

# AN ENTREPRENEUR'S VIEW -

## THE ISSUES, PITFALLS AND REWARDS OF STARTING AND RUNNING A BUSINESS.

by: STEVEN C. MARKOFF

at: THE GORBACHEV FOUNDATION, *moscow*  
date/ time: OCTOBER 5TH & OCTOBER 7TH, 1992/ 3:00PM

### I. BIOGRAPHY OF STEVEN C. MARKOFF

1. BORN: Los Angeles, California, 1943

#### 2. FAMILY:

- Married Jadwiga Zabawska; 1987
- Son, Christopher Nathan, (from former marriage) born 1970
- Son, Thomas Mitchell, born 1989
- Daughter, Emily Ann, born 1990

3. EDUCATION: Associate Arts Degree, Los Angeles City College  
Graduate June, 1963

#### 4. BUSINESS CAREER AND BACKGROUND:

Began trading rare coins for profit in 1954. Presently, and since its founding in 1965, Chairman and Chief Executive Officer of A-Mark Financial Corporation whose main subsidiary, A-Mark Precious Metals, Inc., continues as a major wholesaler of precious metals in coin, bar, to banks, brokerage houses, coin dealers, industrial users, and central banks, with annual turnover in excess of \$1,000,000,000.

#### Co-founder and Chairman of:

• Western Know How / Transfer Corporation - founded to merge Western know how and financing with Russia

- American Golden Popcorn - a Rubie based company selling popcorn in Russia.
- Phone Funders, Inc. - Supplying long distance phone services to Californians.

#### 5. BUSINESS AFFILIATIONS:

- American Numismatic Association (non-profit); member since 1963
- Professional Numismatic Guild (non-profit); member since 1978

6. MILITARY SERVICE: Enlisted with U.S. Army (Reserves) in 1965; Honorable Discharge from U.S. Army, 1970

#### 7. COMMUNITY SERVICE:

- ACLU Foundation of Southern California (non-profit); Director since 1979
- Hollywood Community Hospital (non-profit); Director from 1982 to 1984, when the hospital was sold to for-profit interests
- Pro/Con Foundation (non-profit); Chairman and Co-founder; since 1985; the Pro/Con Foundation has published two booklets to date - one entitled "Should Chief Justice Rose Bird Be Re-confirmed in the Upcoming November 4, 1986 California Election?" and the other entitled "How Practical is Nuclear Power?"
- Published and distributed in January, 1990 (through the Pro/Con Foundation) a summary of ACLU cases in the U.S. Supreme court, in its third revision/, titled "The Batting Average (and supporting data) of the ACLU in the U.S. Supreme Court - from January 19, 1920 through December 31, 1989."
- UCLA Graduate School of Management (non-profit); Board of Visitors; Director during Calendar 1986
- UCLA Management Education Associates (non-profit)/ Director from 1986 to Feb, 1992
- Published "Making Firms Do It Your Way," in *The American Lawyer*, December, 1991.

8. HOBBIES: Reading, traveling, scuba diving, ping pong and pool. Past hobbies included Formula Ford auto racing and hang gliding.

*Leo MAR International INC.*  
*whoops*

Speech Start/Overview

1. TITLE – An entrepreneur's view – the issues, pitfalls and rewards of starting and running a business.

2. THE AUDIENCE –

#1

Oct. 5, 1992/ 3:00 PM  
Audience: Workers of new Russian ministries, active participants in democratic reform movements and practitioners advocating market economy in Russia, 20-25 Yeltzin staffers whose purpose is to assist in privatization of ex-government structures.

#2

Oct. 7, 1992/ 3:00 PM  
Audience: Heads of Moscow and Moscow region enterprises, small and big "capitalists" of Russia, heads and staff of Russian stock and commodity exchanges, heads of gold/ platinum/ silver related enterprises.

3.

Ladies and gentlemen, special guests and Professor Shos-ta-kov-ski, Good Afternoon

My presentation today will include:

An experiment,

A review of my career,

and some observations and conclusions.

Hopefully, we will end with some useful and lively questions and answers.

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First, the experiment.

Hold up Two 1,000 rbl notes - for free - first come first takes.

