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Credit Crunch Isn't Squeezing Equity Lenders

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Sandy Weill, the billionaire tycoon who built Citigroup into the largest financial institution on the planet, was asked by TV interviewer Charlie Rose how much his net worth had declined during the ongoing credit crunch. Weill said he was probably “25 percent to 30 percent” poorer than he had been six months earlier.

Before you weep for Weill, consider how much “poorer” he would be if he lived in New Mexico and had to do the kind of driving most of us do every day.

But even billionaires aren't immune when the economy is ailing. Policy wonks and economists can argue endlessly about whether today's economy meets the definition of a recession, but outside the Beltway it's clear to most people that these are the roughest financial seas in decades. When our homes, the biggest assets most of us own, are losing value, it's hard not to worry.

Eyes on the distant prize

Living in a “flat” world of interdependent nations and economies accentuates the turbulence of global markets. Rising oil prices, falling employment and a weak dollar make most investors nervous enough to seek new ways to protect their capital. Instability creates anxiety, which leads to tightened credit and more restrictive access to debt capital.

Fortunately, most business-equity providers — primarily venture capitalists and “angel” investors — look at opportunity with long-term vision. We expect the economy to go through cycles and realize it takes years, not months, to build great companies. The funds we invest originate primarily with sources that think in terms of decades or generations rather than months.

The state of New Mexico follows this investment approach, as do all institutional investors, from pension funds to insurance companies to college endowments. Institutions generally employ professional investors to manage their funds, earmarking precise amounts for various types of investments — primarily cash, stocks and bonds. They also allocate money for “alternative investments” such as real estate, hedge funds, private equity and venture capital. The money targeted for alternative investments is not liquid, and the anticipated holding periods are long.

Most managers of business-equity capital in New Mexico want to put their money to work as soon as they find good opportunities. The credit crisis hasn't changed their perspective; in fact, reduced access to debt financing in some markets often increases equity-investment opportunities.

Angels — and venture capitalists — among us

If your business needs capital to underwrite its growth, consider applying for equity capital. Besides capital, you secure people with significant business expertise that might be as valuable as the money they invest. Unlike bankers, who aren't allowed to get too involved in their borrowers' affairs, equity investors own a piece of the businesses they invest in and won't prosper unless these businesses do. This encourages them to provide assistance where it's helpful.

A list of most venture-capital organizations that are active in New Mexico can be found at the New Mexico Venture Capital Association (www.nmvca.org).

Angel investors — wealthy people willing to finance early stage companies — are another source of equity capital. These individuals usually understand the challenges businesses face and frequently offer hands-on help to those they invest in.

There are bound to be potential angel investors in your community. Many associate with like-minded people through organizations such as New Mexico Angels (www.nmangels.com), Camino Real Angels in El Paso, Texas (www.caminorealangels.com), and Desert Angels (www.edesertangels.com) in Tucson, Ariz.

Equity investors are highly disciplined and turn down many more deals than they approve. If you turn to them, prepare to describe your opportunity in a way that is compelling, succinct and irresistible.

Finance New Mexico is an initiative of the New Mexico Small Business Investment Corporation (NMSBIC), New Mexico Small Business Development Center (NMSBDC), Empowering Business Spirit (EBS), the New Mexico Venture Capital Association (NMVCA) and other partners to assist individuals and businesses in obtaining skills and funding resources for their business or idea. To learn more about resources available to New Mexicans, go to www.FinanceNewMexico.org.

