



TOP STORIES IN WEALTH MGMT

1 of 12



When Emotions Cloud a Client's Judgment



2 of 12

Investors Still Hate the 'Hated Bull Ma...



3 of 12

Voices: Henry Klosowski, on The Hazards...



Grappling w Inversion-Indu Tax Hi...

WEALTH ADVISER

When Emotions Cloud a Client's Judgment

Email Print 0 Comments



By ALEX COPPOLA
Aug. 26, 2014 10:06 a.m. ET



The client was a self-made billionaire who had founded a successful electronics distribution company. As a result, he was regularly pitched venture-capital deals from startups in the same industry.

Also in Wealth Adviser

[Investors Shy Away from a 'Hated Bull Market'](#)

[Softening the Tax Hit from Inversions](#)

[Visit the Wealth Adviser Page](#)

When he was approached about investing in a new electronic book reader last year, the man loved the idea. He brought the opportunity to his adviser, David McCombie, whose Miami-based firm, McCombie Group, helps a handful of ultra-

high-net-worth clients evaluate and manage their direct private investments.

The adviser already had done due diligence on other potential deals for this client, and at first this one seemed like a good fit. But further inspection of the company's investment package raised doubts for Mr. McCombie.

For starters, the company's projected revenue growth was unrealistic. "We're talking about going from \$10 million in revenue to \$500 million in just three years--that's unheard of in a startup," Mr. McCombie explains.

He also had concerns about the investment's potential payout. The client was set to receive a 15% stake in the company for \$2 million, which sounded good. But it was also an early-stage investment, meaning that his equity stake likely would be diluted by future rounds of investing. As a result, the adviser predicted the deal would yield no more than single-digit returns.

Popular Now

What's This?

ARTICLES

1 **Buffett Enters Tax Fray With Burger King Investment**



2 **The Revival of Roger Federer**



3 **U.S. Lays Groundwork for Syria Strike**



4 **Millennials Lose Taste for McDonald's**



5 **For Steve Ballmer's Next Act, a \$2 Billion Impulse Buy**



VIDEO

1 **Highlights From 2014 Emmy Awards**



2 **Emmys 2014: The Best and Worst Dressed**



3 **Are Chinese Fighter Pilots Going Rogue?**



4 **Great White Shark Spotted off Beach in Massachusetts**



David McCombie

Mr. McCombie shared these numbers during a meeting with the client and presented his conclusion: The deal was a dud.

Despite the evidence, the client was unconvinced. He said he was excited about the company's management team, their vision and drive to succeed. Mr. McCombie persisted, noting that the company had to compete in a crowded market and had a higher projected unit price than any comparable product. The client was still unmoved.

"The trouble was that the client was already emotionally invested in this deal," Mr. McCombie says. "Regardless of what projections I put in front of him, his eyes lit up when he talked about the opportunity."

Mr. McCombie realized he needed to present his argument in a way that was more emotionally relevant to the client. So he went back to the prospectus for more evidence, and with some more digging, he found it.

The company had no real strategy to make money on the content side of the e-book market, which meant that almost 80% of its projected revenue would have to come from sales of the e-book reader itself. Mr. McCombie calculated that the company would need to sell roughly two million units over the next three years. By comparison, in the previous fiscal year, they had sold only 10,000.

Those numbers looked unrealistic enough on their own. But instead of offering the client raw figures again, the adviser reframed the data. "I wanted to contextualize those numbers in a way that made them less abstract and more rooted in reality," he says.

Mr. McCombie downloaded publicly available data on the quarterly sales growth for the iPod—one of the fastest growing consumer products of all time. He presented both sets of data when he sat down with the client at their next meeting.

In order to meet expected returns, he explained, sales of this company's product would have to grow as quickly as the iPod had. When he asked the client if he thought that was realistic, the man admitted it was not. "You could see the recognition in his eyes almost instantly," Mr. McCombie recalls. "The information had finally clicked."

The client immediately stopped pursuing the deal and thanked the adviser for helping him put aside passion and remember his overall investment strategy.

"My role isn't to tell my clients how to invest their money," Mr. McCombie says. "It's to provide an objectivity that allows those clients to make the most informed decisions."



5 Five Reasons Americans Are So Unhappy



[Email](#) [Print](#) [0 Comments](#) [Order Reprints](#)

WSJ In-Depth



Russia Ramps Up Information War in Europe



China's Top Graft Buster Probing Thousands



Small-Business Lending Is Stuck in the Slow Lane



For Want of Gloves,



The Internet Is



Can 'Warcraft' Skills

[Join the Discussion](#)

[LOG IN TO COMMENT](#)

There are 0 comments.

2 people watching.

Newest



[Subscribe](#) / [Login](#)

[Back to Top](#)

Customer Service

- [Customer Center](#)
- [New! Live Help](#)
- [Contact Us](#)
- [WSJ Weekend](#)
- [Contact Directory](#)
- [Corrections](#)

Policy

- [Privacy Policy](#)
- [Cookie Policy](#)
- [Data Policy](#)
- [Copyright Policy](#)
- [Subscriber Agreement & Terms of Use](#)
- [Your Ad Choices](#)

Ads

- [Advertise](#)
- [Place a Classified Ad](#)
- [Sell Your Home](#)
- [Sell Your Business](#)
- [Commercial Real Estate Ads](#)
- [Recruitment & Career Ads](#)
- [Franchising](#)
- [Advertise Locally](#)

Tools & Features

- [Apps](#)
- [Emails & Alerts](#)
- [Graphics & Photos](#)
- [Columns](#)
- [Topics](#)
- [Guides](#)
- [Portfolio](#)
- [Old Portfolio](#)

More

- [Register for Free](#)
- [Reprints](#)
- [Content Partnerships](#)
- [Conferences](#)
- [SafeHouse](#)
- [Mobile Site](#)
- [News Archive](#)