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Let's begin.

My first business memory was when I was 7 years old.

I was sitting under our house in a mound of dirt a friend and I had dug, and remember talking of what the yellowish ground we were sitting on, was made of.

The dirt was golden in color, and although I didn't think it was gold, I saw a potential sale, and remember saying to my friend, "It could be gold, do you want to buy it?"

My friend said no, but that memory was the first time I recall, conceptualizing a product and trying to sell it.

Six months later I was doing business and making money, by collecting and reselling thousands of old newspaper.

During the next four years I collected flowers from our neighbors gardens, Repackaged them into cute, colorful corsages, and sold the repackaged goods back to their previous owners.

That taught me the concept of ADDING VALUE to goods.

I also made and sold lemonade from a small stand I constructed in front of our house; delivered newspapers for a brief period of time, and sold cookies.

On my 9th birthday, manufacturing entered my life.

My parents bought me a small jewelry oven, and I was soon designing, manufacturing, and selling my own ceramic on copper jewelry, to my already established network of customers.

In junior high school, a friend showed me an indian head penny, a small denomination copper coin over 50 years old.

I had never seen one before.

It looked valuable, and I purchased it for 25 cents.

I quickly realized I over paid for the coin. I was unhappy overpaying, but I concluded my mistake was making a decision without adequate information.

I decided to learn and understand the values of rare coins, and my career of dealing in rare coins began, first with schoolmates, then with coin dealers and wholesalers.

Next, I found that by going to a local bank and buying and bringing home pennies, I could sort them and separate the valuable dates for later sale at substantial profits, of \$5.00 to \$10.00 a week, a lot of money when most of my friends were receiving a \$1.00 a week allowance from their parents.

One day I realized that although I gave a check to a coin dealer for \$13.50,  
because of a miscalculation in my cash flow,  
I found I didn't have enough money in my bank account to cover the check.

Concerned the check would not be honored by my bank,  
and with the potential damage to my reputation if the check was not honored,  
I explained the situation to my father,  
and asked him for a short term loan to cover the check.

My father told me, "Your wrote the check, you cover it."

I was angry he didn't help me out of what seemed like a disastrous situation,  
but by a frantic effort,  
I sold enough coins that day,  
to generate enough cash so the check would be honored — which it was.

I learned that day CASH FLOW is more important than ASSETS.

I next discovered and graduated to dealing coins at coin conventions.

These conventions were profitable grounds for my buying and selling efforts,  
and I could make \$100 to \$200 a day,  
from the concentration of hundreds of coin dealers in

a large hall.

In addition to the profits, I experienced a growing sense of financial power.

I had money to do things my friends wanted to do, but could not afford, such as going to movies whenever I felt like it, or telling my father I would pay our family's monthly electric bill, so he would stop yelling at me, when I forgot to turn off the lights in our house.

By 16 years, I had learned the value of information, booking and accounting.

Credit issues entered the picture when I sold coins to a dealer who gave me excuses instead of the money he owed me.

He finally paid, but in the meantime I learned the art and difficulty of assessing peoples credit worthiness and integrity, or lack thereof.

I heard one should be wary of ones friends in business, as ones enemies and competitors will not have a chance to get you.

That wisdom became reality, as the 3 largest credit losses in my career,

came from dealing with customers I also considered friends.

I next expanded business by joining a national coin teletype system.

This was new technology for the coin business.

The teletype quickly replaced much of my previous face to face coin dealing.

I soon mastered the machine,  
and typed long lists of coins, that were in effect,  
advertisements of all the coins I wanted to buy and sell,  
which I sent, via teletype, all around the country — several times a day.

I learned about, and how to deal with,  
confusing city, state and Federal government regulations and taxes.

Business was flourishing and I decided to open my own coin shop.

My first shop was 5 X 7 square meters, located about 10 blocks from my parents home.

I hired my first employee and took on new responsibilities,  
of meeting payroll, paying rent, and composing advertising.

Increased responsibilities included,

negotiation insurance and shipping contracts,  
which taught me that even big companies negotiated price.

I hired my older sister to help out with customers,  
and realized hiring an employee increased my productivity,  
freeing up valuable time for things I was best suited to do.

