

# *The Journal of* **PRIVATE EQUITY**

Strategies and Techniques for Venture Investing

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**A**s our internet, biomedical, information, and computer technology markets slowly return to a more normal footing, we are back to the basics of private equity. In this issue we present articles about the critical due-diligence process, the selection of company presidents and executives, ideas about the differences between high technology and non-technology investing, a report on the size of European venture capital, a look at crossover funds—which contain a blend of private and public securities—and finally, a book excerpt regarding the prediction of financial collapse in emerging market economies.

In selecting a good company, due-diligence is key. The author of our most requested reprint, Allan Bee Smithee, returns with a follow-up to his original “Down and Dirty Due Diligence.” Some considered the original article a departure from decorum. We agree, but deservedly so. Smithee dispenses with the apparently most dazzling investment opportunities in a deliciously dour style. After reading this article, you’ll realize that most are but dabblers in due diligence, mere dilettantes, with tactics as dainty as they are deleterious. Smithee suggests you approach deals with a detached disposition and doleful daze. We would certainly be deficient if we did not agree.

There is no single issue that we in private equity agonize over more than the selection of a chief executive. Leslie Pratch writes about how the latest psychological research can be applied to the selection of CEOs and other management team members. Many executive candidates have achieved significant success in a technical area. They now want to lead a company. Because they have succeeded technically, we know they have the required intelligence. But so many times these very smart people fail when they have a company to run. Pratch’s article offers ideas for how to predict which highly qualified, successful people will turn into great leaders.

There has always been a chasm between the technology investments made by venture capitalists and the ongoing investments in fashion, movies, retail, manufacturing, and wholesale supply businesses made outside of the venture capital arena. Robert Robinson and Mark van Osnabrugge present an intensive review of

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high-tech versus non-tech investments, looking at questions such as: Which of the two requires more due diligence? Which requires more specific industry expertise? Which demands a greater emphasis on growth? Which requires more control over the investments?

Ever wonder what has happened in Europe with venture capital? Sure, we all read about the giant belly flops of some internet companies, such as boo.com. But what about the rest of the investment picture? Keith Arundale writes about the proportion of management buy-outs versus venture deals, and the amount of technology-related investments. You may be surprised to see how close Europe is to the U.S. in investment activity. How much money is available in Europe for venture capital investments?

Mark Anson discusses a new format for private equity investing, the crossover fund. How does this vehicle compare with more traditional hedge funds or private equity investment? Why have these hybrids developed? What can we expect from them? How can we manage them?

Our final piece covers a topic that no international equity investor can ignore: the history of financial crises in the last ten years. What caused the tremendous devaluation of the Mexican Peso in 1994–1995? Was this related to the devaluation of Thailand's currency in 1997, or trouble in 1998 in Indonesia, or August 1998's default in Russian bonds? How does the liquidity crisis in Rome, in 33 AD, foreshadow those occurring nearly 2,000 years later? These and other fascinating questions are addressed by Michael Pettis in this lively piece.

**James E. Schrage**  
Editor