Y Combinator's Paul Graham sits down with Jason at LAUNCH Festival 2014

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Hey everybody, it's This Week in Startups, and I am so thrilled to share with you this latest fireside chat I was able to do with Paul Graham, the founder of Y Combinator. Paul is literally one of the most helpful individuals to founders in the last decade. He has helped over 600 startups launched through Y Combinator, and he's been a tireless supporter of entrepreneurs. And we had a really great, heartfelt, honest discussion for almost an hour at the Launch Festival, and he put it out there. He was super honest about stuff, very blunt, but also very joyful. I mean, the guy is a real mensch. He's a tremendous entrepreneur and a tremendous support of entrepreneurs. A great writer, too, which I really respect. If you can really crystallize your thoughts as a writer, I think that's something special in the world. So I have a great deal of respect for Paul, and I was thrilled to have him sit down and do this fireside chat. I know you're going to love it. You're probably going to want to listen to this twice, so go ahead and have a listen and make sure that you retweet it. My handle is @jason and the show's handle is @TWiStartups. Enjoy.

[Music]

Interviewer: All right, I'm really thrilled to have our next fireside chat here. He's a legend, and perhaps nobody has supported more entrepreneurs—certainly nobody supported more entrepreneurs in the last nine years than this individual. Please welcome the co-founder of Y Combinator, Paul Graham.

Paul Graham: Hey, brother. Join me.

Interviewer: Okay, so let's get right to it. There's been some changes at Y Combinator.

Paul Graham: Yeah, that you timed perfectly before this speaking gig.

Interviewer: Thank you. We had to make sure we got that announcement done by the before the Launch conference.

Paul Graham: Thank you. So kidding, yeah, exactly.

Interviewer: What exactly is the announcement, and how does it change Y Combinator?

Paul Graham: Oh my God. And your role? Yeah, here's a picture you can throw up. You know who that is? That's Sam Altman, Alexis, Steve Huffman, D, Justin, and Emmett from Twitch. And everybody in that picture now works for Y Combinator in some way, except Steve Huffman. That's amazing.

Interviewer: What year is that?

Paul Graham: That's the first batch. That is the first summer. That is probably a demo of Reddit, judging by the way people are standing. That is probably a demo of an early version of Reddit. And I see you kept the same shirt.

Interviewer: And you know, it might well be. Actually, is that nine years ago?

Paul Graham: That's nine years ago. That's the summer of 2005, in Boston, in Cambridge. And Sam Altman, all the way on the left with the blue shirt, who did Loopt, which was the first really mobile location-aware product. Kind of turned out people didn't want to broadcast their locations. People want to consume location, but they don't want to supply it.

Interviewer: Interesting. And now you've made him the president of Y Combinator.

Paul Graham: Yeah, he is going to be the boss. I'm not running the show anymore. It's Sam's show now.

Interviewer: And why is that? Were you just tired after nine years and 600 startups? Do you think he'd do—I think you said in your piece that you thought he would do a better job. Why?

Paul Graham: Well, what you're thinking, Y Combinator is going to have to grow, right? We grow as the number of startups grows, and the number of startups has been growing. And Y Combinator, it's like this—it started out, you saw what it was like, it was just that, that was in my kitchen. And now we've got like 10 full-time partners, maybe 20 people total, I don't even know exactly. 632 startups we've funded. It's turned into this giant thing, and I'm no good at running giant things. Sam, however, is going to be good at running a giant thing.

Interviewer: And are you going to be involved every day, or a couple of days, or to be determined? Because that was something that I think a lot of people weren't clear about. You said you're going to do office hours.

Paul Graham: I'm going to do office hours with the startups, but I don't do office hours every day, right? So probably I'll end up doing office hours a couple days a week. That will probably be enough to talk to everybody in each batch. And other than that, I'm not doing anything. I'm not reading applications, I'm not doing interviews, I'm not worrying about all the hideous internal crap that takes up the time of most organizations, right? The founders in each batch, they see me at office hours, and as far as they're concerned, that's what I do. That's about a tenth of what I do. I spend all the rest of my time dealing with random crap associated with anything of any size. So now I won't. So it'll look the same to the founders, right? But it will feel very different to me.

Interviewer: Yeah. So when you started it and you were in your apartment, I mean, what was the origin? I mean, why did you start Y Combinator for those folks who don't know the origin story?

Paul Graham: Well, I wrote something about this, so if you go to Google and search for "how YC started," I actually wrote down the story of how it started. But really, I mean, what I say in that is the reason it started was a combination of me feeling guilty that I hadn't gotten around to doing any angel investing yet, and also that Jessica was talking to this VC fund about becoming their VP of marketing, and the VCs were taking so long to make up their minds, I said, "[unclear] them, we'll just start our own thing," right? So if that VC fund in Boston had not been so typically slow-moving, Y Combinator would never have existed.

Interviewer: And how did you get those first six companies or whatever it was in the first class? How did you convince them to come on this journey?

Paul Graham: Well, it was a pretty easy thing, right? Because when Y Combinator first started—this is something a lot of people don't realize—when Y Combinator first started, it was a summer program for undergraduates. That was the idea. And so compared to a summer job where you have to go work in a cubicle and maybe get up earlier than you would like to and work on not what you would want with people you don't want to work with, right? Compared to a regular summer job, it was a great deal. You just go to Cambridge, work on whatever you want with whoever you want, and we like, you know, pay you money and give you dinner once a week. So we got lots of applications. We got more than we expected, hundreds of applications.

Interviewer: And in that first batch were Sam Altman, who started Loopt. Reddit was in that first batch. Kiko, which was started by the founders who went on to start Justin.tv, aka Twitch, all in that first batch. Aaron Swartz was in that first batch, too. Yeah. What was Aaron's project?