I met a wealthy coin collector and knowledgeable business man,  
by the name of Morrie Getz, who was also a very good customer for several years.

With the business growing and my shop now too small, I decided  
to take another major step.

At 19, I made a joint venture with Morrie Getz.

He put up \$25,000, and with that financing we agreed to start a new, larger coin shop in  
Downtown Los Angeles.

I would run the store and we would be 50/50 partners.

Due to my prior experience,  
the new store was profitable almost from the first day we opened for business.

Our new venture used the name A-Mark Coin Company I created the previous year. The "Mark" came from the first part of my last name.

I didn't think using my full name was subtle enough.

I added the "A" in front of Mark simply so A-Mark would be listed first in the phone book.

The commercial value of creativity in picking the name became clear, when people actually called me, because I was the first coin dealer listed in the phone book.

At the end of the new store's first year of business, after much soul-searching, I went to my partner, told him that I wasn't happy having a partner, and that I wished to buy out his 50% ownership in the business.

He agreed in the nicest way, and in the next few months, I repaid his loan with his share of the first years profits.

The buy out, again left me in charge of my own destiny.

At the age of 21, I incorporated A-Mark,

and soon new opportunities arose.

For example, I bought thousands of pounds of Canadian nickel coins from Canada, and imported them by truck to Los Angeles.

A strike at several of the major international nickel producers, caused the nickel price to go very high, and nickel, used in the industrial chroming process — was in short supply.

I sold the nickels to a Spanish company, and to insure payment, I learned about, and negotiated my first letter of credit,

Next, I bought US gold coins from all over the United States and sold them in Switzerland, where for a few months, the gold coins were worth 5% more than in the U.S.

In 1970, I negotiated my first unsecured bank loan from a local bank, which entailed giving the banker a lot of information about me, A-Mark, and about how the coin business operated.

A year later, I started a new business, of selling financed precious metals, to take advantage of rising demand.

The business started with a few employees,  
but with the burst of inflation in 1973,  
sales of silver and gold coins skyrocketed,  
as did the new company's staff and expenses.

A year later, the Securities Exchange Commission,  
a United States government agency,  
began an investigation into the business practices,  
of companies selling financed gold and silver.

I was terrified to learn my company was being investigated  
by our federal government, and immediately hired a lawyer  
to represent me.

After my attorney's negotiations with the government,  
federal agents arrived at our offices,  
and for the next three months,  
photocopied almost every document of our past year's operations.

Six months after the government agents left,  
they called saying they had "misplaced" the thousand of documents they had copied  
and asked our permission to re-photocopy them.

We said no, and I learned about government incompetence.

By the next year, sales and income of the new business dropped drastically.

I spent months agonizing over what to do  
about the adverse change in the business.

Although I hoped business would improve, the daily losses continued.

After six months of losses, I decided to terminate the business,  
which included letting good people go.

Although the government finally ended its investigation,  
and found no fault with the business,  
its failure was painful,  
and I felt badly over the outcome, for some years.

I learned it was far easier to build a business than terminate it,  
That markets are cyclical,  
and that no market goes up or down forever.

In 1975, all gold coins and gold bars were legalized for sale to Americans,  
for the first time since 1933.

I found it amazing that one day a speculator that bought a gold bar was a criminal, and a day later, after gold legalization, buying the same gold bar was legal.

The power of government to change laws was sobering, but I realized the government's inconsistencies, and political mis-steps were simply opportunities for profit.

In 1976, A-Mark purchased at auction for \$7,300,000, a hoard of 411,000 American silver dollars.

The transaction was heralded by the Guinness book of records, as the largest coin collection ever sold at auction.

The silver dollar purchase was financed in part from my capital and in part from borrowed money.

The purchase strained my resources and I spent many sleepless nights wondering if I could sell all of those silver dollars without destroying their market values.

Our staff decided on a strategy of selling the silver dollars to a small group of coin dealers we hoped would promote them.

The strategy worked, as our staff sold all the coins at a substantial profit.

Additionally, the publicity from the silver dollar deal brought more opportunities.

1977 and 1978 were difficult years for coin and precious metal dealers.

