

CHAPTER 1:

THE MAKING OF A COMPASSIONATE CAPITALIST

We are at the dawn of a new era of financial democratization. The barriers that limited communication and awareness of opportunities between entrepreneurs and private investors have been removed. Men and women with sufficient income and a desire to diversify their wealth creation strategy through angel investing have multiple ways to find, evaluate, and invest without a middle man.

The modern concept of an Angel Investor was officially created in the United States in the Securities Act of 1933, but the wealth creation strategy it represents dates back hundreds of years. In fact, it is the same strategy Queen Isabella I employed when financing Christopher Columbus' search for a sailing route to India. She financed his trip in exchange for a share of the wealth he found and though it didn't go exactly according to plan, something most Early Stage companies have in common, the investment was certainly profitable for Spain.

Now, there is an entire financial ecosystem devoted to providing capital to small Early Stage companies that have the potential to grow into big companies. There are pools of funds dedicated to providing business financing in a myriad of forms at every stage of a company's growth. The bigger and more developed the company, the easier it is to obtain capital for that business to finance expansion and growth. However, the available capital for those at the very earliest stage – Startup – is extremely limited. The risk involved in building a startup is usually too great for a bank or similar institution to get involved. Innovation, creating something new, something from nothing, requires capital. An entrepreneur seeking to build a big business needs more than what he or she can borrow from credit cards or a home equity loan.

This is where you come in. This is where you get the opportunity to use your financial resources to fund the next big idea, or the life changing product, or the innovation that creates jobs. Compassionate Capitalism, within this context, is simply using your personal funds to change the world.

The Compassionate Capitalist

Someone who invests time, resources, knowledge, and money into entrepreneurial endeavors to bring innovation to the market, create jobs, and produce a positive financial return for all parties.

In this Chapter, we will cover:

- ✓ The process and investor sequence one novice investor went through to become an Angel Investor
- ✓ The motivations behind each step of the journey to gain skills and experience

INVESTOR JACK'S JOURNEY

JACK'S INTRODUCTION TO ANGEL INVESTING

I first met Jack (not his real name) at a networking event. Jack was the President of a US based agricultural materials company. He had been in that position for many years and with the company for much longer. While he enjoyed the job, and the perks that came with being an executive, he knew that he had reached the pinnacle of his career. Unfortunately, without a new challenge to tackle, Jack was getting bored.

He was in a solid financial position. Between a nice pension, a well-funded 401k, substantial stock portfolio, and a few real estate investments, he felt confident about his family's future. At the same time, he knew there wasn't a clear path to increasing his wealth. He considered starting or acquiring a company, but with two kids in high school and college expenses looming, the uncertainties of running his own business gave him pause.

When I gave him my card, he immediately asked, "What is angel investing? I've never heard of that."

I explained that by investing in private companies as an Angel Investor he could own a small piece of many private companies. The entrepreneurs he invested in would work hard to be successful and he would reap the rewards. It was the best of both worlds, he could keep his dependable income and benefits, but also have his share of the entrepreneurial dream. And even better than starting a business where all the risk was on him, as an Angel Investor he could own a small part of multiple companies in different industries, just like diversifying a stock portfolio.

Jack was intrigued at the possibilities, but also frustrated that his financial manager never mentioned this option. I explained the government had established rules that discouraged and even prohibited financial managers and wealth managers from talking about investing in private companies as an asset class, but it was completely legal and something that many people with the same personal wealth as he did on a regular basis, and even in Atlanta. We made plans for him to attend the next NBA&I (Network of Business Angels & Investors) dinner and I sent him the first version of this book to kick off his research.

Jack came to that meeting very excited. He had read the book and saw a whole new world before him. While I thoroughly enjoy seeing the excitement on a new investors face, I try to temper that excitement with caution and a hefty dose of reality.

Inside Secret #2

Angel Investors have the power to change the world, but we must do so without ruining our own financial future.

The appeal of a huge payout, the excitement of finding the next Facebook or Amazon, has led many investors down a dangerous path of making an investment decision more on emotion than on practical business application. There's an adrenaline rush that comes with learning about an opportunity and imaging the future. The eyes dilate, the heart beats faster, the expectation is palpable as the body leans forward to watch the dice roll, and will the game to bend in our favor.

But this is not a game.

