Finance

Executive Book Summaries®

The Holy Grail of Investing

The World's Greatest Investors Reveal Their Ultimate Strategies for Financial Freedom

by **Tony Robbins with Christopher Zook**

Contents

THE SUMMARY IN BRIEF

The key to wealth-building is investing in alternative investments, which are typically restricted to high-net-worth individuals. These investments include stakes in private equity firms, sports teams, real estate, and venture capital, and can outperform traditional investments and reduce risk. Furthermore, the world's most successful investors focus on diversification and avoiding big losses.

In ***The Holy Grail of Investing: The World's Greatest Investors Reveal Their Ultimate Strategies for Financial Freedom***, renowned motivational speaker and author Tony Robbins, along with Christopher Zook, highlight the benefits of these options and provides guidance on how to access them.

IN THIS SUMMARY, YOU WILL LEARN:

- Why the best way to build wealth is to invest in a variety of "alternative investments" not typically accessible to most investors.
- What these alternative investments include, such as stakes in private equity firms, sports teams, and real estate, among others.
- The benefits of these alternative investments and how to access them.
- Key details about successful investors who share their insights on how to win in the investment game.

Immutable Laws of Investing

Although the titans interviewed for this book shared very different approaches to investing, they all agreed on certain immutable laws and steps the investor needs to take, and avoid, to win the game.

First, don't lose. One thing that all the most successful investors have in common is they know that they will indeed lose at times. To mitigate this, they never get too far over their skis and risk too much on any one investment.

Second is the core principle of asset allocation—i.e., spreading your assets among different types of investments with varying risk-reward ratios.

Third, wherever possible, look for opportunities with "asymmetric" risk reward. They look for investments where the potential reward far exceeds the downside risk.

Fourth is the principle of diversification. You want to own a wide variety of investment types.

It is undeniable that smart money uses high-quality alternative investments as the engine for greater diversification and accelerated growth. This is what the titans of finance do with their own personal capital.

For this book, some of the most successful alternative investment managers have been interviewed. These investors have shown that while they're not immune to the ups and downs of the economy, they know how to thrive, not just survive, during the economic winters. Instead of being content to ride out the storm, they go shopping when prices are down.

Many of today's traditional investments are "correlated," which simply means they move up or down in unison.

The problem is that today most traditional diversification strategies tend to involve adding more and more positively correlated investments! Some investors seem to have given up on finding uncorrelated investments to help manage big swings.

So what is the "Holy Grail" of investing? According to Ray Dalio, the founder of Bridgewater, the Holy Grail is a portfolio of eight to twelve uncorrelated investments which, together, will dramatically reduce risk without sacrificing returns.

Dalio demonstrates that a portfolio structured this way can reduce risk by as much as 80 percent while maintaining the same, or similar, upside potential. There's one big challenge: Where do we gain access to so many high-quality noncorrelated investments? Turns out, access is the tricky part—and that's precisely what this book is about.

Once you reach a certain net worth, the SEC invites you into a special special club. They deem you an accredited investor when you achieve $200k in annual income or $1 million net worth. The SEC bumps you up to qualified purchaser status when you have $5 million in total investments. This opens up the entire universe of alternative investments. But here's the rub…just because you qualify, doesn't mean you can get in the door.

It bears repeating that our asset allocation, how much we choose to invest and in which asset class, is the greatest driver to our investing success.

Ultra-high-net-worth families (those with over $30 million) have nearly 46 percent of their assets in alternative investments. Why? On a global level, private equity outperformed public markets in thirty-five of the last thirty-five years.

Private equity performs well in good times, but it has also weathered many a storm. A study by Wall Street behemoth Neuberger Berman summed it up nicely: "Private Equity historically experienced a less significant drawdown, and a quicker recovery, than public equities in all three downturns."

This is not to say that public stocks don't have a role in our portfolios. Numerous studies have shown that adding private equity to a typical stock-and-bond portfolio has the tendency to not only reduce volatility, but also increase returns.

The good news is the House of Representatives has passed a bipartisan bill that will allow anyone, even if they fall short of the wealth requirements, to become an accredited investor if they pass a test.

Getting an "allocation" in a highly sought-after private equity fund is the wealthy person's version of getting past the velvet rope at a hot new nightclub. So, how can one participate in this seismic shift toward alternative investments?

