Larry Abrams is a successful, Houston-based angel investor and venture capitalist. In addition to his wide-ranging investments, especially in biotechnology, he has produced films such as C.H.U.D. and co-produced By the Sword. In 2010 he published his first novel, The Philosophical Practitioner.

*Kaizen:* Much of your career as an investor has been in biotechnology. What attracted you to biotech?

*Abrams:* Biotech is the hope of humanity. There is nothing more exciting or that has the same potential for changing our lives. For example, beyond curing diseases, there is the possibility of one day re-engineering the genetic code which dictates that we become increasingly feeble with age and that we cannot live beyond a maximum (so far) of 122. This is the big constraint; life is so short. So anything that can prolong our lives or make them better while we are alive has to be the most important thing we can possibly do because everything else we do depends upon us being alive to do it.

*Kaizen:* Your story starts in New York. You were born there?

*Abrams:* In Brooklyn, yes.

*Kaizen:* What was it like growing up there?

*Abrams:* It was sort of like a small town or how I imagine a small town would be. It was quite nice.

*Kaizen:* What kind of schooling did you get?

*Abrams:* Public school and then Brooklyn Technical High.

*Kaizen:* Did you have strong ideas about what you wanted to be when you grew up?

*Abrams:* I always knew that I wanted to write fiction some day, but I also knew that I didn’t want to sell my time, eight hours a day, to someone else who would tell me what to do with it. I was introduced to the stock market when I was 13. I had a bar mitzvah and my father bought me ten shares of something called Bayuk Cigar. I was outside playing stickball, came in for dinner, and my father opened the newspaper to the stock market pages. He pointed to Bayuk Cigar and it said “plus one.” He said, “See this?” I said, “Yeah. So?” He said, “Well you have ten shares of it, so that means you made ten dollars.” I said, “Whoa! Wait a minute. You mean I was out playing stickball and I made ten dollars?” He said, “Yes, because you own ten shares of this company.” So I said, “Why don’t I collect these things? Why don’t I just collect stocks? Maybe I would have enough money coming in that I

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From the Executive Director

Rockford College has become Rockford University. We were founded in the first half of the nineteenth century, and in the twenty-first century we continue to evolve. The name change reflects both our growth and our aspiration to combine the best of educational tradition with forward-looking innovation.

The nation’s best universities are leading the way. One study shows that Stanford’s alumni have created 5.4 million jobs and create nearly $3 trillion in economic impact each year. Rockford operates on a smaller scale, of course, but our goals are the same: to be an entrepreneurial educational institution that enables our students to achieve win-win success for themselves and their communities.

In this issue of Kaizen, our feature interview is with investor Larry Abrams. I met with Mr. Abrams in Houston to talk about his investments in bio-tech, movies, and wildcat oil wells, as well as how his wide-ranging liberal arts education helped prepare him for his success in investments.

We also report on guest lecturer Marta Podemska-Mikluch of Beloit College, Wisconsin.

Let me also congratulate three students in the Business and Economic Ethics course for their excellent work. Clear thinking and communication are essential to success in life, and it was a pleasure for me to read the work of Lucas Peterson, Daniela Medrano, and Yuyang Zhao.

Stephen Hicks, Ph.D.
On April 19, professors Shawn Klein and Michael Perry hosted the second annual Rockford College Sports Symposium. Six panelists presented research on the themes of fandom and fantasy, including: “What is fan-based sport about anyway?”; “Fandom and Sport: Encouraging Hate”; “Playing with Nietzsche: Play, Nihilism, and Value Creation.”

Professor Marta Podemska-Mikluch visited Rockford University on February 26. She gave a talk on “Succession, Elections, and Self-Governance.” Professor Podemska-Mikluch is a visiting assistant professor of Economics at Beloit College. She recently finished her dissertation at George Mason University on the democratic decline of the Polish-Lithuanian Commonwealth. A video interview with Professor Podemska-Mikluch is available on the CEE website.

Students in the Business and Economic Ethics course wrote on a variety of topics including whether greed is good or bad, entrepreneurial virtues and vices, and the ethics of price controls. The essays were judged on their accuracy and depth of interpretation as well as their independence of thought. Cash prizes were awarded. Congratulations to our winners!
Larry Abrams, continued

Abrams.” [Laughs] So I went downstairs and picked up the phone: “This is Mr. Huxley from Value Line and we’d like to offer you a job. When can you come down here?” I said, “How about an hour from now?” [Laughs] They gave me a job as an analyst.

Kaizen: What did they have you do?

Abrams: I was an analyst trainee at the beginning. They would review your salary—I forget if it was every six months or every year. But in a three year period, they tripled my salary and I became an editor/analyzer. Then I had an offer from a brokerage firm to be hired away from there.

