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Stanford eCorner

Keeping Liquid

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Natera Founder Matthew Rabinowitz describes a new paradigm available to entrepreneurs that allows for greater personal liquidity through secondary markets. Rabinowitz also mentions why putting up a little of your own money for preferred stock can be good idea.

Transcript

There is a new paradigm in liquidity over the last couple of years where you don't have to sell your company or go public in order to have liquidity as a founder, because there is all these organizations that are enabling a secondary sales in the market for investors who want to get involved in the company, but are not part of the key team.. And as a founder often that IPO is a schlep and it's a distraction, so you might decide to delay the IPO or things might just take longer in the company and you have things that you want to do.. You want to build a house; you've got family commitments and obligations.. When you start your company, it's a really good idea to put in a little bit of your own money, not a lot because that is going to make you irrational.. But put a little bit of your own money to get preferred stock.. And the reason why preferred stock is so valuable is if you want to sell it a few years down the road in a secondary transaction, you can sell that preferred stock at a high valuation without messing up the valuation of your options.. They don't ruin your 409A valuation for the SEC, because you've got particular rights and voting privileges associated with that preferred stock.. And that will give you the flexibility to sell your stock earlier.. It can make a really big difference.. When you get your initial VC's involved you need to talk to them about this..

And the good funds who partner with the entrepreneurs will understand that you just have commitments in life that you want to fulfill at some point down the road...