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## Lesson 6: Jack Stephens – The Birth of Venture Capital

### AUTHOR

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### OVERVIEW

Jack Stephens bet on people, and he was particularly good at it. As a pioneer of American venture capital, Jack invested tirelessly in the country's future by helping entrepreneurs like Sam Walton and Don Tyson secure funding.

This mini-lesson is part of the Economics Arkansas iNSPIRE! series and can be used to start a class on a number of related topics including business financing, venture capital, and management styles. The included activities will help your students consider the importance of investing in what matters—namely people and one's reputation—as it relates to their own entrepreneurial goals.

### CONCEPTS

Human Capital

Integrity

Investing

### OBJECTIVES

Students will be able to:

- Identify the long-term value of personal INTEGRITY within a business.
- Explain how businesses evaluate potential risks and rewards when “betting” on people.
- Develop a simple INVESTMENT plan to reach specific financial goals.

### TIME REQUIRED (10 – 35 minutes)

Bell Ringer: Steps 1 through 3 (10 minutes)

Mini Lesson: Steps 4 through 6 (+10 minutes)

Extension: Step 7 (+15 minutes)

### MATERIALS

Visuals

- Visual 1: “Definitions”

Handouts

- Handout 1: “Video Questions” (1 per student)
- Handout 2: “Wise Wagers” (1 per team of 3-4 students)



- Handout 3: “Be Your Own Banker” (1 per student)

#### Online Resources

- Video “Jack Stephens: The Birth of Venture Capital”  
<http://www.thisiscapitalism.com/profile/jackson-stephens/> (3 minutes, 14 seconds)
- Financial goal resources to explore for Extension activity (Handout 3: “Be Your Own Banker”)  
<https://www.bankrate.com/calculators/savings/saving-goals-calculator.aspx>  
<http://www.prosper.com>  
<http://www.lendingclub.com>

#### RELATED LINKS

##### Stephens Inc.

- About Stephens: Our History, Leadership, Mission and Values  
<https://www.stephens.com/about-stephens/>

#### PREPARATION

1. Before class begins, print *individual* copies (1 per student) of Handout 1: “Video Questions” and Handout 3: “Be Your Own Banker.”
2. Before class begins, print *team* copies (1 per 3-4 students) of Handout 2: “Wise Wagers.”

#### PROCEDURES

1. Watch the Video “Jack Stephens: The Birth of Venture Capital” at  
<http://www.thisiscapitalism.com/profile/jackson-stephens/> (3 minutes, 14 seconds).
2. Distribute Handout 1: “Video Questions” (1 per student), and have students complete the questions. Allow students five minutes to complete.
3. Ask students (Question 2): “*Why is it important that even a fast food chain establish a reputation of **INTEGRITY** and trust? How did this help Jack make Stephens Inc. such a success?*” Answers will vary but may include comments on the value of long-term relationships, the importance of happy customers in a world of social media, or the near impossibility of losing a bad reputation.
4. Ask students to work in teams of 3-4.
5. Using Visual 1: “Definitions,” review each definition. Explain that teams will be considering various examples of businesses that actively *bet* on the success of people or the value represented by their **HUMAN CAPITAL**. Emphasize that this is a form of **INVESTMENT**.
6. Distribute Handout 2: “Wise Wagers” (1 per team). Ask students to identify examples of businesses that actively *bet* on people (e.g., banks, sports teams) and to complete the chart. The focus is on recognizing specific risks and rewards that are considered when making these decisions. Allow teams five minutes to complete. Allow a few teams to present their responses from Handout 2: “Wise Wagers” as time allows.
7. Optional Extension Activity: Distribute copies of Handout 3: “Be Your Own Banker.” Display the assignment, and ask students to complete it on their own paper in class or as a homework assignment. Direct students to the provided online references to help them reach their specific financial goals.



## Visual 1: Definitions

### Human Capital

The total *value* of an individual's *combined* skills, knowledge, and experience

### Integrity

The personal *quality* of being *honest* and fair

### Investing

The *act* of using one's money, time, or efforts to make *more* money or to make something *better* in the future



## Handout 1: Video Questions

***“I learned from Dad the importance of hard work.***

***You work hard every day, you go home with your reputation intact, and you come back the next morning and have a chance to be successful.”***

*– Warren Stephens, speaking about his father Jack Stephens*

After watching the video “Jack Stephens: The Birth of Venture Capital,” work in teams to answer the following questions. The video can be found at <http://www.thisiscapitalism.com/profile/jackson-stephens/>.

Jack Stephens was a firm believer in a strong work ethic *and* ethical work. In other words: work hard, and do it in a way that builds a reputation of integrity and trust. He demonstrated this conviction through his own behavior and by actively *investing* in those who reflected these same principles. Similar to other top investors of the day, including Warren Buffett, Jack believed in the American economy and actively invested in its future by supporting businesses that needed funding in order to grow.

