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Mr StockTip

Angel Investing

Angel Investing: Ownership in a Start-Up

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Shark Tank - a show where hopeful entrepreneurs come to seek an investment to help grow their company, in exchange for an equity stake. Angel investing is the same basic concept where as you can invest in a start up or growing business for as little as a few thousand dollars!

Angel investors give more favorable terms than other lenders, as they are usually investing in the person rather than the viability of the business. They are focused on helping the business succeed, rather than reaping a huge profit from their investment. Angel investors are essentially the exact opposite of a venture capitalist.

How Angel Investing Works:
Angel investments bear extremely high risk and are usually subject to dilution from future investment rounds. As such, they require a very high return on investment. Because a large percentage of angel investments are lost completely when early stage companies fail, professional angel investors seek investments that have the potential to return at least 10 or more times their original investment within 5 years, through a defined exit strategy, such as plans for an initial public offering or an acquisition. Current 'best practices' suggest that angels might do better setting their sights even higher, looking for companies that will have at least the potential to provide a 20x-30x return over a five- to seven-year holding period. After taking into account the need to cover failed investments and the multi-year holding time for even the successful ones, however, the actual effective internal rate of return for a typical successful portfolio of angel investments is, in reality, typically as 'low' as 20-30%. While the investor's need for high rates of return on any given investment can thus make angel financing an expensive source of funds, cheaper sources of capital, such as bank financing, are usually not available for most early-stage ventures, which may be too small or young to qualify for traditional loans.

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Note: *On February 19th 2012, TrautFinancial CEO Connor Traut seed invested into a marketing connection website called AdSimplified.com, that is on schedule to be launched by May 1st, 2012, in which he acquired 50% equity and added the marketing company as a TrautFinancial partner.*

Video by Stanford About Angel Investing

Three Types of Funding from Investors:
-*Seed* (start up funding from the idea, an investment most found to be under $25,000 and from family and friends)
-*Angel* (after start up and still early in the company's life, an investment usually between $25,000 and $500,000)
-*Venture* (essentially over $500,000 and while company is growing)

Seed vs Angel vs Venture:
Angels typically invest their own funds, unlike venture capitalists, who manage the pooled money of others in a professionally-managed fund. Angel capital fills the gap in start-up financing between "friends and family"(sometimes given the acronym FFF, which stands for "friends, family and fools") who provide seed funding—and venture capital. Although it is usually difficult to raise more than a few hundred thousand dollars from friends and family, most traditional venture capital funds are usually not able to consider investments under US$1 –2 million. Thus, angel investment is a common second round of financing for high-growth start-ups.

Become an Angels Investor:
- You will need money, typically at least $25,000
- Skills and experience in your area of expertise
- Obtain experienced legal advice and accountancy assistance
- Plan how you expect to achieve a return from your investment
- Find out about the entrepreneur and management team's background and track record
- Consider investing together with an experienced business angel
- Be patient

Find Angels Investors:
Gust.com

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