Twitter Thread by bullcityVA



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THREAD: So I looked into angel investing (so you don't have to) and this is my personal experience with the #angelinvestor community.

This is not my area of practice, so this is my experience as an investor...

(1) You generally have to qualify to be an investor. As part of the investment process you universally have to attest that this is fun moneys and you don't need for like 10 years and in fact don't need it ever because you'll probs never get it back.

So from the jump these are not traditional "investments", they are not part of a balanced portfolio and should be thought of as like a gambling allocation for a trip to Vegas or buying lotto tickets. You could win, but it's more for the fun along the way.

(2) It's actually NOT that fun along the way. If you invested in consumer products sometimes they'll do like kickstarter-type bonuses or discounts, but in general, it's like an e-mail once a quarter or even less frequently...

(3) The minimums. Most of the minimums for real angel investment funds with good terms is $25,000 or higher. ($50,000 seems more common.)

There are a few exceptions:
AngelList often has $1,000-$3,000 minimums.

And there are "crowdfunding" investment platforms like Republic, WeFunder and NetCapital with ~$99/100 minimums.

(4) The terms. LMAO. So the ACTUAL good terms are for the people who put in the $50,000 or people who put together the "syndicates" of investors (fund managers), who take a % of proceeds off the top.

There are a few key terms, namely the carry cost and the company valuation when you buy in (in theory, this increases over time).

Carry cost for many of the sites available to general public is ~10-20%.

The valuations for some of these companies are absurd and seem based on numbers pulled out of thin air. There are often no financials, much less audited statements, available before you invest.

(5) They also use false time pressures to encourage you to invest quickly and use metrics such as your proposals offered to investments made rate to "rate" you as an investor and your follow-on rate (doubling down on prior investments in subsequent rounds).

(6) The proposals and investor presentations are often total horseshit.

They fall into 4 categories.
(a) juvenile and just plain bad
(b) absurdly expensive ideas with no reason to believe they can execute on it
(c) flashy presentations for a terrible, fundamentally flawed idea

and (d) actually solid presentations for products that could succeed, with well-researched markets, and an executable plan. These are the very small minority.

Also, some of the ones that "sound" good only sound good to people with no basic background in that industry.

I can't tell you how many pharma/regulated healthcare product pitch decks I've seen that are dead on arrival or based on pseudoscience.

You also have very limited information about their patent portfolio and limited time to research viability from any perspective, but IP viability is kind of critical for some of these ventures.

(6) There's pretty much no liquidity. NetCapital (one of the crowdfunding things) has a secondary trading platform, as does EquityZen, but generally once you've bought in, say goodbye to your money until they decide to exit or fold (which you have zero input or control over).

(7) So who invests in these?

Absurdly rich people who don't give af.

People who want to pump up their resume so that THEY can become the fund managers and syndicate organizers and make money from convincing you to invest.

Vanity projects for people who want to say they're angel investors, potentially to convert into social media clout, consulting or an exec/start-up role or get funding themselves.

People who get bamboozled by the above categories of people.

(8) What do rich people but not absurdly rich people invest in?

I don't actually know, but based on a wholly anecdotal text survey of my rich friends, it's pretty much index funds. (Vanguard

style)

Currently, my investments are: index funds/mutual funds small individual stock investments, revenue-producing real estate (x2), small "angel investments" for experimental purposes, and one major investment in my spouse's company.

In sum, I would not recommend angel investments at all, much less to new investors, unless you are thinking of it completely as a lotto ticket or gambling. Too many ways to get suckered, and very small chance of recouping the principal, much less recognizing gains.

OH, and of course I can't give you examples of the hilariously bad proposals, because they would boot me off the platforms (really).

But imagine shit like "an uber for X... BUT IN SPACE."