An Angel Investor's Job Description

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Being an angel investor has a certain cache. You're sought after by entrepreneurs and assess the value of their ideas. You choose whether or not to invest. And when things go well, you make money and you're part of getting a business off the ground. In this light, who wouldn't want to be an angel investor?

Angel investing is also risky and involves work, so it isn't for everyone. So what is the work of an angel? If you are an accredited investor and are considering becoming an angel, here is the "job description," whether you plan to invest full time or part time, as a hobby.

The Big Picture

Before making investments, angels need time to understand the field and do some planning. Here are three "big picture" aspects of the job:

- **Understand the risks and rewards of angel investing.** It's true – angel investing is a ton of fun. But investing in early-stage companies is financially risky. Out of every 10 angel investments made, on average investors experience five business failures and three to four exits that will bring a modest Return on Investment (ROI). This leaves just one or two investments to provide a 10-30X ROI - equating to the bulk of your return portfolio success.

- **Develop your personal strategy for investing**. Considering the risks, angels need to invest in lots of companies and be ready to lose money. That's why having a portfolio strategy early on is so important. Bill Payne, who has made 60 angel investments, recommends an angel portfolio strategy with these components: determine the total amount of money you will invest over time in startup companies, how many checks or companies you will support and what kinds of companies to invest in. If you make at least ten investments over time, consider dividing your total angel investment by 10 – or ideally 20, for companies that need follow on capital. Smart money is invested in companies or sectors that you know and understand. It's also wise to choose investments based on what motivated you to be an angel. For instance, I personally like to invest in true startups where I live and have women on the leadership team. There is no right answer here – it's your money, so invest in what is important to you.

- **Determine where to find good companies to invest in and the right vehicle for you**. These days there are so many ways you can find deals and do the work of angel investing. If you are part of the entrepreneur ecosystem and can easily attract opportunities on your own, solo angel investing or informally investing with friends could be the way to go. Or you can build on the power of more people by aligning with angel groups, accredited platforms or accelerators. As you explore these options and pick what is right for you, take advantage of events and community activities that connect you to investment opportunities.

Working on Individual Investment Opportunities

With planning, research and strategy complete, the large part of an angel's workload is evaluating and negotiating deals and supporting portfolio companies:

- **Evaluate investment opportunities**. Susan Preston, an active angel investor and educator, uses seven factors to decide if a company is investable: Does the company has an excellent management team? Is the business model is scalable? Is the company is attractive to potential acquirers? Will the potential exit provide the return you need? Is the product validated by customers? Is the market large? Does the company have a good to-to-market strategy and does the opportunity fit your personal preferences? See this Angel Capital Association webinar for more details.

- **Conduct due diligence.** It is important to validate potential investments, but the amount of time investors put into the process varies. Many angel organizations have processes and checklists to help angels do this research and answer important questions like: Is the entrepreneur and team up to the task – and do they have the integrity you need? Are there customers or strong potential customers for the product or service? How much capital does the company really need to get to an exit? How much due diligence you conduct will likely impact the number of investments you will do in given time and relate back to your risk tolerance.

- **Negotiate and structure the deal.** Often during the due diligence process, angels work with the entrepreneur to set the structure of the investment. Angels need to make a number of decisions in this process: How much total investment will the angel or group of investors make? Is the investment a "priced round" equity deal or a note that will convert into equity in a future round? (There is a debate among angels on this question.) If it is a priced round, what key items should be included in a term sheet? And for many angels, what is the value of the company before the investment? (This is important in setting the portion of the company the investors own.) There are many financial and legal issues to understand, so it is important to get training on these topics and/or connect with experts.

- **Make the investment**. After evaluating opportunities, doing due diligence and structuring a deal, you're made a decision to invest. It's time to write a check and sign a number of legal documents.

- **Support and monitor your portfolio companies.** Unlike other types of investing, the work of angels really begins after the investment is made. Entrepreneurs require angel support and expertise to help them grow and meet the challenges they will undoubtedly face. If you are part of a group or syndicate investing, a "lead angel" should serve on the company's Board of Directors. As Dave Berkus, serial angel and well known startup board guru says, having the right angel on a board can be the difference between a startup's success and failure, and by extension, the success or failure of an angel investment. He provides excellent tips for angels to be effective on startup boards.

- **Understand when and how you can reduce your tax bill**. Fortunately angels have access to two federal tax policies that can help recoup some investment losses and reduce taxes on gains in successful investments in small companies. In addition, angels in about half of US states can get tax credits on qualifying angel investments. Make sure you and your tax accountant take the time to review these policies.

- **Keep learning – to build experience and grow deal flow**. Nothing beats learning by doing, but one of the best ways angels can continue to grow their expertise is by watching and talking with experienced angel investors at local events, angel groups and platforms, and professional development events such as ACA Summits. There are many great articles, books, videos and other helpful resources as well.

Angel investing is a unique, complex but also highly rewarding way to invest. Although not everyone will want to dedicate the time and energy required to be an active angel investor, for those that do, the benefits offer a payoff unlike any other investment opportunity.