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Eyeing tech start-ups? 'Put money in a venture fund'

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Wealthy individuals interested in investing in tech start-ups should have high tolerance for failure, given that so many new firms go belly up, said veteran venture capitalist Tim Draper.

Mr Draper told an investment seminar here yesterday: "The best way for investors to get the best returns is to diversify their investment portfolio. To do this, put your money in a venture fund."

Such funds can invest in 50 start-ups in order "to get that one successful company worth billions of dollars that will eventually be listed or acquired", he said.

Half will fail, while the rest will get modest returns of two to three times their investments.

Mr Draper, 57, knows the territory, having spent 30 years in venture capital funding and has backed more than 400 companies.

He is the co-founder and managing partner of leading venture capital firms Draper Associates and Draper, Fisher and Juverston, both based in Silicon Valley.

His successful ventures included Hotmail, the first Webbased e-mail, and Skype, the Internet- based audio and video conferencing software.

Microsoft acquired both - paying US$500 million (about S$680 million) for Hotmail in 1997 and US$8.5 billion for Skype in 2011.

Mr Draper was speaking to about 100 wealthy individuals, entrepreneurs, venture capitalists and angel investors at a DBS seminar on how to spot and invest in the world's most disruptive tech companies, or companies that can displace an existing market using new technology.

He singled out health care, finance, government, manufacturing and education as areas ripe for disruption: "The opportunity right now is enormous. We believe these industries are an even larger opportunity for extraordinary returns."

New start-ups in health care will offer digital medical records, disease prediction and blood tracking while governments will be impacted by new technologies such as digital signatures, online voting and digital identities.

Mr Draper cited the Estonian government, which accepted digital signatures and ended up saving 2 per cent of its gross domestic product.

DBS group head of consumer banking and wealth management Tan Su Shan said wealthy individuals are interested in start-ups because, as smart business people, they see disruptions in their industries.

They do not want to go the way of book chain Borders and camera company Kodak, whose businesses were sent into bankruptcy by e-book stores and smartphones, she said at a question- and-answer session.

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