



ANGEL CAPITAL ASSOCIATION

ACA Data Insights What We Learned From Our Data

In support of [ACA's Data Insights initiative](#), once a month we will be sharing charts illustrating useful learnings from analyzing data on angel investing and portfolio returns.

This month we are addressing the question of the value of diversification. Based on analysis of the first 159 outcomes (exits and shutdowns) in [Tech Coast Angels'](#) portfolio since 1997, if you'd invested equal amounts in all these companies, you'd have realized a 4.8x return. However, based on a Montecarlo simulation of 20,000 possible portfolios of just 5 of those investments, only 26% of TCA investors would have realized a combined return of 4.8x or greater.

SIMULATING DIVERSIFICATION

5 Investments



- 159 Outcomes (Exits and Shutdowns)
- **Montecarlo Simulation (20,000 outcomes)**

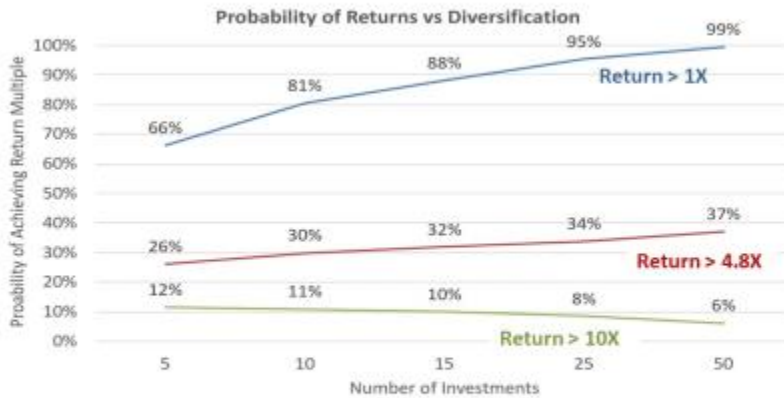
Note: Based on first 159 Outcomes of TCA and Random Selection of Investments & Montecarlo Simulation of 20,000 outcomes



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This is because any angel portfolio is driven by a very few home runs, and the likelihood of "catching" one of those home runs goes up with more investments. In TCA's case, 3 of the 159 produced 74% of the return (139x, 235x and 263x), so even with a portfolio of 50 investments it is quite possible to miss all of those home runs. With 50 investments, the chance of reaching the 4.8x is only 37%.

DIVERSIFICATION IS CRITICAL



Note: Based on first 159 Outcomes of TCA and Random Selection of Investments & Monte Carlo Simulation of 20,000 outcomes



- 5 Companies
 - 66% chance of earning at least 1x
 - 26% chance of earning at least 4.8x
- 25 Companies
 - 95% chance of earning at least 1x
 - 34% chance of earning at least 4.8x

This explains the recent emergence of many “sidecar” Angel Funds because it would take a lot of capital for an angel to invest in 159 individual investments of \$25,000 or more each. Expect to see more Funds in the coming years.

Stay tuned for additional insights next month and sign up to participate in [ACA's Data Initiative](#) by submitting your data for future editions of the [Angel Funders Report](#) to provide angels with insights on the factors that affect the outcomes of startup investments.