

# 12

## Inside Secrets to Angel Investing

By Karen Rands

The following are 12 of the 44 golden “Inside Secrets” included in the book, *Inside Secrets of Angel Investing*, available at Amazon.com and other popular book retailers.

### Inside Secret #1

Most Angel Investors who are in the business of investing, anticipate some of their investments will fail. They mitigate risk through garnering information about the company and the market. They make a commitment to invest in multiple companies over time and to build a diverse portfolio, yet, they also only invest what they can afford to lose.

### Inside Secret #6

Compliance under the various regulatory laws is an area that I have seen abused or disregarded many times in my 15+ years of working with entrepreneurs and investors. Investors, not familiar themselves with the securities laws, naively assume the company has dotted its I’s and crossed its T’s. Experienced investors have the discipline to ensure that the company is currently (and in prior endeavors) in regulatory compliance.

### Inside Secret #7

Ironically, entrepreneurs will often bypass their friends and family when raising early capital and go straight to applying to present to angel groups or pitch events because they don’t believe their family has the funding, or they don’t want to feel obligated to the friend or family if they lose their money. Experienced Angel Investors will use this as a litmus test. If the company has received NO money from a friend or family member (or someone connected to that friend or family) it is usually a sign of one of two things:

1. Friend or Family knows something of the character or worth ethic of that entrepreneur that makes them not want to invest or help the company with introductions to potential investors.
2. The entrepreneur lacks true commitment and belief in their project to risk a family or friends’ money, but is willing to risk a stranger’s money because they see it as no strings attached. If they truly believed they would be successful, why wouldn’t they want their friends and family to benefit?

### Inside Secret #10

If a company you are considering for investment has taken the time to engage the free resources available from the SBA, whether that be the Small Business Development Centers (SBDC) or SCORE, hired a business coach, or engaged strategic consulting firm, then that shows they are open to coaching and have received the instructions on the fundamentals of building a business.

### Inside Secret #15

Not all portals or platforms are created equal. It is critical to not simply assume that a company has been screened or evaluated at any level, just because they are found on a portal. You should find out what their application process is to get listed.

### **Inside Secret #17**

Ideally the executive team has developed and documented a funding strategy that is linked to their operational growth plan, so that with funding at specific levels, they can hire key personnel and complete other items related to delivering product to the market and creating revenue. Bottom line, is you don't want to invest \$50,000 only to find out that they really needed \$500,000 to get to the next milestone.

### **Inside Secret #22**

Being an investor that “owns pieces of other businesses” is the best blend of the right side of the Cash Flow Quadrant. Whether those investments are as Angel Investors owning stock or as a private lender for a lifestyle company that is growing but not yet eligible for traditional financing.

### **Inside Secret #26**

The “value” of a private company is an inexact science before they receive their first round of financing. Value may increase with subsequent rounds based on the amount of capital put in, not necessarily because the company is actually worth that amount, or can achieve the estimated value, when the time comes to go public or get acquired.

### **Inside Secret #29**

There are many ways an investor can provide financing to a worthy company without directly investing cash. You can use assets such as your stock portfolio to secure a Line of Credit for a company. They can invest through a self-directed IRA, such as a Roth IRA, much as they might do to buy investment real estate. They can pay for certain services or development through their company that would benefit their company as well and gain equity and licensing revenues.

### **Inside Secret #33**

Shrewd investors with a strong financial IQ, familiar with evaluating and purchasing stocks for public companies through online stock portals, may be able to find the best of both worlds with Reg A+ offerings: Established private companies bringing innovation to market that can accelerate their growth and market value.

### **Inside Secret #38**

Every business grows with some combination of debt and capital infusion. Even Lifestyle Market Participants will have owner equity for the capital used to start a business. It is important for you to understand what types of debt are available to finance different aspects of a business as it grows, so that when appropriate, a company can qualify for the appropriate debt that fits a specific need without having to take the time to seek investor capital and further dilute the shareholders.

### **Inside Secret #43**

Before the rules for Reg CF were released, many companies would say they were raising capital through Crowdfunding, not really understanding what they could or could not legally do – to advertise, to register, or receive funds. It is in your interest to ask that additional question of a company... “Did you use Crowdfunding to raise capital?” If the answer is yes, then find out under what conditions. It may be a

disqualifier, or you may be willing to work with them to clean up the legal mess, not unlike a company that raised their Friends and Family round without adequate documentation.

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Be sure to set up your free membership with the purchase of the Inside Secrets to Angel Investing at <http://karenrands.co/resources>. Your access code can be found in the book. The Resource portal contains so many valuable tools and documents that will help you on your journey to learn about angel investing and join the Compassionate Capitalist Movement. Here is a partial list of the valuable resources included when you get your book either at Amazon or at the book's website: <http://insidesecretstoangelinvesting.com>



- Private Equity Due Diligence Check List
- Private Business Valuation Calculator
- Entrepreneur Question Worksheet
- Sample Investor Questionnaire
- Capitalization Table Documentation
- Anatomy of a Term Sheet and other samples
- Inside the deal that made Bill Gates \$350,000,000
- Expected Costs of Startup Ventures
- Personal Investment Model Template
- The role of Crowdfunding in an Investment Strategy
- And so much more