

Michael Goldstein

Trial By Fire

Though he has been a serial entrepreneur since his college years, Michael Goldstein has recently begun to see himself more as an artist rather than as a scalable businessman. The reason for this shift in self-perception comes not from a new painting hobby, but from the fact that he is doing his craft—free to follow the constant theme of his life, which has been the drive toward value creation.

“I think one of the most helpful questions anyone can ask themselves is, what is my own unique ability? Where do I fit in? What is that one thing I do better than anyone else on the planet?” Michael poses. “My unique ability is to get people excited about things—to get them to the table and wanting to participate.”

Through his extensive experience in launching and nurturing businesses, Michael knew his passion and resources belonged at the early stages of a company. Every time he took a business further down the growth curve, he would feel that yearning to reset and start the next one. Now the founder of Exhilarator, a mutual fund approach to early stage investing that also provides hands-on guidance to help those startups rise above the pack, Michael has lived his life by aiming for that ideal plane of existence where passion, proficiency, and the needs of society intersect.

The seeds of Exhilarator were first sown in 2011, when Michael was spending nights and weekends working with a young entrepreneur he had met while guest lecturing at George Washington University. The young man had just graduated, and Michael brainstormed with him to help lay the foundations for the 22-year-old to start a company called Order Groove. Michael invested both his time and Rolodex in the young man, taking an equity stake in the business and watching it grow from its fledgling stages into a solid business. “That relationship was pretty

inspiring to me because I watched it change both of our lives,” Michael reflects. “I had had mentors who had helped me, and now I was passing that along. I think great ideas and great people can be created from mentorship, so that’s what I was striving to practice during my nights and weekends. But I wanted to be doing more of it, so I found myself wondering: can I make a day job out of helping young aspiring entrepreneurs?”

Michael began to explore that idea in September of 2011. He liked the idea of building a portfolio of startups, working with them hands-on, but he knew he’d need to be sustainable, earning money on a regular basis. He wanted to create what’s termed an accelerator—a firm that affords resources to the most promising startups. He spoke to as many established accelerators as he could find, including TechStar’s 500 startups, Accelerate It in New York, Amplify in LA, Dream It, and Launchbox in DC. He asked what worked for them and what didn’t, and used that input to inform his approach.

Michael then began to think about how his idea would take shape. “I didn’t want to do it the way everyone else was doing it, because that’s not an entrepreneur,” he remarks. “I wanted to do what I thought was pragmatic. The whole thing was going to be a big test, so we decided to structure it as an LLC—an operating entity. We had investors who became part owners of Exhilarator. We built a mechanism where we’d invest \$25,000 into startups, get 6 percent equity, and then once they had earned enough capital, we’d take two-thirds of our investment back to pay ourselves for the work we had put in.”

This model proved problematic, however, because Michael found himself unable to execute the two-thirds clause with young entrepreneurs who needed the capital more than he did. That’s why, when a friend proposed a fee-for-service



model in April of 2012, he decided to give it a shot. His company would help startups with business model refinement, strategy development, resources, introductions, business development, and investor funding, while leaving out the discounted valuation. He would provide those same services to more experienced serial entrepreneurs as well, and secure alternative ongoing revenue that way. "Under this model, we're able to guarantee that 100 cents of each investor dollar goes into those startups and buying that company stock, as opposed to overhead," Michael explains. "And in return, I have equity in the overall pie. Everyone has a piece, and there isn't a management fee. Their initial investment is probably bigger than the average mutual fund, but they're getting in at a tenth of the valuation that angel investors are getting in at, which more than offsets that difference."

Today, this operation is Exhilarator, and it has proven more than sustainable: so far, two of the four companies they're working with have raised additional capital at a much higher valuation than what they got in at. "My evaluation of any business model is, are people willing to wait in line for what you're offering?" Michael explains, of his approach. "When holding my current business to that standard, it works. And we're not only maintaining; we're also generating returns for our investors, all just buying time for portfolio companies to exit." Michael and his team have done four equity and four pay-per-service operations so far, with 18 investors supplying a minimum of \$25,000 each. "Our investors make money two ways—through the ratcheting up of Exhilarator, which they own a piece of, and then through the distributions from each individual portfolio company," Michael continues. "It's a new and interesting way to structure our business, and as the leader of a startup liaison, I'm really in my element, helping businesses grow and young entrepreneurs succeed."