I decided to shrink A-Mark, while waiting for the markets to improve or for new opportunities to appear.

In 1979 and 1980 high inflation in the US, a low US dollar, and other factors, caused silver to rise in price, from \$6.00 an ounce in 1979, to \$50.00 in January, 1980, only to fall to \$9.00 an ounce two months later.

The unprecedented price movements surprised the experts, and caused upheavals throughout the precious metals industry.

The coin and precious metals markets in the early 1980s were uneventful, until 1985, when the US government, decided to mint gold and silver coins for sale to the public.

A-Mark staff spent a year working with the US mint, sharing our views and knowledge of the coin market,

and our thoughts on coin design, coins sizes and marketing.

The governments' coin program began in October, 1986,  
and was a tremendous international success.

The success made more investors and collectors aware of,  
and interested in coins and precious metals.

Despite our year long discussions with the mint, a large eastern metal dealer successfully  
lobbied the Mint for a special program rule that excluded A-Mark.

We thought the mints rule illegal and after fruitless negotiations, filed a court action in  
federal court against the mint and US treasury department.

I went to Washington DC in late 1986 for a settlement conference with the mint Director.

After meeting with the Director,  
my attorney and I walked into a Chinese restaurant,  
and we were seated with three strangers.

One was a Polish physician, in Washington for just a few days.

She was there to give a paper at a medical conference, and was my wife to be.

I fell in love with the polish stranger over lunch,  
and we married ten months later.

We settled our legal action against the Mint,  
by their putting A-Mark in the coin program.

The business problem with the US mint ended with a happy marriage and later two terrific  
children.

The governments action, again turned into our opportunity.

In 1987 a major US bank negotiated to buy A-Mark.

After 9 months of difficult negotiations the talks were terminated.

Because of the pressure I felt from the long negotiations,  
and because of the responsibility I had been under for so many years,  
I did little for a year, but spend a lot of time  
thinking about the meaning of life  
and what I wanted to do in the future.

The year passed, my energy returned.

In 1988, I tried unsuccessfully to hire a President for A-Mark,  
with the plan of freeing up more time for other ventures.

So far my attempts to fill that presidency have not been successful.

The precious metals market remained quiet  
but I soon found renewed energy and interest in business.

Since 1991, A-Mark bought another metals company,  
I co-founded Phone Funders, a California Telephone Communication Company,  
American Golden Popcorn, a Moscow operation, growing and  
retailing Popcorn in Russia,  
and LeoMar International, Inc.,  
a California-based trading and consulting firm,  
also with a Moscow office,  
set up to help Russians and Russian companies  
market their products and resources in the West.

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I'll now share a few personal observations:

1. The secrets to business success are simply
  - A. A desire and commitment to succeed
  - B. Great effort and determination

- C. The ability to live with constant problems and the possibility of failure.
- D. Vigilance and flexibility, and
- E. Judgement and Calm.

2. Business talent and success has no geographical boundaries, age, race, or gender restrictions.

3. Russia today, has more opportunity for business than any other country I know of.

The biggest handicap of her people are:

- A. Lack of business training and successful business role models,
- B. Their eastern European loser, or victim mentality,
- C. Their evolving and not dependable legal system.

4. Many Russians believe business in America is easy. They are wrong.

- A. All businesses in America have problems most of the time
- B. 90% of new business in America close or go bankrupt within 5 years, and
- C. All business will ~~probably~~ eventually fail.

5. 99% of all decisions are far better when

- A. You use the golden rule  
of "do unto others as you would have them do unto you," and
- B. You take careful and honest council from those available to you

that can contribute knowledge, wisdom or judgment, and

C. You do your homework.

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Starting and running a business is similar to most other human endeavors, like learning to cook, learning a trade or profession, raising a family, or regulating an office or government.

The basic issues most of us face are similar.

We try to figure out the right or best things to do in a world of almost unlimited choices, while constantly making decisions with inadequate information, in a volatile, and often hostile world.

You might well conclude the best tools for starting and successfully running a business contain no mysteries, but require the same vision, energy, stomach for risk and failure, and desire to overcome great odds, similar to what most of us encounter, at home, at work and at play.

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Questions?

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