Almost All Securities Transactions Are Market Value Bets Involving Only the Buyer and the Seller And Are Not Socially Constructive

Whereas

Almost All Transactions Using Royalties To Assist Investors, Entrepreneurs And Business Owners Are Socially Constructive As They Create Value ©

Arthur Lipper

This lengthy title is intended to be both attention getting and truthful. I believe that once there is an understanding of the inherent personal and social benefits of revenue sharing instead of ownership transference in the financing of privately owned businesses, royalties will become a more common and possibly the standard approach.

Betting on whether a stock or bond market prices will go up or down can be done in different ways. An investor or speculator can buy or sell the security. Those wishing the increased risk (though perhaps limited) and leverage, of a transaction requiring less initial cash can use options and futures. In any case, the change in the value of the object of the transaction at the time of closing the trade will create a profit or loss for those having made the bet. Of course, in securities and futures markets the buyer and seller do not have to be known to each other as the exchanges facilitate transactions as a business.

The point is: except in the case of newly issued shares or debt being sold by companies (a very small segment of the overall investment scene), nothing of value is created by standard equity transactions. The market value of stocks and other securities changes frequently, in many cases, but the net value of the change is only in the market capitalization of the company and the net worth of investors. Although not a zero sum game as in futures, the reality is that for every change in market value there are winners and losers.

But in the case of a company receiving capital from the sale to an investor of a percentage of its future revenues, the investor receives steady and possibly increasing income, and the company obtains capital in exchange for a perecentage of the revenues of the business, without any change in the ownership of the company.

Royalties are negotiable contracts and can be sold by their original purchasers. Currently the secondary sale of a royalty contract in a privately-held company is likely to to be only to an accredited investor, as there is not yet the public offering royalty registration procedures or the royalty exchanges we believe will naturally occur. The website calculator REX-PV.com has been created to guide both buyers and sellers of existing royalties as to the returns which will be received by the buyers should the revenue projections of the royalty issuing companies be achieved.

Fair and reasonable royalty contracts should, in my opinion, result in annual Quarterly Royalty Internal Rate of Returns (QRIRR) in excess of 20% over the course of the royalty payment period. Of course, as should be expected, earlier stage companies with a shorter history of increasing revenues will be required to offer investors royalty terms providing a greater possible return than that of more established companies.

Royalties can have redemption clauses permitting the issuers to buy back the royalties from investors on agreed terms. The royalty issuing companies are likely to be the most aggressive buyers of the royalties they have issued, as every dollar of royalty payment is a dollar of pre-tax profit to the issuer, if they didn’t have the royalty payment obligation.

The entire process of using revenue sharing royalties in the financing of businesses is inherently socially constructive, as the companies selling the royalties use the capital to increase the size, employment and profitability of their companies. They do so without reducing their ownership and control of the business and do not have the burden and restrictions of being financed by equity investors, whose only goal is to sell at a profit the securities purchased. Successful businesses are necessary for the success of communities and society, as a whole, due to the value of the products and services offered by royalty issuing companies. Royalty financing of private companies meshes with the needs and goals of the society and governments.

For a greater understanding of royalties the Royalties.Website contains a listing of more than 50 writings and access to the following website calculators REXRoyalties.com, REXComparator.com, REX-PV.com REXdebt-shareRoyalties.com, REXScaledRoyalties.com and REX-RIAR.com.

Royalties are simply the better way of both investing in and financing privately owned companies.

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