

The sweet spot for launching an investment firm occurs when a founder has established a style and proven it works but hasn't stayed in one place for too long.

From Star to Founder

EastRock

The Founder Sweet Spot

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AS I WAS FINISHING business school, the founder of a large hedge fund gave me a bit of advice: "That's great that you are going to work at Goldman Sachs! Don't stay too long."

A sarcastic comment? Yes. But for aspiring entrepreneurs in the field of investing, a bit of truth.

At [East Rock](#), our primary mission is to identify and support investment firm founders as they make the transition from star employee at a large firm to leader of a new one.

We've found that the sweet spot for launching a firm occurs when a founder has established an investment style and proven its effectiveness, but before the founder has stayed so long at one place that they stop evolving or become too removed from sourcing, research, and analysis.

As we describe our experiences with new investment firms, observers of entrepreneurship will immediately recognize key differences between investment firm startups and other types of startups.

Unlike entrepreneurs who utilize an “outsider’s advantage” (see [“Range” by David Epstein](#)) as a key part of their strategy, investment firm founders are overwhelmingly a group of “insiders.” They tend to learn their skills at one of relatively few well-known training grounds such as Blackstone, Tiger Management, Bain Capital, and, yes, Goldman Sachs.

Perhaps a more striking contrast, however, is how often investment managers achieve financial success and recognition ahead of the decision to start something new. Investment company founders can be stars, not just in compensation but also in the form of a tangible track record, well before they take the first meeting to pitch their new firm.

Finally, there is the question of age and experience. In “normal” entrepreneurship, a 60-year-old startup founder has a roughly three times higher chance of creating a valuable business than a 30-year-old founder (HT to bestselling author and East Rock data science advisor [Seth Stephens-Davidowitz](#) for pointing this out in his book “Don’t Trust Your Gut”). But in investment firms, there is a clear concentration of younger founders. We think this is for good reason.

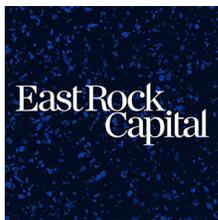
An ideal founder has a unique balance. On the one hand, years at a top firm teach age-old lessons about strategy and best practices. On the other hand, relative youth and creativity allow for a twist on the old model—an effort to do things differently and hopefully better. At East Rock, we find it is a joy to meet an investment manager who has a special story to tell, one that conveys an ability to create edge by applying an innovation to an established investing strategy. Better still is to meet such a manager when they are preparing to make the transition to founder. In certain cases, there is a grounded confidence (“I can do this, let me show you”) and an intensity of focus (“This is my time; I must make it work”) that grab our attention and make us want to learn more. These meetings have an infectious energy as we talk about the great opportunities ahead.

A founder’s sweet spot, and specifically the founding of a new firm, is often followed by years of a manager’s best work. You might call it an “allocator’s sweet spot.” [Substantial data supports this belief when it comes to hedge funds](#). While less documented, our experience indicates that this is true in the areas of private equity and real estate as well.

In East Rock’s 15-year history, we’ve learned a lot about partnering with intensely motivated investment managers, and in the past several years we’ve started to document the major insights.

In this effort, we've had the privilege of working with the aforementioned Seth Stephens-Davidowitz, a brilliant author and data scientist, and [Bruce Mau](#), a legendary graphic designer, to produce a set of whitepapers and other writings about how allocators and talented investors can work together in innovative ways. We've challenged traditional definitions of partnership and discussed successes and failures in making collaboration work.

In this newsletter series "From Star to Founder," we will make our original writings on topics such as [trust](#), [idea generation](#), and [alignment](#) available for the first time (outside of our core set of partners and investors) and summarize key lessons for founders. Our goal is to share our learnings, past and future, as we endeavor to grow our ecosystem of founders and unleash the potential of world-class talent.



NEWSLETTER

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Insights from partnering with exceptional investment managers as they launch and build new firms

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