I warned Jack against jumping into any investments right away. It is easy to get caught up on the emotion of the opportunity, and instead we must rely on research and due diligence. Jack needed to establish some criteria to decide what he could afford to invest and how he would distribute that investment over multiple opportunities. Not all deals produce a return and he may even lose his investment on some. It was imperative that he have the discipline to not invest money that was earmarked for his kids' college or pilfer his retirement accounts beyond what would be considered discretionary. Since he could comfortably afford a \$30,000 annual country club membership, he could afford to be an Angel Investor.

“An investment is simply a gamble in which you have managed to tip the odds in your favor.”

– Peter Lynch, *Investor*

JACK'S FIRST INVESTMENT AS AN “ANGEL”

After a couple of months of attending NBA&I events and the follow up due diligence meetings, Jack had learned a great deal about the questions to ask when evaluating a deal, and the types of answers that one could expect. Again, angel investing in Startups is often about seeing the potential in an untested leader and their untested product rather than selecting a proven company with an excellent track record. When our investing group began researching a new high-tech X-ray machine that could differentiate the density of matter of substances, liquid or solid, containers of any size in seconds, Jack felt he had found his first investment.

The company had already received millions in funding. Their technology could tell if the liquid in the bottle was water or nitroglycerine or that bag of powder in the shipping container was sugar or cocaine, without direct human visual inspection. It was cool tech and something that seemed like exactly what Homeland Security or the Drug Enforcement Agency (DEA) would want to buy and use. The company was working to finalize the commercialization of the tech to be sold as both a human size and a shipping container size scanner. While waiting for the next round of financing, they needed bridge financing to make payroll. They were offering a convertible note that accumulated interest and expected the entire principal and interest would be paid in full in 90 days, plus an equity kicker. While it sounds like no brainer, there was certainly risk because if the next round financing didn't come through, there was no recourse and therefore, no payout. The investment would simply be gone.

Jack and a friend of his combined funds to provide \$100,000 to the company. While the company did miss the 90-day deadline, Jack's return included the principal plus 20% back in just 110 days. That's a better return in a short period of time than he could get from any other investment, plus he had a few shares of the company for his portfolio.

What Jack and his friend saw in this company was not simply a return on an investment, but a way to impact the world. They became part of the Compassionate Capitalist Movement.

THE COMPASSIONATE ANGEL

Jack took a step outside his comfort zone. His investment made a difference not only to his own

Excerpt from Insides Secrets to Angel Investing©

wallet, but helped to advance a technology that could impact public safety the world over. It is important to note, however, that he was not alone in carefully selecting such an investment, he could draw from the collective experience and expertise of everyone in NBA&I to evaluate an opportunity that worked out in his favor. What I didn't describe here are the many opportunities he had a chance to review and passed over because they did not fit his criteria.

Jack went on to invest in many other projects over the next few years. He built a portfolio that included software, high-tech RFID, and bio-medical companies.

Inside Secret #3

This is how Angel Investors tip the odds in our favor. We evaluate, we question, we consider, but we move forward only with the investments that fit our specific criteria and have passed due diligence.

Thanks to the growth of crowdfunding sites like Kickstarter.com and others, more and more individuals are experiencing the excitement of being a part of a startup. Through small investments and incentives, companies can collect thousands of dollars to launch products. People invest because they care about the outcome, they believe in the product and see the future. Literally anyone can be an investor in these small-scale projects.

There is a movement underway. An entire generation is growing up with the concept that good ideas get backing. That anyone with an internet connection can build a product, invent a company, or introduce innovation. What's more, if they believe in a product, a company, or an innovation, they can "back it", to finance it, and to participate in that entrepreneur's success. This is Compassionate Capitalism within the context of the Compassionate Capitalist Movement.

SUMMARY

As an Angel Investor, you will risk more than the \$5 minimum for Kickstarter projects, but you can leverage the same passion small scale investors do when they come together as a group and create momentum behind an entrepreneur's passion. Just as Jack discovered by seeking knowledge from the earlier version of this book, gaining experience by getting in the game and immersing himself in the community of investors, he learned how to be an Angel Investor.

He embraced Compassionate Capitalism as a new dimension in his life to create wealth for himself and others involved in the success of the company, yet without risking his successful career or the security he had built over time that had provided so well for his family. This book will explain best practices for successful angel investments, the necessity of angel capital in our economy, examine the laws and policies that govern such investments, and provide perspective on the current environment.

NEXT STEPS

Take a minute to set up your account at <http://KarenRands.co/Resources> and join the National

Excerpt from *Insides Secrets to Angel Investing*©

Network of Angel Investors. Your basic membership is free with the purchase of this book.

Within that website portal you will find the resources and materials referenced in this book that are critical to your success as an Angel Investor.