

— EARLY-STAGE MARKETS / CONVEXITY

Venture Capital: *Tails* You Can Feed

Angel and seed menus scale logos fast; without reserves and kill criteria, they also scale regret when the power law whispers instead of shouts.

SYSTEM ARCHETYPE 050

Venture / *Power Laws* /

Venture capital systems organize early-stage risk into funds and syndicates where a small set of outcomes dominates returns—design checks, reserves, and follow-on rules explicitly. Link to [private equity](#)

structures for shared LP grammar, Pareto concentration, network effects where relevant, and entropy in admin load—because many small bets can still be one big theme.

"Venture math is polite about the tail until the tail buys the house."

1. Power *Laws*

Pro-rata rights sound egalitarian; they are leverage for insiders with dry powder—model cash, not ego. When marks gap down, the household rule should specify kill criteria for follow-on, time-boxed diligence, and who can veto a hype cycle. If two partners cannot state reserves on one slide, stop wiring. Run inversion on the portfolio: three ways concentration masquerades as diversification across stages.

Markups in private marks are hope with decimals; cash distributions are the blunt feedback loop. Quarterly reviews should reconcile capital calls from funds you forgot subscribed three vintages ago. Boring reserve ratios beat

brilliant first checks. Use emergence language carefully—power laws are not permission to skip kill criteria.

Stage diversification can still be narrative concentration if every bet whispers 'AI' in the same font. A serious angel policy should publish exit paths beyond IPO theater: M&A timing, secondaries, and tender mechanics. Concentration is a decision; pretend diversification is an accident. Read private equity structures when term sheets rhyme but pacing and reserves differ by an order of magnitude.

Venture capital systems are power-law farms: many seedlings, few giants, and reserves that decide whether you get to double down when the winner wobbles mid-story. Before wiring the first check, verify whether cap table hygiene across names, side letters, and SAFE stacks that obscure ownership. Power laws reward patience and punish vanity sizing. Treat outcomes as Pareto geometry: a few names carry; the rest are tuition unless reserves say otherwise.

Fund size versus strategy fit is the quiet mismatch: a billion-dollar vehicle cannot behave like a seed fund without becoming a tourist. The adult version of VC is to document assumptions about two consecutive zeros inside the same theme bucket pretending to be different theses. Syndicates scale logos, not always edge. Sketch reinforcing loops between signaling rounds, talent, and narrative valuations.

Dilution is not betrayal; it is arithmetic wearing a term sheet—your plan must assume down rounds exist again someday. If reserves are thin, interrogate check size, reserve ratio, and maximum illiquid allocation as percent of net

worth. Marks are moods until cash says otherwise. Stress network effects in platforms where adoption actually changes terminal value.

2. Reserves *and Pro-Rata*

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3. Dilution *and Rounds*

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4. Stage *and Thesis*

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7. Fund *Fit*

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VC ALLOCATION CHARTER

01

Check size and reserves

Numbers for initial and follow-on.

02

Thesis boundaries

Sectors, geographies, and explicit bans.

03

Illiquidity cap

Percent of net worth and review triggers.

04

Exit and distribution policy

Recycling, DAF gifts, or cash—written.

8. Atlas *Integration*

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Build the *lattice*, not the legend.

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