Paul Graham: It was called Infogami. It was called Infogami, and it was kind of Tumblr. I remember, yeah, and it merged with Reddit. What was—those two were one company.

Interviewer: What was Aaron like?

Paul Graham: Precocious. He had sort of made, at that point, I think he was 18, and he had sort of made a career of being precocious up until that point, right? He sort of had decided—he had realized, like most kids don't realize this, but he had realized when he was probably about 13 or so, he was sort of very obstreperous. He never wanted to do what he was supposed to. And he had realized that he could just sort of start acting like an adult and maybe no one would stop him. And so he like didn't go to high school, and he made money by writing code. He just started acting like a grown-up, right? And he realized, essentially, kids don't realize this, but they're all kept in place by a bunch of dotted lines that aren't real, right? And they could just like start acting like a grown-up and no one is going to come away with submachine guns and black ski masks and drag them away, right? So he was one of the few people who realized he could cross the dotted line.

Interviewer: And when you look at his untimely death and sort of what happened with him, how do you reconcile it? I mean, how do you feel about it?

Paul Graham: Aaron and the federal government were not very evenly matched, right? Like those guys are a bunch of humorless [unclear]. And Aaron was sort of an innocent—I don't know, innocent is not quite the right word to use for him because he was a pretty scheming innocent. But anyone who's had small children could understand that scheming and innocent can be combined, right? And that's what he was like. In some ways, he was—it's weird, in some ways he was precocious, in some ways he was like—right, in some ways he was like an adult when he was 13, and in some ways he was still a child when he was 25, right? But I think the federal government, they assume that everyone is Al-Qaeda, you know? And so they just like hit you with everything they got, which turns out to be a lot. And then he discovered he had sort of bitten off more than he could chew.

Interviewer: Ah, yes. Scott Walker is a great attorney who is also a tireless supporter of startups. I've known Scott for a long time. He's partnered with me to bring you this program for years now, and he runs a boutique law firm that specializes only in startups. All of his attorneys come from those bigger firms, but they prefer to be at a boutique firm where they don't have to ratchet up the hours and try to destroy startups with these crazy legal bills. No, he does something different. He gives flat fees for all the different things you have to do at your startup, whether it's incorporation, employment agreements, or you're selling your company. He's a true mensch. He truly focuses on the founders, and he makes himself available in the same way I try to make myself available, or Paul Graham makes himself available to founders. He's a really great guy. Go ahead and give—

Interviewer: Him a call 9998, that's right, call Scott Ed Walker at 415-979-9998 or visit walkercorporatelaw.com and he's very easy to get in touch with, Scott at Walker Corporate Law, and you just put Jason in the subject line and I guarantee you he will respond quickly and he will be an incredible advocate of your startup. I've gotten so many great, great responses back from people I've referred to Scott over the years, so he's just a tremendous supporter of startups. Go ahead and thank Scott Ed Walker on Twitter and follow him, really great guy, really great team over there. I can't give them any bigger endorsement. They've been a great partner of the program, they do a great job for startups, everybody I send over there is pleased. What more do you need to know? Let's get back, thanks Scott, and let's get back to this incredible fireside chat with Paul Graham.

Paul Graham: That's stuff.

Interviewer: So, you brought Y Combinator, the next sort of seminal moment I guess was bringing Y Combinator to the Valley, leaving Boston. How did you come to that decision? Was it the spur of the moment?

Paul Graham: You know what happened? I went to Foo Camp. I went to Foo Camp after the first Y Combinator batch and I thought, "Wow, it's so much better here." The streets are paved with the corpses of startups, you know, the weather's so nice. What I thought was actually, "Someone is going to start the Y Combinator of Silicon Valley and it better be us," right? So we thought we had better go out here and plant the flag. And also, like, Boston in the winter is not as nice as Silicon Valley in the winter. It's not like this in Boston. So we decided, and Jessica was freaking, right? Because like we had just figured out how to make this thing work and I said, "You know what? Let's move across the country and do the next batch in Silicon Valley," right? And she just like, "What?" And the reason we ended up in Mountain View was because our friend Trevor had a building there and the only way we could get a building on such a short notice was to take over part of his. But even so, that first dinner we had to tell the founders not to touch the walls because the paint was still wet, the first dinner. And when people applied, we said on the application form, "We don't know where it's going to be." You're applying for this thing and you don't know whether it's going to be in Cambridge or Silicon Valley, so let us know if either of those is a problem for you.

Interviewer: Prior to Y Combinator, the only incubators that really existed—I know you don't consider an incubator really—but there was a class of incubators in the '90s called incubators. They were incubators, and were they the model or were you the anti-model of that?

Paul Graham: No, no, they were definitely not the model. They were like the model of what not to do, right? So the early version, most people here probably never even knew what the incubators in the bubble were like, but their idea was they would do all your funding ever, right? Y Combinator is just supposed to be first gear and then you go off and raise money at market rates from whoever. These things in the '90s, the idea was it was almost like you were a subsidiary of the incubator. They would, you would operate out of their building and they would have your—you wouldn't have to have an accountant because their accountant would manage your money, right? And they would like give you a lot of money and take like 30, 40% of the company. Yeah, you know, 80% or that, right? They were going to control you and you had to like work out of their building, right? Very much like an employee. That model seemed to me—cuz I had the advantage of having been a founder and so I could ask myself, "Would I have done that?" No, right? It's like an adverse selection filter, right? When you do things like that, how do we not get the best ones? Yeah, I was always in the beginning. Now the funny thing is the word incubator has changed. Nobody even remembers those stupid things in the '90s. Now it means Y Combinator. So now on our FAQ it says, "Are you an incubator?" and I'm like, "No, no, we're not an incubator," except now as people use the word, we are. Meaning of the word has changed. I'm the only one who remembers the old stupid meaning. Yeah, so we should probably give in and agree to be called an incubator.