In a sense, Michael has had some inkling of his destiny since he was seven years old growing up in College Park, Maryland. Even from that early age, he was intrigued by moneymaking schemes and opportunities. "Collecting stamps really interested me, and I'd go buy stamps at the local mall for a penny apiece," he remembers. "I liked the unknown of it—that I might be paying a little and selling for a lot. I would deal stamps to

my friends."

Michael's father, an attorney with his own real estate law firm who lived vicariously through his children to pursue his own entrepreneurial passions, got his son business cards that read, "Michael A. Goldstein, Stamp Dealer." When Michael would look at those cards, he knew he would be an entrepreneur and start his own company someday.

Michael's grandfather also had a stamp auction business, which Michael was peripherally involved in. He kept 3 x 5 cards with the addresses of everyone he invited to the auctions, and when he purchased a computer, he hired his 10-year old grandson to find a list management program and digitize his mailing list.

The youngest of three, Michael always had a paper route and would sell things door to door in his neighborhood. In high school, he was interested in environmental technology, like showerheads that reduced water flow and other industrial products that weren't typically used in houses in the 1980s. He decided to put together a catalogue, and asked manufacturers to send him information so he could pick and choose items for inclusion based on what was best for the environment, and what would work best in the home. Though he ultimately didn't have time to execute the project, the exercise honed his ability to foresee hot button issues and devise innovative solutions to problems even before they arose.

It wasn't all business and no play for Michael, however. His family took a trip to Africa when he was ten, which, along with a study abroad experience later in Spain, combined to cultivate in Michael a keen appreciation for other cultures and ways of life. He also remembers warmly the countless nights his father spent putting together photograph albums for his children. It wasn't until many years later when Michael's own young son, Oliver, came across the albums, that Michael understood just how meaningful the gesture really was.

Michael attended Eleanor Roosevelt High School, a science and technology school in Maryland, and Sergey Brin, a cofounder of Google, was in his class. "At Roosevelt, it was cool to be smart," he reflects. He then went on to Boston University, opting to major in environmental policy to expand his knowledge base and stay well-rounded and multi-dimensional while never losing sight of his lifelong ambition to own his

own business.

He wasted no time in realizing that ambition, launching a business selling cinderblocks to students as they moved into their dorm rooms so they could loft their beds for extra storage space. Around that time, he also read a news article about William Haney III, a student who started a business selling firewood at Harvard because their dormitories have working fireplaces. He had then started a company called Molten Metal, which he took public, and Michael, driven by his affinity for William's story, sought out the company and applied for a job.

The Head of the HR Department explained that the company's stock prices were dropping and that they were on a hiring freeze, but Michael insisted on telling her his story and why he was passionate about working there. At the end, however, the woman said, "Do you really want to work for someone else?"

"She caught me," Michael laughs. "I realized I didn't want to work for anyone else, and I never applied for another job." Instead, he invested his tireless energy into the cinderblock business, which, by its second year in operation, was facing some competition. Other students, inspired by his success, prepared to run cinderblock operations of their own, so Michael acquired a Hawkers & Peddlers license from the city of Boston for \$2 so he could sell legitimately on the streets. "That fall, as other people began setting up shop along Commonwealth Avenue, I called the police, who came and shut them all down," Michael says with a smile. "I then hired those students to deliver blocks for me for a small profit."

All in all, Michael sold truckloads of blocks, taking his business across Boston and then nationwide to 22 different schools. When he graduated, he faced a big decision: should he go out and get a job, or should he continue being an entrepreneur? Was it a better strategic move to go learn an industry before doing your own thing, or to opt for trial by fire? True to form, Michael chose trial by fire.

Michael returned to DC, where his father had always dreamed of opening a consignment store. The two decided to focus on selling furniture, which they got from manufacturers on consignment and sold at half price. They grew the business to around \$500,000 a year, and then decided to franchise it, but when Michael sat down

to review the franchise documents, he noticed they were drawn for ten-year contracts. "It was 1998, and I realized I'd be in the retail business until 2008," he recalls. "There was no way I was going to do that, so we sold the store and broke even."