- 1) When you eat at a local fast food restaurant, the impact made by your purchase goes far beyond the cash register or the walls of that restaurant. You are investing in America’s economy. Take a moment to consider *all* of the different individuals and businesses that are somehow involved and that benefit from that \$4 cheeseburger meal purchase. List at least seven.

1. \_\_\_\_\_  
2. \_\_\_\_\_  
3. \_\_\_\_\_  
4. \_\_\_\_\_  
5. \_\_\_\_\_

6. \_\_\_\_\_  
7. \_\_\_\_\_  
8. \_\_\_\_\_  
9. \_\_\_\_\_  
10. \_\_\_\_\_

- 2) Why is it important that even a fast food chain establish a reputation of *integrity* and *trust*? How did these help Jack make Stephens Inc. such a success? Be ready to report your results back to the class.



## Handout 2: Wise Wagers

As a man of principle, Jack Stephens believed in the significance of a handshake. He knew that no business contract, however well written, could ever fully offset a lack of integrity or trust. As a gifted judge of character, Jack made most of his money by believing in and “betting” on the right people, including Sam Walton (Walmart) and Don Tyson (Tyson Foods).

What are some other examples of businesses that actively *bet* on people or the value represented by their *Human Capital*? How do they evaluate the potential risk and reward of each individual? Fill in the blanks below. A few examples are provided. Be ready to report your results back to the class.

Banks	<ul style="list-style-type: none"> <li>• Who are they betting on? <u>Customers looking for loans</u></li> <li>• How are risks evaluated? <u>Credit Score, account history with bank</u></li> <li>• How are rewards evaluated? <u>Interest and fees earned on loans</u></li> </ul>
Sports Teams	<ul style="list-style-type: none"> <li>• Who are they betting on? <u>Athletes (also coaches, managers)</u></li> <li>• How are risks evaluated? <u>Scouting results, contract obligations</u></li> <li>• How are rewards evaluated? _____</li> </ul>
_____	<ul style="list-style-type: none"> <li>• Who are they betting on? _____</li> <li>• How are risks evaluated? _____</li> <li>• How are rewards evaluated? _____</li> </ul>
_____	<ul style="list-style-type: none"> <li>• Who are they betting on? _____</li> <li>• How are risks evaluated? _____</li> <li>• How are rewards evaluated? _____</li> </ul>



## Handout 2: Wise Wagers (Answer Key)

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What are some other examples of businesses that actively *bet* on people or the value represented by their *Human Capital*? How do they evaluate the potential risk and reward of each individual? Fill in the blanks below. A few examples are provided. Be ready to report your results back to the class.

Banks

- Who are they betting on? Customers looking for loans
- How are risks evaluated? Credit Score, account history with bank
- How are rewards evaluated? Interest and fees earned on loans

Sports Teams

- Who are they betting on? Athletes (also coaches, managers)
- How are risks evaluated? Scouting results, contract obligations
- How are rewards evaluated? Higher game attendance, championships

*Answers will vary but could include universities, employers, etc.*

- Who are they betting on? \_\_\_\_\_
- How are risks evaluated? \_\_\_\_\_
- How are rewards evaluated? \_\_\_\_\_

*Answers will vary but could include universities, employers, etc.*

- Who are they betting on? \_\_\_\_\_
- How are risks evaluated? \_\_\_\_\_
- How are rewards evaluated? \_\_\_\_\_



### Handout 3: Be Your Own Banker

*“You build things slowly.  
 You do something each day.”*

– Jack Stephens

Investing takes time. Regardless of whether we are talking about money for retirement or time spent learning a new language, the benefit of investing is always somewhere in the future. A good schoolteacher always has a specific **goal**—an educational destination—and follows a plan or roadmap to get you there. When it comes to investing for our future, we need a plan, too. First, however, we need to identify some realistic goals.

Identify a few specific financial goals that you could reach within the next five to 10 years. List them in the “Purpose” column in the table below. The first example, saving \$6,000 for a “new” car, is done as an example for you. Go to <https://www.bankrate.com/calculators/savings/saving-goals-calculator.aspx> to calculate how much you will need to set aside each day (or monthly) to reach these goals. As Benjamin Franklin wisely stated: “By failing to prepare, you are preparing to fail.” This is where **our** success begins!

Take some time to explore opportunities to become your own banker through online services like <http://www.prosper.com> or <http://www.lendingclub.com>. These types of services allow you to create your own portfolio by investing in **people** and evaluating their financial **risk** as a bank would. Unlike buying stocks, which represent shares of ownership or “equity” in a business, investing in someone’s “**debt**” earns **interest**.

Purpose	Savings Goal	Years to Reach Goal	Interest Rate (compare returns online through Prosper, LendingClub, etc.)	Amount of First Deposit	Daily & Monthly Requirements to Meet This Savings Goal
“New” car	\$6,000	2	5%	\$ 100	\$ 7.69 / \$ 233.81
	\$				\$ / \$
	\$				\$ / \$
	\$				\$ / \$
	\$				\$ / \$
	\$				\$ / \$