Interviewer: So how did you define what the program was in the early days? Was it strictly the constraint of the summer session?

Paul Graham: Yes, yes. The reason—a lot of people probably don't realize this, a lot of people who even start these things probably don't realize this—but the reason it's 3 months is cuz that was summer vacation, right? And it turned out there were a lot of things we got right. Three months turned out to be just about right, and so we kept the 3 months and having dinner once a week, which was modeled on the Society of Fellows at Harvard. There's a group of people who were all grad students and sort of went off and did their research and then once a week would get together for dinner. That turned out to be good too. Getting speakers to come, having Demo Day at the end, that was something I think we only decided to have Demo Day about halfway through. We're getting to the end and we thought, "Huh, maybe we should put on some sort of event where these guys present to investors." So, and Demo Day is now—I miss, nobody does demos at Demo Day, right? The presentations are 2 and a half minutes, but you know, the name was already established by that point.

Interviewer: Did you—a bunch of accidents that turned out to be good. Is there a moment at which you thought this is going to scale to what it has become today, which in just nine short years is kind of like an institution?

Paul Graham: Nine short years? Jesus, they don't feel short. I mean, not—yeah, maybe that's why you gave the president slot up. Yeah, I'm supposing it has been very long for you, but nine years is not a long time, you know, to build an institution. Was there a point where I thought it could get this big? Yes, yes, cuz I remember Steven Levy—I don't know if this was the first batch or the third, not sure—but I think about halfway through the first batch, I'm a very optimistic person, right? And so you show me an Altair, basically, I see Microsoft, right? So pretty early on during YC, because I was ridiculously optimistic, I imagined that it would become sort of—what, in fact, I imagine probably it would become even bigger than it has become today. But that doesn't mean I was correct, I'm just wildly optimistic by nature. It wasn't like I planned to make it giant, it's more like I had these crazy imagined futures that turned out to be correct, but they shouldn't have been.

Interviewer: Where did you come up with the deal, as it were? You know, 6% for 15K or 21K, whatever it is.

Paul Graham: It was based on what a lot of what we did was based on the angel funding we got for our startup, Viaweb. So we had this guy, who was the husband of my painting teacher at Harvard, and he was a lawyer. He gave us $10,000 and got us incorporated and set up as a company and taught us a little bit about business. He didn't know much about startups specifically, but he sort of knew about business, like I knew nothing about business, like nothing. And he was on our board and sort of saved us from stepping in a bunch of dog poops along the way—a bunch of landmines, actually, to be more accurate. And so I remembered thinking later, "Boy, what a good deal for Julian. He got 10% of this company for $10,000." And then I realized, "Wait a minute, without him we would never have made it," so it was a good deal for us too. And when you—like I thought, "Wow, that's a good deal for both." So 10% seemed a bit much, yeah, so we didn't ask for 10%. I think originally we used to ask for 6%, and then along the way it became 7%. And the reason we invested the amount of money we did is because I asked Robert, who is a professor at MIT, how much MIT grad students got as stipends for the summer, and it was $2,000 a month. So that's what we did, $6,000 per founder for the summer, because we knew you could live on that in Cambridge. So all of these things that people think—people wonder where these sort of devices come from, they come from that sort of summer of—summer school, basically. Yeah, it's like a summer job, a summer program.

Interviewer: You've seen 600 of these startups now. Some pattern recognition happens.

Paul Graham: Yeah. And about the smallest things. It's weird, when you have 632 data points, the patterns you can see are astonishing.

Interviewer: Yeah. So what are some of them that are—what are some of them? My God, you're talking about thousands of things, right? Yeah, but what are the ones that matter?

Paul Graham: Okay, well, do the founders have to get along? Okay, if the founders hate each other, you're in big trouble, right? How often does that happen? Once a class, twice a class, often. I mean, like, do you guys realize that Apple had three founders, not two, right? There's a lot of companies that have more founders than you realize. So there's founder conflicts, or like you don't know how good you are—how good friends you are with somebody until you try to start a startup with them. So you got to have a good relationship between the founders. That's why it works so badly when you have a startup that's started by some dude in the business school who has this idea for some startup, and then he goes and finds some like 20-year-old meek undergraduate computer science major to realize his vision, right? And that is the founding team. And you know, these guys come in for the interviews and the guy says, "Hi there, you know, I was quarterback of my college team," you know, this is my co-founder, co-founder sitting there like this. He's like, and you know, we ask him a question and he looks nervously at the business dude to see if he's allowed to answer, right? "Are you going to whip me afterwards if I say stuff?" Right? Like that kind of—like if you go into a Y Combinator interview and one of you looks in terror at the other one before answering the questions, that's one of our secret tells, right? Or say if you roll your eyes at us while your co-founder is speaking, which actually happened, or if you stand up your co-founder, like if you don't show up for the interview and we ask the guy, "Where's your co-founder?" He's like, "I don't know, he was supposed to be here," right? These have [unclear].

Interviewer: All happened literally, yes. These have all happened literally, yes. These have all happened. Yeah. Um, what do you do in an instance where, you know, you have two people who are brilliant, you know, to use the Apple, you know, metaphor? I mean, Woz and Jobs, obviously brilliant in different ways, and they just can't get along. One has to win in order for the startup to survive, one has to bow out. How do you even broach that conversation? You have, you have a—do you mean one of them has to leave?

Paul Graham: Well, or—because not necessarily, because in the best startups, what happens is each founder is king of their own domain. So in Apple, like Woz was—like he was not a super forceful person, but he did not let Steve Jobs change anything about the Apple I computer. Like there was one thing he wanted to change, I think, like fewer expansion slots, and Woz said no, right? That's it. Like Steve knew—Steve Jobs knew where the limits were. So Steve—so like, but Woz didn't give a damn about the business stuff, so Steve Jobs was off selling the thing and Woz built it, and they were each masters of their own domain. That's the—that's the model that works. That's how you have multiple people who are each extremely effective, not step on one another's toes.

