on average. Just 6%! The rest is allocated to the public markets. And the typical allocation made to private investments by non-accredited investors is often zero.

And this is exactly why both individual accredited and non-accredited investors miss out on the largest possible investment returns and the chance at creating generational wealth.

THE BROWNRIDGE MISSION

This trend towards private investments has been developing for the last two decades. And it will continue to grow.

Financial services giant Blackrock just spent $3.2 billion to purchase Preqin, a company that specializes in data on private assets. The reason for this strategic investment is that it believes the market size for private investments will grow to $40 trillion by 2030.

The significance of these numbers has not gone unnoticed by the U.S. government. Many members of Congress have recognized that the most lucrative investment opportunities are no longer available to retail investors, and they don't think that's right. I couldn't agree with them more.

And in November of 2023, the U.S. Senate Committee on Banking, Housing, and Urban Affairs stepped up to do something about it. It announced the Empowering Main Street in America Act.

Here's what Senator Tim Scott, who introduced the proposal, said regarding the Act...

> *Our capital markets are the global gold standard and help make the strength of the American economy the envy of the world – but they shouldn't be limited to elites on Wall Street or industry giants in California and New York. All Americans should be able to invest amounts of their choosing in order to grow wealth and build their communities, and our small business owners should be able to access funding in the same way large corporations do. This framework makes substantive changes to our capital markets system that will provide Americans across the country, including those who are often left behind, with the tools to achieve financial security and the American Dream.*

The purpose of the Empowering Main Street in America Act is to make it easier for entrepreneurs and small businesses to raise capital to innovate and enable everyday investors to have the ability to invest in those businesses to better build their own wealth.

The goal is to give normal investors access to the kinds of investments that high-net-worth investors are used to.

And this is the entire mission of Brownridge Research. Since launching *Day One Investor*, my goal has always been to show my subscribers how to gain access to private investments, and to help them build their personal wealth over time by doing so.

Day One Investor is just the beginning of this journey. As the market grows for private investments, and the regulations evolve, it will create even more opportunities for us with private investments.

And to be successful on this journey, we'll need to have the right kind of mindset.

THE DAY ONE MINDSET

Investing in early-stage small businesses is unlike any other kind of investing. Many businesses will fail. In fact, I would argue that if some don't, an investor isn't building a portfolio of companies that really have moonshot potential, the kinds of investments that can multiply returns by more than 100 times, or as we saw in the case of Uber, thousands of times.

One single $1,000 investment generated almost $5 million of wealth. That is a remarkably small amount of capital invested for an extraordinary return. And here's the thing, these kinds of investment opportunities are what Silicon Valley's venture capital community was created on.

They happen every year, year after year. They are normal for those who have the expertise, the patience, and the right investment strategy to stack the deck in their favor for these kinds of outsized returns.

With all this in mind, I would share three general rules that I recommend we follow to be successful with *Day One Investor*.

1. **Use Rational Position Sizing:** As I mentioned, it's not uncommon for private companies to fail altogether. Investing at the earliest stages is always inherent with risk and can fail for numerous reasons that are often largely outside of a founder's control. When that happens, our entire investment in a single company will be lost.

   This scenario is not only likely… it should be expected. During my time as an angel investor, this has happened to me several times. In many ways, this risk is the price of admission to see life-changing returns. For this reason, I will insist on sensible position sizing.

   As a general rule, I would recommend we only invest 10-20% of what we would typically invest in a small-capitalization stock. Put another way, we should only invest capital we can afford to be without. But the good news is that we don't need large positions to see incredible returns, as the example of Uber and so many others show.

2. **Build a Portfolio:** It can be tempting to go "all in" on an exciting opportunity. I have felt the same way. But I strongly advise against this. The way to stack the odds in our favor is to build a large, diversified portfolio across a basket of great private companies. A small number of these companies will fail. A good deal will double, triple, or quadruple our investment. And then there will be the "home run" investments. These are the investments that venture capitalists dream of. And to ensure we have exposure to these opportunities, we will want to build a large portfolio over time.

3. **Practice Patience:** When we invest in a private company, we must understand that – with few exceptions – our capital will be "locked up."

   We will not be able to sell or reclaim our invested capital. To be a successful private investor, we are going to have to be patient. Seed round investors in Uber made staggering sums of money. But those investors had to wait nine years to realize that return. That might sound like a long time, but let's consider the upside.

   Would we be willing to wait nine years to turn $1,000 into nearly $5 million? I certainly would. And the best part is that we don't have to do any of the work. The founders are already incentivized to be successful. We provided them with some of the much-needed capital, and after the investment is made, we're an owner and along for the ride.

   The good news is that we will be able to track the progress of our companies as they grow. There will be new developments, new capital raises, and higher and higher valuations. And we will get the opportunity to watch these day-one companies grow before our eyes.

   And as the portfolio grows and matures, there will be more regular exits where capital gains can be harvested for other personal interests or investments or reinvested into the next round of exciting small businesses. Eventually, the capital gains will support all new investments which will no longer require any additional new funds to be injected by investors.

Put simply, I know of no better way to generate life-changing investment returns than using these techniques. I've been investing in private deals for more than two decades now, and I've never seen such a fantastic environment as the one that we have today.

There are so many incredible small businesses – primarily technology and biotechnology-focused – raising private capital to accelerate their growth. And the kind of progress they are making is happening in a fraction of the time that it used to. These are perfect conditions for *Day One Investors*.

My goal is simple with *Day One Investor*.

I want to help normal investors not only become high-net-worth investors, but also create the kind of wealth that can be handed down to the next generation. And hopefully for some, to have enough capital to set up their own family office whose job is simply to be a good steward of a family's capital and ensure that those assets continue to grow.

Investing in quality private companies is not a path to "good" or even "great" returns. With the right mindset and a basket of great companies, it is a gateway to transformational wealth. It is the kind of money that can ensure our grandchildren and even great-grandchildren will be comfortable and secure their entire lives.

And it starts right now. We have so much to look forward to.

Regards,

Jeff Brown
Editor, *Day One Investor*