Twitter Thread by Ryan Caldbeck

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1/ Equity crowdfunding or equity investment marketplaces failed. Full stop. Didn’t work.

Here is my synopsis on why the industry hasn’t taken off. Lots of reflection and painful lessons I hope others can learn from.

2/ Reason #1: The financial feedback loop for vc takes yrs. If you want one core reason the industry has not succeeded, it is this. Time between when an investor writes a check and gets confidence she should write again- is way too long to encourage repeat investment

3/ If you are ever at a YC event and some entrepreneur pitches you on a marketplace that helps private companies raise money…..ask how they will solve this issue.

[imagine being at a cocktail event again?]

4/ I missed this point when we started. Frankly the 60+ investors that passed on us also missed it- or at least it never came up as a key concern. Not once.

The difference between credit, with financial feedback loops that took days or months, and equity is huge.

5/ In private investments it is typically >5 yrs before you see the financial feedback. Win or lose thats a long time for most people. If you’re running a VC fund you’re making $ along the way with management fees, but angel investors….are just shelling out checks.

6/ That’s the key problem. How many checks will you write through an online investment marketplace before you see a return? That is the financial feedback loop- or lack thereof.

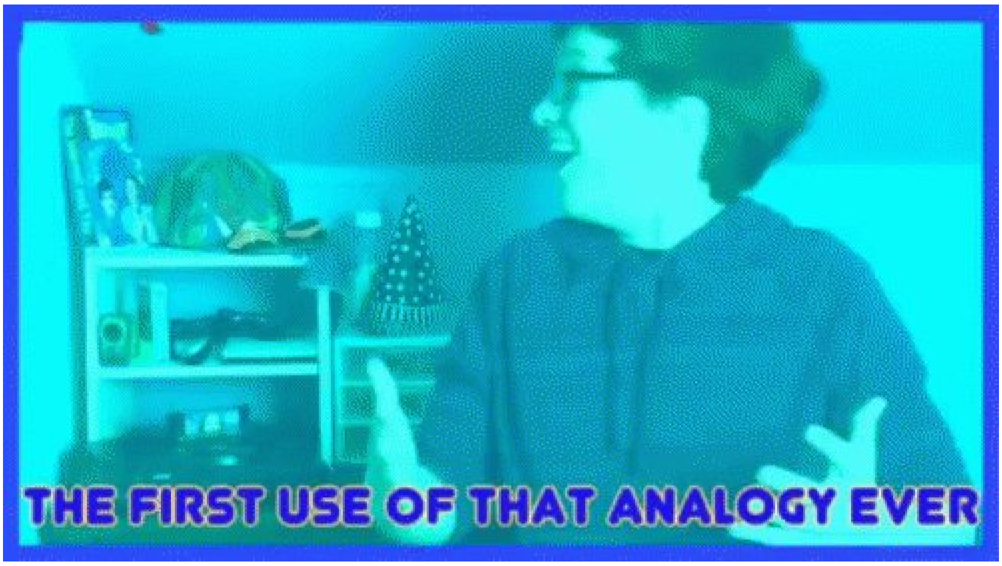
7/ We tried non-financial feedback loops. Information feedback loops (“look the co. is growing revenue- that’s great”) and product feedback loops (“look here is the new product from the company”). Nothing was powerful enough to matter when the financial feedback loop took years.

8/ Long feedback loops, along with many other things on this list, made generating non-institutional repeat investor demand on the marketplace extremely difficult.

9/ Reason #2: The Psychic Feedback Loop isn’t close to strong enough. So many people would say “if Kickstarter could help a watch brand raise millions of $, surely an equity marketplace would be even more successful because you’re getting equity.”

No.
https://t.co/sOaWIadAZb

10/ @kickstarter delivered physical products when someone would give tens or hundreds of $. That’s a dramatically different value prop to asking someone to *invest* tens of thousands of dollars (or millions) in exchange for equity. It is like comparing Apples and Beef Jerky.



11/ Reason #3: Misaligned incentives. Too many equity marketplaces were set up as “Heads we win, tails you lose.” Some sites allowed people to form deal-level SPVs, charge mgmt fee and/or carry on deal by deal, without transparency on their track record.
https://t.co/Ef4ZgAyPKr

12/ To quote a former #1 syndicate lead, who no longer runs these SPVs: “dont invest into my [SPVs], I put my worst deals there.”

13/ The sites themselves also had misaligned incentives. They knew they got valued off of volume (GMV). They often received revenue off of that GMV. Some didn't see incentives to ensure strong investor performance over the long-term.

14/ To be explicit- that means that some marketplaces put bad deals on the platform and didn’t care because they wouldn’t have to answer for those bad deals.

15/ Reason #4: Lack of transparency. How did the deals on the site perform last year? How did the deals for a given SPV lead perform? Can we get direct access to the CEO, to their financials? How is the platform getting compensated?