Interviewer: You do, as a rule, multiple founders? Is that true, or do you—do you mean we prefer to fund startups with more than one founder?

Paul Graham: Correct. Oh, yes, yes.

Interviewer: Have you ever done single-founder startups, and what was the result?

Paul Graham: In the—we have funded some single-founder startups. Um, the most successful—well, okay, so there's a bunch of weird cases. Like Drew Houston of Dropbox was a single founder when he filled out the application form, but we told him—but we told him it would be really good if you got a co-founder. And so between getting invited to interviews and the interview, which was like two weeks, he got Arash, right? Right. Um, so that worked out really well. Um, and then the most successful startup that is run by a single founder now is Pebble, the smartwatch. Sure, but that was two people when they came to YC. That was two people when they came to YC, and one of them left. Ah, right. So, but like single founders who've been single founders all the way through, God, I mean, they always get other people, and I never know if they're co-founders or just employees with a lot of equity. Yeah, you know, so I don't recommend it, though. Get a co-founder. When people walk up to me and say, like, they start blabbing to me about their idea, I'm like, "No, no, who's your co-founder?" That's—that's what I care about.

Interviewer: Dropbox is the most successful on a valuation level of any YC as of this week—10, 10 million change. Yeah. Um, so that's a super unicorn. And you've had a couple of others. Airbnb, I guess, would be considered a unicorn in the new parlance.

Paul Graham: I would say Airbnb's value is comparable to Dropbox's. Valuation and value are not the same thing, right? Value—like if a company hasn't raised money for a year or two and they're growing like 5x a year, right, they could—two years of not raising money at 5x a year, their value is off by 25x, right? Um, so you got to watch out for—for treating valuation as value. I would say Dropbox and Airbnb are peers, and then there's Stripe, and Stripe is also—yeah.

Interviewer: Did you know in the case of those three that they were very, very special, or did you just think they were special enough to accept?

Paul Graham: Um, they were all—they were all no-brainers at the interview. They were all cases where in the interview we didn't even have to think about it, right? Um, we decide whether to fund people or not immediately after the interview. We have to, because we do 20 interviews a day, like we won't even remember the first people in the morning by the end of the day, so we have to decide while our memory is fresh. And the good ones—the—we talk to people for 10 minutes, and the good ones, we're like looking—we have, you know, after all these years, we can just look at each other and sort of send signals by our eyes, right? This person is in, right? Right, we're looking at each other like, "These people are in," or sometimes we're looking at each other like, "Oh my God, how long can 10 minutes last?" Right? Um, but we have—there's a few, there's borderline cases, and then there's cases where definitely yes and definitely no halfway through the interview. And Dropbox, Airbnb, and Stripe were all like—we didn't even need the full 10 minutes. I remember that. I mean, I didn't predict that they would end up being worth billions of dollars, you know, why? Because you cannot predict that. That is unpredictable. It's not like there was some data there that I didn't see. It's actually indeterminate. You know, and like back when Drew

Houston applied—Drew Houston's application for Y Combinator is online—and back when he applied, we used to still ask this stupid question that we no longer ask, which is, "If someone wanted to buy you right after YC, how much would you take?" And Drew's answer was a lot less than $10 billion. I don't remember what it was; it was probably like a million or two or something like that, maybe even less. Um, it turned out to be a stupid question that obviously predicted nothing, as you can see, so just as well we took it out. But a lot of these companies that end up being worth billions of dollars, they only do that because the M&A people at potential acquirers are stupid enough to not pick them off early.

Interviewer: Speed. We all need our applications to be fast and reliable. I'm busy. I'm the CEO of the company. I want to know what's going on with the servers because I know through watching Marissa and Larry Page at Google just absolutely crush it by having the fastest services in the world and the most stable services, they built a lot of trust with their audience. Well, New Relic is the tool that you need as CEO or CTO to monitor the performance of your applications. And let me tell you a little story. We were launching a little startup named inside.com a month ago, and we had a tremendous technical difficulty. Something was going wrong on our servers. I emailed—like at 9:00 at night, hey, listen, we have a lot of users coming in, tens of thousands of people are rushing the front door, and our servers are crushing. We can't figure out why. The database server is going off the charts. My boys and girls over there, boom, they just gave me all the—all the licenses I need. We put it on all our servers, and all of a sudden it was very clear we had some kind of problem with our database. And it turned out when people were scrolling up through inside.com, it was firing off the voting mechanism, which was then flooding—flooding our database and pinning the server and making the service unusable for everybody else. And it was like God came down from heaven and pointed his finger at the problem. That would have taken us a week to figure out. Thanks to New Relic, it's literally as good as God. I mean, how much more do I have to sell this? People, it's a powerful application performance tool. Nike, Warby Parker, Airbnb, Compass, and AT&T use it. We use it here, and I get this beautiful email every week that shows me how fast everything's going so I can have, like, a top-level perspective on—I don't have to get in the weeds every day. Um, and we love it. Go to newrelic.com/twist. Go to newrelic.com/twist. newrelic.com/twist, and you'll get a free This Week in Startups t-shirt. Um, it's a great product. It's super fast, it's super easy, no credit card required. You're going to love it. And I want to just take a moment to personally thank the team at New Relic. Go ahead and thank them on your Twitter handle for supporting independent media like This Week in Startups. Okay, let's get back to the rest of this amazing interview with Mr. Paul Graham of Y Combinator. Let's talk about this sort of period of supreme growth. What was the largest class size you guys ever had?

Paul Graham: Uh, 80 something.