Not long afterward, Michael was reading *The New Yorker* magazine and noticed an advertisement for a Spice of the Month Club, where members were mailed a different spice each month. He found himself wishing he could have a different magazine each month in an issue of his interest, and got the idea to open a business called Magazine of the Month. "This was a fake-it-till-you-make-it thing," he readily confesses. Before he had even laid the groundwork for the idea, a catalogue expressed interest, saying it wanted to include offers for Magazine of the Month in 3.5 million copies of its holiday issue. "I didn't know if I could actually pull it off," he says. "I would need twelve different magazines to participate, all of them in competition with each other because they focused on the same issue. I approached publishers to ask if they wanted to be involved, and no one said yes. Then, when I changed the way I pitched it, everyone started signing up."

The company was an instant hit, and Michael found himself traveling to New York to meet with publishers and becoming an expert at magazine circulation. Magazine of the Month was so successful that Magazines.com flew up from Nashville to talk to Michael about acquiring it. He originally agreed to work with them on a joint venture, which turned into a sale that left Michael with \$1.3 million and a two-year employment contract. "That deal was definitely a highlight," he remembers. "However, it was a tough cultural fit, and the deal ended in a lawsuit."

Once the headaches of that agreement subsided, Michael spent three months "mind mapping" to help determine his next venture. He had developed an unparalleled expertise in the sale of online subscriptions, and he decided he wanted to build a platform for a digital subscription agent. With that, after raising money, building out the platform, and addressing some challenges, DealPal was launched. From the company, customers could purchase hardware like DVD players, just as they could at Amazon.com or in a store like Best Buy. At DealPal, however, they also had the option of purchasing a bundle that included the product, as well as a service like a Netflix subscription, at a discounted rate. Because

they had deals with these service providers that allowed them to subsidize the product price to incentivize customers to buy, the site began to enjoy impressive traffic. “The great thing was that we were in charge of our own destiny,” Michael recalls. “The drawback was that it was a consumer facing business, and we hadn’t accounted for customer acquisition costs.

By the time DealPal raised \$2.2 million, Michael decided they would either go big or sell. He floated it to some interested parties and sold it to XL Marketing, which was run by a friend of his, David Steinberg. Michael continued working there for a year and then left to start Exhilarator, which David invested in and became a partner of. “It was such a different experience than the sale of Magazine of the Month because it was a much better cultural fit,” he explains. “That first acquisition ended in a lawsuit, but the second ended in a stronger friendship, partnership, and a new business relationship.”

As a leader, Michael first distinguishes what’s important, where he intends to go, and why. He then focuses on conveying that information to all relevant parties, and then constantly motivating those parties to use their unique abilities to drive toward that common goal. “I let my passion drive leadership because people are attracted to energy and excitement,” he avows. “It’s also critical that a leader pays attention to detail, to what’s actually going to get things done, because people want to be onboard with people who know what they’re doing.”

Through this extensive series of risk and reward, Michael credits his wife, Helena, for her support and love. “Going through life with a trial by fire attitude can be intense, and she’s been a great stabilizing influence on me,” Michael explains. “She’s been very involved in the businesses, and I value her opinion more than anyone’s because she has my best interests at heart 100 percent of the time. With two young sons at home, life can be crazy at times, but we’re partners. We’re in it forever.”

In advising young people entering the working world today, Michael poses the same question that has led him to success over the years: what’s your unique ability? “75 percent of the time, people say what they want it to be, not necessarily what it is,” he remarks. “That’s a tendency of successful business people, to rewrite history the way they want it to be. It takes a real exercise in honesty and self evaluation to identify what you’re really good at, not how you want people to view you.”

Beyond that honesty, Michael reflects on a quote that Steve Jobs adopted after coming across it at the end of a catalogue: *stay foolish and stay hungry*. “To me, hungry means focused and aggressive,” Michael remarks. “Foolish means a whimsical ability to look beyond certain things. The juxtaposition of those two qualities is fascinating to me, and at their intersection, there’s a lot of value to be made. I think that’s where people are happiest—when they can balance the whimsical foolishness that keeps them light and happy with their need to succeed and make a living. So try to figure out where that intersection is, and play in that space.”

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About Gordon J. Bernhardt
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