I gave them my conditions and my conditions were that I have my own hours; I can work on whatever stocks I want; I don’t have to have any contact with your customers; I don’t need a contract either. All I’ll do is tell my conclusions and reasoning to your customers. And, of course, I also want my conclusions and reasoning to be in line with Value Line’s proprietary rating system. Whether or not you agreed. Out on my own, I didn’t pay any attention to the rating system. The system is quite good, by the way. But I’m most comfortable with my own system, so I don’t pay attention to anybody else’s.

As far as doing it on my own, investing my own money, I never had any trouble with that. When you’ve thought about it enough and you’ve tested your conclusions enough, both retroactively and proactively, and you know that it all works, there isn’t any trepidation about doing it.

I used to make an analogy to the oil business, which I went into at one point. When I went into the oil business, the ratio for wildcats was about 1:9. That meant that the wildcats were very risky—eight times out of nine you would lose every dollar. But on average, the one time you would hit, you’d make 30:1. So I thought, “This isn’t very complicated. I lose eight dollars on, say, the first eight, but on the ninth, I make $30. I can do that math.”

I invested in a lot of wildcat wells because of the arithmetic that I just mentioned. So I always made that analogy to stocks; the numbers are different but the principle is the same. If you know your system works and you know that the odds are in your favor, even though you’ll have many times when you’ll have losses, you end up ahead. You have to end up ahead. You have to end up ahead. You have to end up ahead. I always made that analogy. And all kinds of extraneous things can mess up your calculations, such as wars and depressions. But it’s the best you can do, so I never saw investing my own money as a problem. I always saw it as an opportunity. And as fun.

Kaizen: When you went out on your own, were there particular fields you were investing in? Biotech? Entertainment? Manufacturing?

Abrams: Since risk and reward are highly correlated and I was shooting for big percentage gains because my starting capital was so low, I made very risky investments and monitored them closely. This is before bio-tech. Sometimes I looked for new products. Mostly I would screen first for impressive trends in sales, earnings, profit margins, return on capital, and cheap to reasonable valuations. Anything that met my criteria was fine—and I invested all across the board.

Kaizen: What is the distinction between “angel investing” and “venture capital”?

Abrams: Angel investing is venture capital, but it’s done by non-professionals. The term “VC,” venture capitalist, is usually reserved for professional investors who run significant VC partnerships.

Kaizen: There’s no investment size issue?

Abrams: As a general rule, the professionals are going to invest a lot more money.
because they have pools that they raised. But there is no limitation to what an angel can put up. Some of them, some very rich angels, put up quite a lot.

**Kaizen:** How would you describe yourself? As a venture capitalist or as an angel?

**Abrams:** I’m not a venture capitalist in the sense of having run a fund which has raised a lot of money from other people. But I do venture capital as an angel and as a limited partner of venture capital funds, often investing side-by-side with the venture capital funds in which I am a limited partner. I am also on the advisory board of one of them. As well, I still invest in the stock market.

**Kaizen:** How does the angel investing or venture capital process typically go? If I’m a person with an idea, how do I seek out an angel or VC so I can make my pitch?

**Abrams:** You can go to something like Kickstarter to start a company, but there you are just trying to raise money from the public in general. The various venture capital funds all have websites, of course. You can find the principals’ contact information and you can call them up or email them. It’s easy to email them a business plan; this is done all the time.

**Kaizen:** In your years doing VC, angel investing and so on, are you out prospecting for potential investments? Do you meet with people? Go to conferences? Or do people just send you stuff?

**Abrams:** I used to go to conferences and meet with people and read lots of business plans, but now I leave the bulk of that to the venture capitalists with whom I invest as a limited partner and sometimes side-by-side.

**Kaizen:** To focus on bio-tech, since that was a significant part of your career. When you went to conferences and met with people and read the business plans, what were you looking for? What would catch your interest?

**Abrams:** You look for new ways of doing old things, the formation of new industries, new ways of addressing diseases, and sometimes platform technologies, which can be applied to many different diseases. You’d also look at who’s running a company—that his past record has been, what his education experience has been, his job experience, and try to get an impression of the person as well—because integrity is extremely important. This last is by far the most important. Without integrity, everything else is meaningless. Of course, this doesn’t mean you won’t make mistakes, because you inevitably will.

**Kaizen:** You didn’t have a background in biotech, so how did you judge what’s innovative or promising? Did you self-educate in biological fields?

**Abrams:** Yes, I self-educated a lot. This did not bring my level of knowledge up to a Ph.D. in biology by any means, but it did educate me well beyond the average layman.

**Kaizen:** The third component you mentioned was the people running the show—their track record and their integrity. How do you make judgments about someone’s integrity?

**Abrams:** Well, that’s a very hard thing to do. It’s very qualitative. I think everybody is familiar with meeting people and making judgments about them, but trying to put into words exactly how you judge someone, unless you have some record of their actions over a number of years, is something I really can’t do. You just do the best you can.