Interviewer: And when you hit that 80, the whole industry was like, "Whoa." There was this year where I think we have—we have 68 in the current batch. It's not that much difference. It's not that much different. Demo Day is still going to be pretty tiring. But there was this year where I think the industry, because of the massive success of Y Combinator, was sort of like this promising thing over here, but then something happened in the same year you hit 80, and then, oh, the $250,000 like uncapped note or something, 150, but it hit at the same time, did it? And everybody got that note. It was like the same year or something. Yeah, that year—was that the year it got too big?

Paul Graham: It might have been. I don't remember. I don't remember when all these things happened.

Interviewer: The all these people have internet connections, everyone in the audience knows the answer, and I don't. Well, did you feel from your perspective, did it feel like it was getting too big? 'Cause I thought when I saw it, like, "Oh my God."

Paul Graham: Summer 2012 was the batch that we said was too big, right? Um, and I don't know what the rest of the world was thinking. I don't care what they think, but it felt big to us because, as we later realized, we embodied an N-squared algorithm. Up till the summer of 2012, YC did not have any kind of sharding. Every partner had to know what every startup was doing. And when a partner—when the startups—this was embodied in the office hour software—when a startup requested office hours, they did not specify the partner. It was non-deterministic. When someone posted office hours, they—it was just FIFO, right? They would just get whoever was sitting in the queue the longest. Um, and we—I can't believe we—we're all computer science people and we made this mistake. It was so obviously N-squared, duh. I mean, when we realized, when we looked and we thought, like, "Why did this batch suck so bad? Why did we hate our life?" Right? Like, there were startups halfway through the batch I still didn't know what they were doing. And we were asking what went wrong, and it was so obvious, just a little bit too much to do.

Interviewer: Yeah.

Paul Graham: Well, no, no, because it was N-squared specifically. Like, it would be no problem having that many partners deal with that many startups so long as they were sharded. So then we redesigned YC to be sharded, and it has been ever since, and it works just fine. Like, 68, no problem, right? Yeah, each partner has—no, no, it's not each partner. We have three silos. Three silos, each one overseen by a group of partners. So basically, it's like three little Y Combinators, and we know little Y Combinator works, right? Solves the problem.

Interviewer: Now, what about the "everybody gets this note," because that was a first in the industry as well? Yeah, did that—I remember you writing, I think, that it caused a little bit of a problem of fighting over the money, got the money, fighting over the money, got the money, whatever.

Interviewer: Yes, with the bad startups, the bad startups, it used to be the bad startups, they would just like drift away, right? Right. Didn't it? It was like a divorce where there was like a large fortune at stake. $150,000 is a lot of money, let us remember, right? Like $150,000 for most people, it's like a house, right? Um, in a lot of parts of this country. So, um, so like they would fight over the money, like one guy would leave and he would say, "And I want my $75,000," right? It wasn't his $75,000, it was the company's. But then he wouldn't leave, you know, without it. Oh, what a disaster. And so the notes still exist, but in a smaller form now. 80, 80, 80, you know, I thought of getting rid of it. I thought of getting rid of it entirely, um, because it was like a big, a big pain to organize, um, and I thought of getting rid of it, and so I polled the startups and said, "Did this money help you?" And like 80% of them said yes, it helped them significantly. Like, "Oh, all right, we'll keep it." So we kept it, but we made it smaller.

Interviewer: And when you look at those meetings, what else, when you're in that decision meeting, do you think actually comes out of it that, you know, the signaling that is correct? And then what, what's the signaling that comes out of it, and the signaling that's correct?

Paul Graham: Yeah, when, what, what in your signaling you mean, how do we tell who to fund?

Interviewer: Yeah, how do you know to fund? And then are there signals that you've gotten wrong consistently that you've switched, like reversed course on? You know what I'm saying? Like you thought this, what I'm saying, like you thought this type of person is unfundable, the crazy jock from the business school, but then you said, "Oh, you know what, actually there is some cases where that crazy jock actually could do it."

Paul Graham: Well, it's true. We have a bunch of MBAs now that are quite—

Interviewer: You allow MBAs in?

Paul Graham: Yeah, well, that's what you get if you stay in business school long enough, yeah. Um, you sort of catch—when an MBA comes in on the application, I mean, so you know, so many of the, uh, products that we see today or companies are driven by product people. When you see MBA, does that make everybody go, "Uh"?

Paul Graham: Not automatically. Not automatically, because Rescale, for example, the founder, the CEO of Rescale, has an MBA, but he also has a huge amount of domain expertise in the aircraft industry, right? He's not just some sort of finance dude, right? Um, so no, we don't automatically discriminate against MBAs specifically that, like, the MBA has an idea and then he goes and finds a hacker that he never knew before, he's like eight years younger, you know, and like lives in a box in his, in his house. Um, uh, so let's see, are there things, are you asking are there things we used to, that you used to look at and say, you know, I used to not want to accept, you know, I used to not want to accept these people, but now we accept them? Like these people, but now we accept them, like hackers, you know, like, uh, you've been, since you're a developer yourself, very developer-centric now, business people, maybe now you let nonprofits in. I mean, what, what signals have changed for you over the years?

Paul Graham: Very, I'll tell you the one, probably the one thing is people who are very smart, but that's it, right? People who are really smart but ineffectual. We used to think, we used to have more faith in brains, um, yeah, and it turns out, um, it turns out like you can be surprisingly stupid if you're sufficiently determined, right? And actually, you can, you can, anyone can tell this empirically. I mean, I'm sitting right here, Paul. They know, they know who you're talking about, like there are some parts of America where there's a lot of rich people and they're not very smart, right? Like there's some, some parts of Manhattan and Florida and LA, right? Like you don't have to be super smart if you're, if you're really fearsomely effective.

Interviewer: At its nature, what is the most important thing for startups to focus on? Now you've looked at 600 of them, you've now, you've looked at 600 of them, you've seen them fail. You know, the, there's a meta answer to that.

