

# Seven Investors To Avoid

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**An angel is willing to write a check for a piece of your business. Here's why you should refuse it.**

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Also by Martin Zwilling:  
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In a tough economy, all capital is created equal, right?

Wrong. Even in a credit-starved environment like this one, the source of your money matters. A lot.

When it comes to courting [angel investors](#)--well-heeled individuals looking to put some of their stash in promising young companies that could yield juicy returns--entrepreneurs should take great care. Some angels can be a mild nuisance, others downright conniving and unscrupulous. Here are seven types of fallen angels to avoid.

**Suit Slingers.** These nettlesome types look for any excuse to take you to court. Rather than try to help your company grow, instead they try to make money through intimidation, threats and lawsuits. They know you don't have the resources to fight them and most likely will cave to their demands.

**Smart Guys.** Successful business people who become angels often have a prodigious sense of superiority. They tend to be overbearing, negative people hypercritical of every decision you make. Their money may spend, but don't let them intimidate you into bad decisions.

**Control Freaks.** This kind of angel starts out looking like your new best friend. Don't be fooled. As soon as you hit a pothole, he'll trigger a "gotcha" clause in your agreement that gives him more ownership and operational control of your company. Only your Board can save you here.

**Hand Holders.** The tutorial investor is not after control, but he wants to guide you on every niggling issue. What feels like benevolent mentoring before he writes the check becomes a painful nuisance soon after. Unless you have an overabundance of time and patience, keep your distance.

**Has-Beens.** These angels take to wing with every perturbation in the economy. Typical profile: former high-fliers with a liquidity problem. They are still at the country club every day, but now are running up a tab. They will meet with you, ask a thousand questions, but never get around to closing a deal.

**Numb Skulls.** Wealth is not synonymous with business savvy. You can spot a dumb angel by listening to the questions they ask. The more superficial the questions, the less value (and more potential harm) they will bring to your organization. (That goes for financial journalists too.) One caveat: Numb-skull angels may have important and much smarter friends, so don't disregard them entirely.

**Brokers In Drag.** Deal brokers posing as angels (they may be lawyers or accountants by trade) have little intent to invest in your company. Their goal: to get you to pay them to introduce you to actual investors. Brokers may be worth their fees, but don't mistake them for angels.

General rule of thumb for avoiding fallen angels: Eschew investments from private individuals and focus on credible, professional angel-investing organizations. Even then, do your own due diligence: Ask what other companies they've invested in and talk to the chief executives of those outfits to get their feedback. Finally, make sure your lawyer--not the investor--writes the initial investment document or term sheet. This should be a standard document and not negotiated on a one-on-one basis. Beware requests for last-minute clauses that could come back to haunt you.

Yes, money's tight. But choosing the wrong angel could put you on the flight path to perdition.

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