Instead of fighting to get into a fund as an LP investor, a limited partner, there was sometimes a way in which one could join up and become an owner of the entity known as the GP, general partner. This world, known as "GP stakes," has become increasingly popular among big institutional investors over the past decade but is only beginning to see mainstream coverage.

> Over the past decade, major sports leagues have significantly outperformed traditional stock market indexes like the S&P 500.

Becoming a minority/passive owner in an asset management firm has three benefits:

1. Cash Flow
2. A Piece of the Profits
3. Diversification

This book provides seven unique uncorrelated investment opportunity strategies.

GP Stakes

When buying a stake in any type of business, we have to understand its revenue engine. How will the business make money? The GP is normally paid at least two distinct sources of revenue for their management services: Management Fee and Performance Fee. A GP stake will typically produce annual cash distributions in the range of 5 percent to 10 percent annually, beginning on day one of the investment.

Outside of the income stream paid to investors, it is true that GP stakes are generally considered illiquid. That said, there are ways to generate liquidity should you want to sell your position.

1. Certain vehicles will periodically provide a "tender offer" for your ownership position.
2. You will likely be able to sell your positions in a "secondary" transaction depending on the quality of the asset.
3. Many firms are eventually acquired by other industry players, which creates a harvest event for all the owners of the business. This is often at a significant multiple on the business's profits.
4. Some firms choose to go public, which provides owners of GP stakes with publicly traded stock.

Why in the world would a successful private equity firm, private credit firm, or any private asset manager sell a piece of their business?

The GP stake investor wins by owning a piece of a high-quality operating business, and the firm wins by bringing in much needed capital that will help accelerate the growth in enterprise value. Despite good reasons as to why an asset management firm might sell a piece, the world of GP stakes is relatively small.

Access to GP stakes in a business is generally limited to investors who have long-standing relationships with said firm, as the management teams are understandably cautious as to who they want as their minority partners.

Pro Sports Ownership

There have been relatively recent rule changes that have opened the door for very specific types of investment funds to buy a minority stake in not only one but numerous teams. Whether you are a sports fan or not, these global businesses have some unique characteristics that make them extremely attractive as part of one's Holy Grail strategy.

Over the past decade, major sports leagues have significantly outperformed traditional stock market indexes like the S&P 500. These returns are particularly attractive because they're achieved with minimal debt and show low correlation to the overall market, making them a valuable diversification tool for an investor's portfolio.

Sports franchises are not only financially secure but also hedge against inflation. There are two revenue streams that contribute to this strength: league revenue and team revenue.

Traditionally, only very wealthy individuals could afford to own a team. Recently, Major League Baseball changed its rules to allow qualified investment funds to buy minority stakes. This allows individual investors to participate by investing in these funds which hold a diversified portfolio of teams across different leagues. Owning a share of a team can be a good investment due to diversification and potential tax benefits.

Private Credit

Private credit offers a compelling alternative to traditional bonds, especially in a high-inflation environment.

Private credit offers "substantially better rates of return" than bonds, even exceeding junk bond yields in 2021-2022.

Unlike bonds, private credit loans typically have floating rates that adjust with market rates, protecting investors from rising interest rates.

Private credit has experienced low default rates due to stricter underwriting standards and senior secured loan positions. Even in the worst five-year period, private credit still produced positive returns.

Energy

The term "energy transition" is a misnomer.

Throughout history, new energy sources have been "added" to the mix, not replacing older ones entirely. Coal, oil, and natural gas all took decades to reach significant market share.

Solar, wind and other renewables are a growing part of the energy mix, but they will never fully replace fossil fuels. The US Energy Information Administration predicts growth in all energy sources, including fossil fuels, to meet rising demand by 2050.

While a proponent of clean energy, Jamie Dimon, CEO of JPMorgan Chase, believes oil and gas will make up a significant portion of the energy mix for the next 10-20 years.

We must deliver the cleanest energy possible to as many people as possible to drive global economic growth and food security. And we must do so in a cost-effective way. Energy is notoriously volatile, so proceed with caution.

Venture Capital and Disruptive Technology

When it comes to venture capital, the disparity between the all-stars and "the rest" is extremely large. Between 2004 and 2016, the top 10 percent of venture capital firms generated returns of 34 percent annually.

The only route for most investors is to partner with firms who have existing relationships in place. Individuals, and their advisors, can leverage that buying power and long-standing relationships.