Paul Graham: The most important thing for startups to do is to focus, right? Because there's so many things you could be doing. One of them is the most important. You should be doing that and not any of the others, right? So you should not be grabbing coffee with investors, right? When you want to raise money, you shift into fundraising mode and you go and raise money. You do not, like, promiscuously meet with investors in the middle of the day when you should be working, simply because they like send you an email saying, "Hey, let's grab coffee," right? Um, and there's, there's like a thousand things you could be doing and only one of them is the most important. You do the most important thing. It's like optimizing software. There is something that is currently the bottleneck to making the software faster. You work on that, right? And that's a lot of what we do at Y Combinator. We like figure out, we like sit down with people and just like look at all the things they could be doing and ask them which one is the most important. They know the answer in their head, they just don't ask themselves this question. And then I'm like, "Okay, so why aren't you doing that?" And they're like, "Oh gosh, I don't know, I guess we could do that."

Interviewer: And being a Y Combinator company now means you're going to drown in opportunity to a certain extent. You mean funding, funding attention?

Paul Graham: I mean, it won't automatically get you customers. I mean, it'll automatically get you customers if you're making something for startups, sure. And so it's, that's, you know, a lot of the companies we fund are, and we're getting, we're starting to have this sort of little GDP, right, where companies are building stuff for other companies that we funded. But if it's some consumer thing, it's not automatically going to get you users.

Interviewer: No. All right, um, couple of controversial statements that have, I think, gotten you in a little bit of hot water, and I think actually quite unfairly, to be totally honest. But you said something about people's accents, you know, if they can't present properly, if people can't understand them, if people can't understand an entrepreneur, that is a difficult thing for the entrepreneur to raise money.

Paul Graham: No, right. You can't understand me, it's a problem, right?

Interviewer: But you got kind of barbecued a little bit by that, where people thought you were a xenophobe. To confirm, you've had many people in the program from many different countries, from many—

Paul Graham: To confirm, I am an immigrant myself, yes.

Interviewer: So you're not a xenophobe.

Paul Graham: Born in America.

Interviewer: So when you get barbecued like that and stuff like that, yeah, I mean, I get the sense that that was particularly unfair. How did you feel when you were sort of getting attacked relentlessly? Do you think that just comes with the territory of building something as successful as Y Combinator?

Paul Graham: No, actually, I think what's going on is there's a new phenomenon, which is, um, on Twitter especially. Actually, what I was watching is it was sort of like being bitten by some fascinating—it was like being an entomologist and being bitten by some fascinatingly horrible bug. Like, while the bug's biting you and you're thinking, "Ouch, that hurts," you're also thinking, "Whoa, what an unusual bug, that's interesting." And so I think what's going on is, uh, basically the internet, if you've ever built fires, you know, like if you build a bunch of, if you put a bunch of logs in a sort of teepee-like shape, it'll just like burn like crazy, and if you just like sit them next to each other, it won't burn at all, right? And so the internet is now of a shape where fire spreads really fast, right, because of things like Twitter. And so a meme can get out there, and if it's—there's sort of, you know, the idea of link bait, well, there's sort of like indignation bait, right? And so a thing can get out there, and everybody, um, you know, like, "That's, this must stop," right? And they're starring and retweeting it without ever actually reading the original source. So that's what I think is happening. That's what I think that was. That was what it was. I think like there was, there's this, this landmine exists, yeah, right? So be careful what you say, and it just happened, like I stepped on it, right?

Interviewer: Right. And then gender is the other one. Your co-founder is a female, yes?

Paul Graham: Co-founder and wife.

Interviewer: Not that surprising.

Paul Graham: Co-founder and wife, yeah.

Interviewer: And you've had a decent number of female startups, and you actively—24% in this batch.

Paul Graham: In this batch.

Interviewer: You actively work on this issue, but they also grabbed a quote from you in isolation and said you thought—that wasn't just isolation, they actually took a word out of that one, yeah. And you, you got—very important word.

Paul Graham: Well, how do you feel about females in technology and sort of promoting diversity and those kind of issues in your own words? Well, um, it's half the population, right? So if, uh, if more women started startups, that could produce an awful lot more startups, right? And since we want to scale and fund more startups, you know, like, even if people, like, honestly, I would have to, I would have to, like, want to lose, to lose money, not to be against women starting startups. So of course I want more women to start startups. I want everybody to start startups, and women are half of everybody, right?

Interviewer: And you're accepting many more, and you're doing a female founders conference. You're actually taking a lot of steps to try to be extremely open and helpful. Maybe even—by the way, the female founders conference was something we were already working on before that whole controversy erupted, right? Yeah, we can't make too big of a deal of it because it's March 1st, it's like in a week. So where do you see 10 years from now, Y Combinator? I mean, if you went from six people in your kitchen to 650 startups in nine years, like, do you guys sit around—

Paul Graham: 632 to be exact.

Interviewer: Do you guys sit around and think the next 10 years, or do you think, "Let's get through the next class"?

Paul Graham: Well, what you want to do is you want to simultaneously, you want to mostly focus on what to do now, but you want to know what general direction you're heading in. So you sort of inch forward, but you know you're inching south rather than north, right? Um, uh, I'm certainly hoping Y Combinator will grow a lot, but really you shouldn't be asking me what's going to happen in the future, you should be asking Sam.

Interviewer: Well, yeah, he'll be here next year to talk about—

Paul Graham: And I'm sure, I don't know what, uh, I don't know what he's planning, except in the most general terms. I mean, in the most general terms, it's going to grow.

Interviewer: And does that mean multi-city, maybe? Or maybe eventually?

Paul Graham: Yeah, something you haven't done. Not in the short term, but maybe eventually.

