

Yellen appointment at the Fed seen as a positive for startups

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The UpTake: Janet Yellen isn't expected to change the Federal Reserve's easy money policies much, and experts say that's good for the upstart economy.

Janet Yellen brings arguably more expertise and experience to the job of Federal Reserve chairman than anyone before her. But what does her appointment mean to the upstart economy?

"My big picture view is that stability and the Fed's recent accommodative policies are good for the startup ecosystem," said Stash Jacobs, an attorney with Miami-based Greenberg Traurig who works on mergers and acquisitions and funding deals for startups.

President Barack Obama nominated Yellen today to the post being vacated by Ben Bernanke. The first woman appointed to the most powerful economic post in the world, she comes to the job with a wealth of experience.

Most recently, she has served as the Fed's vice chairman. She has held previous posts as head of the San Francisco Federal Reserve Bank and the Council of Economic Advisors. If the Senate confirms her, she will take over at a time of continued economic duress, with the Fed pumping money into the economy through low short-term interest rates

and a mechanism called quantitative easing to try and stimulate the economy and ease unemployment.

Don't look for that to change, at least in the near future, and that's a good thing for startups and entrepreneurs.

That's because the Fed's easy money policy drives down the attractiveness of such traditional investments as CDs and bonds, leading more money to enter the stock market—good for companies like Twitter that are going public—and even to direct investments by institutional investors in venture capital funds, the feeder system for startup investment.

Such investments as venture capital are more attractive, if riskier, because they offer a higher rate of return than traditional investment vehicles, especially at a time of low interest rates.

"When IPOs are happening, that's great for startup companies because it builds confidence," Jacobs told me. And with other investments perhaps less attractive, "It can cause investors to be interested in venture capital and early stage investing as well." James Cassel, co-founder of investment bank Cassel Salpeter, said the Fed's policies could also have a more direct impact on entrepreneurs and would-be entrepreneurs. The lower interest rate policies of the Fed have a positive effect on the housing market, which can encourage someone thinking of entrepreneurship to take the leap into it. "If the fed can encourage growth and keep down inflation, it can be good for the ecosystem," Cassel told me. "You're willing to invest...or take that business risk of starting a company without getting paid for a while."