**Kaizen:** The investments that don’t go so well—are there common patterns or reasons? They were over-ambitious in the technology or had bad office politics or whatever?

**Abrams:** Certainly, there are almost always technological risks. However one of the biggest problems is a company running out of money and not being able to raise another round of funding when their original projections turned out to be over-optimistic. But you can’t accurately quantify in advance which factors are going to lead to a wipeout in a particular investment because, obviously, if you could, you wouldn’t invest in those. Then no companies that were going to fail would get funded. And, of course, that’s not true.

**Kaizen:** Are people dynamics another category? Some people just don’t mesh well together?

**Abrams:** Yes, that certainly happens a lot. Unfortunately, you only find out about that later. [Laughs]

**Kaizen:** And then general economic conditions? Or downturns in various sectors?

**Abrams:** Yes, they will get in the way quite a lot; but you don’t let that stop you. If you see a very good idea, you just factor-in the economic conditions as one of the risk factors and if the risk-reward ratio looks good, do it anyway.

**Kaizen:** Have you ever found it necessary to go in and take over an investment? Things are really dysfunctional, but it is still possible if investors take over the show with more experienced people?

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**“WITHOUT INTEGRITY, EVERYTHING ELSE IS MEANINGLESS.”**

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**Abrams:** Yes, that’s done very often by venture capitalists. I don’t do it because I don’t want to spend the time doing it. I would rather let the investment go and take the loss. That’s one of the reasons why it is advantageous for me to go in with venture capitalists, because that is part of what they do.

**Kaizen:** You’ve also invested in movies.

**Abrams:** Yes.

**Kaizen:** What was your first movie?

**Abrams:** It was called C.H.U.D., and apparently it has some sort of cult following. I was told that it has fifty websites devoted to it. That was several years ago. I never checked it out, but I’m assuming it’s true.

** Kaizen:** Aside from the funding, what was your role for this film?

**Abrams:** I had input into the script. I made various suggestions. A producer can generally define his own functions—whatever degree of hands-on he’s comfortable with. An executive producer is primarily about raising the money.

**Kaizen:** And the financial projections that you would likely lose your money? Did they come to pass or did you do all right?

**Abrams:** On C.H.U.D., I think we came very close to breaking even.

**Kaizen:** You later produced *By the Sword.* What went into that one?

**Abrams:** There are two movies with the title *By the Sword.* The one that I was co-producer on stars F. Murray Abraham and Eric Roberts.

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Mr. Abrams’s first novel

LARRY ABRAMS, CONTINUED

Kaizen: Was that one profitable financially?
Abrams: We got financing from Sony Television. I put up a small amount of money, and that money was not returned.

Kaizen: It sounds like you’re doing the movies primarily for fun?
Abrams: That’s correct. Obviously, I had hoped that each film would make money because that way we could recycle the money and make more films. But it was primarily for fun.

Kaizen: Philosophy has also been an interest for you?
Abrams: Philosophy is a lifelong interest. What could be more important than knowing how to live? What to do with your life? It is truly the architectonic science.

Kaizen: Your early ambition to be a writer and your interest in philosophy came together, and you’ve written a novel with the word “philosophical” in the title. What’s the theme of the novel?
Abrams: The book is The Philosophical Practitioner. It’s a love story, a mystery, and an exploration of what life is all about.


Abrams: Thank you.

Kaizen: Many people have ambitions to write, but they don’t necessarily act on it. What motivated you to actually sit down and do it?

Abrams: I’ve been reminded often of Rabbi Hillel’s dictum: If not now, when? Since this is something I wanted to do and time was passing, I figured, I can’t just keep thinking about it, I’ve got to do it. There’s always some reason to postpone what you want to do, and the ultimate consequence of that is that you become Scarlett O’Hara.

Kaizen: To go back to investing and biotech in particular: one sees statistics about the high rate of failure of start-ups, like three out of four start-ups fail. Has that failure rate been true to your experience?

Abrams: That depends on how you define failure. If you define failure as going bankrupt, then that figure is too high. If you define it as not getting all of your money back, then yes, that’s about right.

Kaizen: You have spent a lot of time in biotech. Is it fair to say that you’ve gotten out of biotech investment largely because of an increasingly difficult regulatory environment for biotech?

Abrams: Yes. The FDA. Their byzantine approval process requires companies to invest huge amounts of money, really huge. I mean, $1 billion, sometimes much more, to get a drug through the whole process, from discovery through FDA approval, is not unusual. It can take ten years or more. And at the end of spending huge amounts, there is no guarantee that you are going to get a product to pass the FDA. As a consequence of their very convoluted process for approval, people die who might have lived if they’d had access to a particular drug. Sometimes someone with a terminal disease can get “compassionate use” from the FDA, and they can get a drug that is still unapproved, but mainly that is not the case.