Interviewer: And what do you think of the change in the funding environment? I mean, we have so many more angel investors right now. The market is so bullish on startups. You had people come in and give these notes to everybody. Yeah, it's a pretty robust market. Does it worry you? You think it's a great thing? What do you think about—

Paul Graham: It's a great.

Interviewer: Thing and I'm worried that it's a great thing and I'm worried it's going to stop. Yeah, um, prices. What I tell people is like prices are high, right? Valuations are high. That's not the same thing as a bubble. A bubble is a very specific version of prices are high. It's prices are high because people feel like they can sell this overpriced thing—like they can sell this overpriced thing to a greater fool later, right? Right. Um, so you can't really get a bubble without a bubble in the public markets and it doesn't seem there is one of those yet. Um, so like it's really just like, I mean, prices go up and down sort of like a sine wave and like we're at a—prices seem high, right? And so that means they're probably going to go down somewhat in the future. And that's what I tell startups. And it has gone down a little bit. I think it maybe it was 2 years ago it seemed like I saw a lot of Y Combinator startups in the uncapped 15 million, you know, kind of, you know, range and stuff like that. Do you—last batch, I feel like the valuations were the highest ever. I don't know for sure. What, um, do you advise them and what were the range—what, what do you advise them on what they should do valuation-wise and strategy?

Paul Graham: Not for—I mean, not as a—not in a blanket statement because it depends on the startup. Some people are like, "Oh, 30 million, no problem for you guys." And like, if anybody wants to give you money, you should take it, right? On any—you should take it, right? On any—you should take it, right? On any terms. Um, so there's—

Interviewer: What is the range now of these, you know, the range of valuations that people have raised money at?

Paul Graham: Well, currently you said it was very high and the most recent batch—who was in the most recent batch? I mean, it's 19 batches, they all blur together. Um, uh, certainly like there's probably somebody in the last batch who was at least 50, 50 coming out of—right after YC.

Interviewer: Yeah, I think so. I mean, there certainly have been—was that a company that was had been worked on for a year then joined YC? Because you do see that sometimes too. Somebody comes into YC and they've been working on it for a little while.

Paul Graham: Some of them yes, some of them no. But that's not correlated with—that's like how far along people are when they come to YC is not very well correlated with how they end up doing even immediately after YC. Like Airbnb. Airbnb had been launched for a year before they came to YC, but they had been launched and like were—they had been launched and like were sort of flatlined, right? Right. Um, so there's not a—no pattern there. There's no pattern there.

Interviewer: Let's talk a little bit about growth as we wrap up here. Startups want to grow. It seems like one of the things Y Combinator really teaches people is how to grow stuff. What do you think the secrets of growing these startups are?

Paul Graham: Well, in terms of techniques, you got to start with—um, you got to start with a small, intense fire. So you have—if you're, suppose you're the Apple I, right? You have to find—I mean, I think they made something like 500 of those things, right? Uh, so all they had to do is like find 500 people to buy these computers and they launched Apple. Apple, yeah. So you got to find a small number of people. It's necessarily going to be a small number of people. You can't find—you could—there's—it's impossible to make something that a large number of people want a lot. So you've got to find people who want what you're making a lot, um, and that's necessarily going to be a small number. And that's okay. That's how these giant things get started, right? You don't have to do any better than Apple and Facebook. Just get those 500 true fans, thousand fans who—whatever it is. I mean, if it's a mobile app, it might not be 500, it might be 5,000. But you've got to—you got to know who those first users are and how you're going to get them. And then you just sit down and you—and then you just sit down and you just have a party with those first few users and you just focus entirely on them and you make them super, super happy, right? Like, there's a startup in the current batch that is making a new mobile email client, right? And their beta group has one user: Sam Altman. Their goal is to just make Sam Altman happy. And when they have—like, Sam Altman is like, uses his email a lot on the go. He's sufficiently demanding that if they make—sufficiently demanding that if they make—and he knows what all the other options are too, yeah. So he's sufficiently demanding that if they make him happy, they—they've sort of used him as like the positive for a mold, right? They can now like—they like make lots of people happy, um, and that's sufficient, right? So all—one of the things we tell startups in these extreme cases where you could just like make one user happy is act like you're a consultant. Act like Sam has hired you to make an email app just for him. All you have to do is make Sam happy. It can say "Sam Altman" at the top of the screen, that's okay, yeah, right? Just so long as you make Sam feel that he would be bummed if you stopped working on this. That's the test, right? Not like your friends say, "Oh yeah, it's good, I'll use it," right? Like they have to be bummed if you stop working on it.

Interviewer: So what startups in the in these 19 sessions have gone away that you most miss?

Paul Graham: Etherpad. Etherpad. I remember Etherpad, yeah. Etherpad still exists, is a Google Docs—no, no, it's like an open source thing, open source project, um, but it was like a Google Docs kind of—I think we have funded Etherpad four times. I like that idea so much, right? There's Hackpad, yep, Etherpad, Stripe—was there a fourth one? There might have been. At least—I mean, at least collaborative writing, real-time, real-time, like you type and other people are typing in the same document, um, so boy, whoever the fourth one is, if I—they're going to be mad at me if I don't remember the name, but so it goes. Um, that's one of those ideas I—that's going to happen, right? It's Google Wave. Google Wave was a good idea, um, they just like—they just launched it like New Coke or something, you know? If they had launched it like a startup, it's like, "Here, look, there's this little thing that doesn't matter." The problem they said was like, "This is going to change everything, this—the web," right? What does it do? I don't know, everything. Like if it does everything, it does nothing, um, and they should have just like launched it as this apparently inconsequential thing, right? And then everyone said, "Hey, this is much more than a simultaneous typing thing, this—this could replace the web," be like, "Yeah, yeah."

Interviewer: Who—who didn't you accept that you should have accepted?