We are heading into the greatest acceleration of innovation in the history of humanity, and venture capitalists are the tip of the spear. They take massive risks, and sometimes they lose big. But when they win, they win big, all while funding the next generation of life-changing innovation.

Real Estate

Real estate is the undisputed behemoth of alternative investments and is the oldest and largest asset class. It is likely a part of most Holy Grail portfolios whether it be a residential home, investment properties, or both.

On the whole, and over many decades, real estate performance has generated conservative mid-single-digit to low-double-digit returns. But the use of leverage has allowed for substantially higher returns—coupled with substantially higher risk!

Real estate is also an asset class that, for U.S. investors, offers government-sanctioned tax avoidance. Tax-efficient income, potentially unlimited tax deferral, and tax avoidance of all capital gains upon death are precisely why many of the nation's wealthiest families are real estate dynasties.

However, while hard assets can be incredibly valuable, they can also turn quickly when their price is extremely sensitive to interest rates.

In commercial real estate, there is a new dynamic of remote or hybrid work that has created what some experts are calling obsolescence risk. Commercial real estate buyers must ask themselves if the property they want to purchase is still viable. And beyond that, if it will be viable in ten years or fifteen years or twenty.

Other risks include AI, geographic/political, and interest rates. All things considered, a significant amount of commercial real estate seems headed for a cliff, but the residential real estate market is sending different signals.

In residential real estate, we have talking heads beating the "crash is coming" drum. And while prices are most certainly softening, the data seem to be telling a different story.

How do we know we aren't in for another collapse? It always goes back to Economics 101: supply and demand.

With such low inventory currently, the market might surprise us with somewhat steady housing prices or even moderate growth in higher demand areas, particularly if mortgage rates come down from here. Bottom line: inves-

> For those who like to buy things on sale, certain categories of real estate will become extremely attractive over the next few years.

tors proceed with caution.

In multifamily residential real estate, rents have been steadily rising for many years, making investors quite happy. That said, apartments are beginning to show signs of weakness in certain geographies, particularly where developers have overbuilt.

Meanwhile, a perfect storm of rising interest rates, falling rents, increased evictions, and rising insurance premiums and property taxes is brewing.

For those who like to buy things on sale, certain categories of real estate will become extremely attractive over the next few years. We anticipate major discounts in commercial and multifamily real estate as sellers are forced to unload their properties.

Buyers will need to pick their spots wisely and be able to answer the tough questions regarding viability. That said, experts believe that there will be severe dislocations in the market that will create tremendous buying opportunities that we have not seen in nearly two decades.

Secondaries

What happens when you are invested in something illiquid like private equity? How does one go about selling an illiquid investment? Enter the world of secondary transactions.

If an investor wants or needs to liquidate their position early, the only way they can achieve this is by selling their position to another interested investor who would simply take their spot. This is called an "LP-led secondary," as it's initiated by the limited partner.

In today's world, finding another interested investor to whom you can sell your position is quite easy. The good news is, for the foreseeable future, we are going to be in a buyer's market. There simply is not enough capital to buy the number of available secondaries. Thus, sellers will likely entertain higher discounts, and we can be more discriminating in picking only the highest quality holdings.

Next are some bios of the "masters of the financial universe." These are some of the most brilliant minds in the world of private equity, private credit, real estate, venture capital, and beyond. Although past performance is no guarantee of the future, many of these men have generated compounded returns of north of 20 percent annually.

Masters of the Financial Universe

Robert F. Smith , Founder And CEO Of Vista Equity Partners

"So, a lot of my origin story has to do with people who excited my imagination. People who sparked my curiosity, gave me some freedom to explore, expand, make mistakes, and ask questions."

Accolades: Listed by Forbes as one of the Top 100 Greatest Living Business Minds. Member of the philanthropic Giving Pledge. The wealthiest African American in the U.S. Total Asset Under Management as of August 2023: $100 billion+

Highlights:

- Completed over six hundred private equity transactions, representing nearly $300 billion in transaction value since inception.
- Vista's ecosystem spans more than eighty companies with more than ninety thousand employees active in over 180 countries.
- Named as a Top Founder-Friendly Investor by Inc. magazine four years in a row.
- In 2017, Robert was named one of the 100 Greatest Living Business Minds by Forbes.
- Time magazine 100 Most Influential People 2020.