There is a company I know of now, which I’m an investor in, that has a treatment for glioblastoma, which is brain cancer. It’s had wonderful results in phase I trials so far, but it’s been a small number of trials. You have to go through phase II and phase III. But right now there are people dying from brain cancer who can’t use it even though it has been very successful and there aren’t any better therapies. At least not that I know of.

Kaizen: The drug lag problem, as it is called.

Abrams: Yes. If you want to have an FDA at all, then my solution is to have it as an advisory body. Have a label on your drug that says, “This drug has not been approved by the FDA. It could be dangerous to your health.” Then, people who are terminal cases can either take it as their only chance or, if they want, they can wait for the FDA’s approval.

Kaizen: Of your current investments, are there some that you are particularly excited about that you can talk about?

Abrams: There’s the glioblastoma that I just mentioned. There is also a company doing coal gasification, which has raised $1.2 billion for a coal gasification plant or series of plants. Lots of others.

Kaizen: This is extracting the gases from coal?

Abrams: Yes. There’s also a company that has a unique way of identifying fingerprints, which is not deflected by wetness or grime or anything else that has been tested so far. It could have very broad applications. It could be used, for example, to ensure that only you can fire your gun, or only you can open your computer.

Kaizen: Or start your car?

Abrams: Yes. Car companies are interested. There’s another company that is working on software to better identify potential underground oil and gas formations.

Kaizen: This all sounds exciting and cutting edge.

Abrams: It’s always exciting.

Kaizen: Closing questions here. In the investment field, how important is intelligence relative to other traits? Lots of smart people fail as investors. So how important are other traits like objectivity, putting your time in, or being able to bounce back from failure, and so on?

Abrams: All those are important. Perseverance is particularly important. As Churchill said: “Never, never, never give in!” Well, I don’t know about never. Very rarely will do.

Interestingly enough, I don’t think intelligence is particularly important. This is not rocket science and the principles behind successful investing are not difficult to find or understand. There are many people who know them, but there are not many people who are able to practice them because the most important thing, in my opinion from my experience, is the ability to control your emotions.

About your intelligence comment, everyone is good at some things and not at others. I want to tell you how I came to take the test at the University of Chicago. The reason I left high school early to go to Chicago is that although I’d done quite well at math, my next required math course was solid geometry. I didn’t know exactly what that was, but it sounded like I had to visualize possibly complex, two-dimensional objects in three dimensions. Now that seems to be easy for most people, but I knew myself well enough to know I was very bad at it. Terribly bad. So I didn’t know if I was going to be able to pass fourth-year mathematics. I figured, why

“THE MOST IMPORTANT THING IS THE ABILITY TO CONTROL YOUR EMOTIONS.”
Mr. Abrams at his home in Houston

**Kaizen:** Merely sad?

**Abrams:** What happens is I think, “Well, that’s too bad. The odds were in my favor and it went the other way. That’s going to happen.” Then I just go on to the next thing. I’m not even sure that I’m sad.

**Kaizen:** How about on the upside? The market is going up, people are getting excited, and you’re getting excited. The urge to jump in prematurely?

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**Kaizen:** Merely sad?

**Abrams:** What happens is I think, “Well, that’s too bad. The odds were in my favor and it went the other way. That’s going to happen.” Then I just go on to the next thing. I’m not even sure that I’m sad.

**Kaizen:** On the flip side of that question, have you found in your career as an investor that there is something that you consistently struggle with?

**Abrams:** Not really. The big problem, as I said before, more generally, is being able to control your emotions, and I never had much of a problem with that. What would be hard for me would be to not be in control of my life.

**Kaizen:** One final thought. Since our primary audience is younger people who are just starting out, is there a piece of advice you would give to young people, particularly when they are transitioning from college to the rest of their lives to help send them on their way?

**Abrams:** Think about your goals. Make them real to yourself. Read enough in your field to give yourself the opportunity to fall in love with life—it’s so very short.

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**Abrams:** That happens all the time. If the market is going up all the time, you think, “Wow! If I had gone in yesterday, I would have made X. Well, I’m not going to wait anymore. I’m going to jump in.” Everybody has those emotions. But again, the most successful people are the ones who can say: “Hold it. Is the market cheap or not cheap? Am I getting good value or am I not getting good value? If I’m not getting good value and the market is going up—good luck to all of those people who are investing. I won’t do it.”

**Kaizen:** If you look back on your career so far, what have you enjoyed the most about being an investor?

**Abrams:** The thing I enjoy most is being able to buy my time back from the open market so I’m able to spend the time of my life exactly as I want to. But it’s also fun being on the cutting edge of things and being proven right.
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