Paul Graham: Well, um, you must have the anti-portfolio. The anti—there is, but we say we're not going to talk about—we say we're going to keep it confidential if people apply.

Interviewer: Well, if they're that successful, they're going to be pretty flattered that you would—

Paul Graham: Well, I don't know. I haven't talked about them so far, but there are pretty—there's—I'll tell you an easy algorithm for figuring them out, right? We—there are a bunch of other things like Y Combinator, ah, and when people get rejected by us, they often get accepted by one of the others, right? So a SendGrid or something like that could have gone to one—SendGrid or something like that, yes, for example. It could have been a, you know, I'm just picking Techstars, his biggest win, I think, yeah. We changed our application process after that.

Interviewer: To how?

Paul Graham: Uh, a particular application, um, that might have been recently mentioned, was only read by one partner, Robert Morris, who was really harsh, and he like gave them such a bad grade they sunk to the bottom of the queue. No one else ever saw them, and his comment was just "Spam company." Oh yeah. So now we changed our procedure after that to double—no, anyone that Robert gives a bad grade to, I would go and look at as well. Ah, just to make sure. Now we have so many people reading applications that could never happen. We have like 10 people reading applications.

Interviewer: What do you think of Google under Larry Page?

Paul Graham: Google under Larry Page, um, uh, I find it indispensable, yeah.

Interviewer: What do you think—if I want to look for things on the Internet, it's Google all the way.

Paul Graham: Well, more like Google corporate, I mean. So not Google search, but Google buying six robotic companies, Google self-driving car, yeah. I think they're trying to be Bell Labs or, you know, whatever Bell Labs is now, um, and that's great. I think that's great that they're not just sitting there like, you know, trying to turn up the screws on, um, advertisers or something like that.

Interviewer: Apple under Tim Cook?

Paul Graham: I have an iPhone, um, I'm—I'm really bummed they—they funded that patent troll, Rockstar, yeah. That huge bummer, that Rockstar, yeah. That huge bummer, that Rockstar, yeah. That huge bummer, that—when I heard that news, I—I actually for the first time ever like thought like, "Maybe I don't want to have an Apple computer anymore," you know? I feel like that was probably wished upon them by Steve Jobs. I don't know the origins of that, but I feel like that was way—that was probably something that like Steve decided and they were kind of stuck with because they spent so much on it. But like, and I now feel ambivalent about Apple in a way I never did before. I think they crossed the line with that and they're being really quiet about it. No one's talking about Rockstar. So let's talk about Rockstar, everybody, and what a sucky thing to do. They just bought—they funded a patent troll, yeah. Like, have you ever been to the website of Rockstar? Like the—the copy on that page, um, is a work of [unclear] art, you know? Like—like the guy, whoever wrote that stuff, was like—like they told him just like, um, you know, "Channel some evil dictator propagandist," like a Bond villain, right? Yeah. And the guy—it was probably some nice guy who wrote that, and he was probably like, "I can't believe this." This is like—this is like—like some guy stroking a cat on his lap, you know? Yeah.

Interviewer: And Facebook, you know, now at a billion people. I mean, how do you look at that?

Paul Graham: People, man, they've got a lot of employees. Um, not employees, I mean, in a way, since they are creating the content, they are employees in a way.

Interviewer: Fair point.

Paul Graham: Employees in a way. Fair point. Facebook, I mean, startups depend a lot on their founders, and Mark Zuckerberg has infinite energy and drive and cleverness, so I wouldn't worry about Facebook, yeah. So I wouldn't worry about Facebook, yeah. And—and how, like everybody else, they read the news about WhatsApp and they thought, "That's ridiculous to pay 19 billion." It's ridiculous that 19—that WhatsApp was worth 19 billion. And I—I thought I read it like as if someone had measured the atomic weight of WhatsApp and it turned out to be higher than I thought, right? Like, really, WhatsApp was worth 19 billion? That's interesting, because who knows better? These random people chattering on forums—I won't mention any names—or like Zuckerberg himself, who like knows all the numbers and is actually betting this money, right? Like, it must be worth 19 billion if—if Zuckerberg was willing to pay 19 billion for it, because he is no idiot, right? Yeah.

Interviewer: So, congratulations on the new found freedom in a couple of days off a week. It's going to—

Interviewer: Be fantastic for you. It's not the time, it's the attention. It's that I won't have to think about Y Combinator all the time, right?

Paul Graham: Ah, in order to build something like this, you have to give up like a lot of cycles. There's this, this funny like, the thing, the quote of mine that people quote the most is that one about how you can't do a good job at something without thinking about it in the shower in the morning. I'm like, every time I see this on Twitter, I'm like, ah, every time, all I think about in the shower in the morning is Y Combinator, right? It had taken over my brain, and now I'm going to get my brain back. I'm going to be able, I'll take two showers every morning. I'll be so psyched.

Interviewer: Are you, uh, you think you'll ever do your own startup again?

Paul Graham: No, never. I always say encouraging people and telling them they have to start up, right? It's just not worth, need startup, right? It's just not worth, need money, start a startup, but it's not worth it to, starting a startup is the most efficient way to do it, but starting a startup hurts. Like, I mean, you would expect it to. There's a conservation law there, right? Like, you shouldn't expect starting a startup to be a great way to get money and to like feel really easy and good, you know? It's like, like that would be great, wouldn't it?

Interviewer: Yeah, it feels great and it's the easiest way to make a large amount of money, the quickest way. It's painful, isn't it?

Paul Graham: Yes. I, we, we don't try and like, we don't tell founders any, try and like, we don't tell founders any other. It's painful, right? If it's not a certain amount of painful, you're probably not trying hard enough.

Interviewer: Well, that's as good a note as any to stop on. Ladies and gentlemen, Paul Graham. That was awesome. Well done. Well done.