Vinod Khosla, Founder Of Khosla Ventures

"In forty years, I've never called myself a venture capitalist. I always say I'm a venture assistant. This idea that you work with the founders to help them realize their dreams is what I enjoy doing."

Accolades: Turned a $4 million investment in Juniper Networks into $7 billion in profits. Early investor in Open AI. Member of the philanthropic Giving Pledge. Total Asset Under Management (as of August 2023): $15 billion

Highlights:

- Vinod Khosla cofounded Sun Microsystems in 1982, which created the Java programming language, and was later acquired by Oracle for $7.4 billion.
- Through his career, Mr. Khosla has been an early investor in Google, LinkedIn, Nest, DeepMind, Instacart, DoorDash, Impossible Foods, Affirm, among many others.
- Among his many honors, Mr. Khosla has been named as one of the top tech investors in 2023 by Forbes, the world's greenest billionaire, and has won the National Medal of Technology.

Michael B. Kim, Founder And Chairman Of MBK Partners

"In private equity, we create alpha. And the way we create alpha after buying a company is by rolling up our sleeves to do the hard work to create value."

Accolades: The Godfather of Asian Private Equity and wealthiest man in South Korea Total Asset Under Management (as of August 2023): $25.6 billion

Highlights:

- MBK Partners is the largest private equity manager in North Asia, with $25.6 billion in assets under management.
- Top-decile returns performance for every active fund—"The Most Consistently Top-Performing Buyout Fund Manager(s)," 2019, by Institutional Investor.
- Michael B. Kim was ranked as one of "The 50 Most Influential People in the World" in 2015 by Bloomberg.

Ian Charles, Founder Of Arctos Sports Partners

"We have to constantly reinvest and reevaluate and be totally fine ripping something up and saying, 'That worked really two years ago but stop talking about that because it doesn't matter tomorrow."

Accolades: A pioneer in creating the industry's first sell-side advisor for private equity secondaries Total Asset Under Management (as of August 2023): $6 billion

Highlights:

- Ian Charles cofounded Cogent Partners, the first secondary market sell-side advisory firm, which was later sold for $100 million.
- Mr. Charles cofounded Arctos Partners, the first institutional platform to pursue a global multi-league, multi-franchise investment strategy.
- Arctos's debut fund was the largest first-time private equity fund ever raised at close to $2.9 billion.

Bob Zorich, Cofounder Of EnCap Investments

"Our policies are directing our capital toward low-density answers and away from high-density solutions. The result will be a train wreck as we will find ourselves short of the energy required to fuel the world's energy demand."

Accolades: EnCap is one of the top 10 energy investors in the U.S. Zorich is a member of the Independent Petroleum Association of America and also serves on the board of several Houston charities.

Highlights:

- Zorich and his partners have successfully raised and managed $40 billion across 24 funds.
- EnCap has backed over 275 startup energy companies.
- These teams used experience and focus to create billions of value for investors and were key instigators to the shale revolution.

The wisdom, strategies, and insights contained in this book can be foundational to your pursuit of financial freedom. However, a core truth is that knowledge is not power, it's potential power.

Execution trumps knowledge every day of the week. So, how will you build your Holy Grail portfolio? What steps can you immediately take on your journey to financial freedom? Start today using the contents of this book as a guide to your future.

Tony Robbins is an international entrepreneur, #1 New York Times bestselling author, and philanthropist. Robbins is a leader called upon by leaders: He's consulted and coached some of the world's greatest athletes, entertainers, Fortune 500 CEOs, and four US presidents. Christopher Zook has more than thirty years of experience investing in both traditional and alternative asset classes. He is a regular contributor to major media outlets, including CNBC, Fox Business, and Bloomberg. In 2019, Texas Governor Greg Abbott appointed Christopher to the State of Texas Pension Review Board, where he serves as chair of the Investments Committee.

From ***The Holy Grail of Investing: The World's Greatest Investors Reveal Their Ultimate Strategies for Financial Freedom*** by Tony Robbins with Christopher Zook. Copyright © 2024 by Tony Robbins. Reprinted by permission of Simon & Schuster, LLC ISBN 978-1668052686. Published by Soundview Executive Book Summaries®. Copyright © 2024 Soundview, Inc. All rights reserved. Reproduction in whole or in part is prohibited. For permissions and reprints, please contact service@summary.com. 4617