Eight Steps to Becoming an Angel Investor

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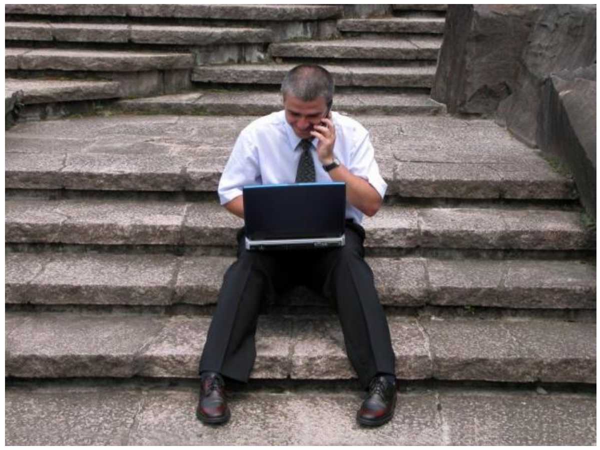

If you've acquired some wealth in your life, you may have heard the buzz around angel investing and considered the idea of being an angel investor. Not only is it a blast to help innovative entrepreneurs, it also offers a chance to make superior financial returns. Even so, perhaps directly investing in and mentoring startups still sounds scary. You may wonder: How do people really get started as angels? And how do you know it is right for you?

Looking back at a decade of angel investing at the Angel Capital Association, I see eight main steps to successfully getting started in angel investing (and most aren't scary at all).

1. **Make sure you meet accredited investor standards** – Individuals who have an annual income of $200,000 or a net worth of at least $1 million (not including their primary homes) are considered "accredited investors." Why is this important? Companies that raise money from accredited investors are exempt from many securities filings with the SEC and state securities regulators, meaning the large majority of equity fundraisers look for capital from accredited investors. I personally believe an angel must be an accredited investor to be an angel investor.

2. **Understand the risks of investing in startups** – As I've written many times, angel investing is rewarding but also risky. We know from research that more than half of all angel investments lose some or all of their money. We also know from the same research that it is possible to develop a superior return – often better than other types of private equity – especially when a portfolio approach of angel deals and good practices are used. When you're getting started, the key question to ask yourself, along with your spouse, is: How much are you willing to lose? Make sure your own risk profile is a fit with angel investing and these risks, or it may not be the right asset class for you.

3. **Educate yourself** – As angel investing has become more well-known and popular, highly experienced angels with good returns have produced a growing wealth of materials to help others develop and grow their angel skills. Visit ACA and other sites with links to videos, books, articles, and blogs. Consider attending workshops and events, where you can meet

entrepreneurs, watch pitches and get a sense of your interests and the questions investors ask to assess a deal.

4. **Ask experienced angels for advice** – To me, this is one of the most critical steps. There is so much to learn about angel investing that part of the angel culture is centered on asking questions. It's not only a fast track to practical suggestions from experienced investors, asking questions provides a jump start in developing relationships and building your angel network for investing together in the future. So it makes sense to start your journey by asking questions about being an angel.

5. **Join an angel group or angel platform** – Angel groups, clubs, networks, funds, and platforms of angels are a great way to watch others and learn best practices. They can also help you decide if angel investing right for you. Bob Goff, founder of Sierra Angels suggests that new angels "join an angel group or network whose members have expertise in your areas of investment interest. Trying to be a lone angel tends to further increase the risk of angel investing. The addition of multiple opinions and insights from others with varied and relevant experience can lead to higher probabilities of success."

6. **Develop an initial investing strategy** – Early on, it is important to think through why you want to invest as an angel, what kinds of deals make your day, and how many investments you should make over time. Steve Mercil, CEO of Rain Source Capital, often hears stories from people who explain why they want to be angels: "They have made money and want to leave some kind of legacy and pass their experience and knowledge on to someone else as well as make an ROI. They want to help an entrepreneur grow a business and experience the challenges. They want to be involved in this important work." Mercil also recommends that those new to angel investing think about the kinds of companies—industry, stage, and location—they like to deal with and how much of their net worth they are willing and able to put at risk.

7. **Actively participate in Q&As**–Your first chance to dive into the investment experience will likely be during the Q&A session, after entrepreneurs pitch their investments in angel group and pitch meetings. Your best way to learn and to assess the investment potential is to ask questions. Remove any fear of asking a "stupid question." If you're wondering something, its likely other angels are too. So go ahead and ask what you'd like to know during the Q&A period, or if you are more comfortable, ask questions after the meeting.

8. **When ready, write that first check** – At some point, you will find a balance of feeling like you've learned the basics about the process and what you need to know to invest in a good deal. At this time, take the big leap of making your first investment. In talking with many ACA members, this is commonly 6 or 7 months after deciding to be an active angel.

After all of this, I think it is important to keep learning. One cool thing about angel investing is that there is always something more to learn or improve on after every experience. Perhaps the ultimate "aha" moment is when you realize that you now know what you didn't know before, and can focus on getting better in that area. Insights like these are the key to improving returns and having more deals in your portfolio that deliver that combination of financial and fun rewards.