Starting today “civilians” can be angel investors — should they?

2 messages

From: Jason Calacanis <jason@launch.co>
To: dave@insightstudios.co
Date: Tuesday, May 17, 2016 at 11:14:12 AM
Subject: Re: Starting today “civilians” can be angel investors — should they?

NOTE: This account gets 500+ emails a day and is checked once a week. Please contact ashley@launch.co if this matter is urgent.

My various activities for reference:

1. Next Event: The Angel Summit July 12-14th, NAPA

2. Inside.com my current startup <-- signup for the email (you will love it!).
austin@inside.com manages Inside.com

3. The LAUNCH Incubator
Ashley@launch.co manages the incubator

4. My AngelList syndicate & private syndicate
Ashley@launch.co manages the syndicate.

5. This Week in Startups
jacqui@launch.co is my producer

6. Other places you can find me online:
calacanis.com
twitter.com/jason
instagram.com/jason
jason.tumblr.com
facebook.com/jasoncalacanis
https://www.snapchat.com/add/jasoncalacanis

From: Dave Linhardt <dave@insightstudios.co>
To: Jason Calacanis <jason@launch.co>
Date: Tuesday, May 17, 2016 at 11:14:08 AM
Subject: Re: Starting today "civilians" can be angel investors — should they?

Jason - This is an awesomely insightful report. We are going to use this to guide our plans for our own syndicate at InsightStudios.co. Thank you!

Dave Linhardt
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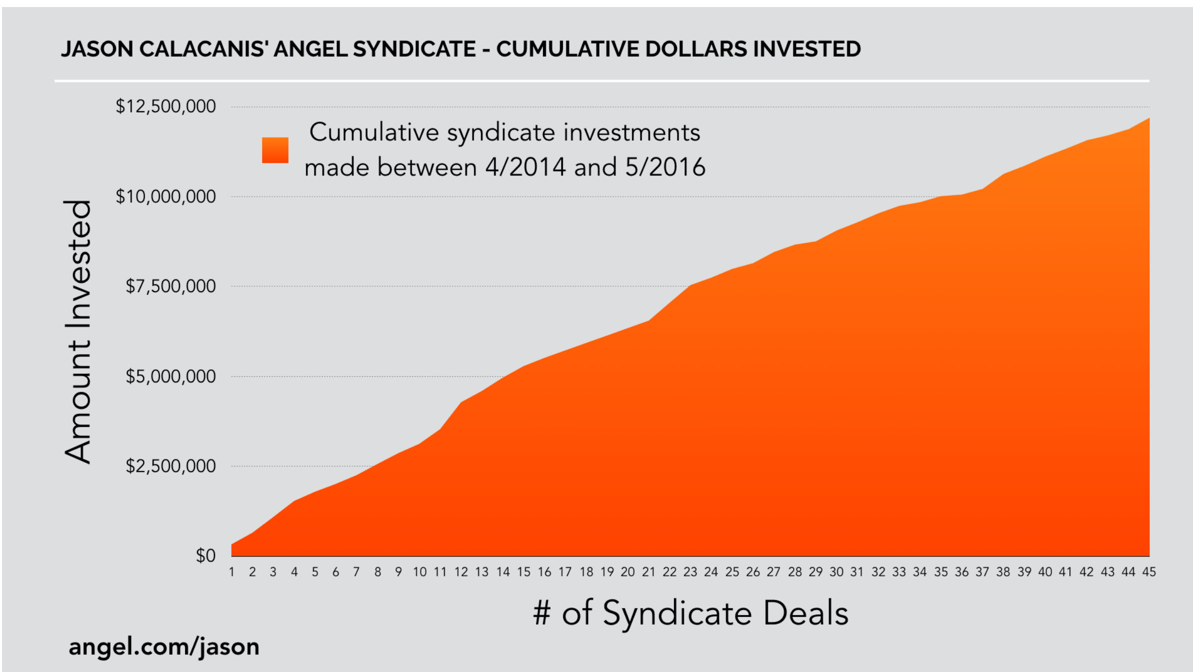
We use insight to create hyper-growth
About Me

On Monday, May 16, 2016 at 4:59 PM, Jason Calacanis wrote:



This month I finished investing my first angel fund, the LAUNCH Fund. It took 35 months to deploy the $10m fund in 85 startups. During that same period, my team and I have run the most active "angel syndicate" in history.

[Click to Tweet (can edit before sending): http://ctt.ec/c676Y]

So I've been a "professional angel" for about three years, with three years of "dabbling" in angel investing as a Sequoia Scout before that. It's been extremely rewarding, personally giving back to fellow founders, and obviously hitting a homerun every 50 investments has made it a financially sound decision (who knows, I might hit a homerun every 20 investments -- time will tell -- Yum! Yum!).

ANGEL SYNDICATES TWO YEARS IN

For background, angel syndicates are a new phenomenon here in Silicon Valley, with SeedInvest, FundersClub and AngelList being the most notable platforms in the space.

A syndicate is a group of well-heeled investors (more on this later) acting as one corporate entity, commonly referred to as an SPV (special purpose vehicle), in order to invest their money into a startup. Typically, we'll have 50 to 99 investors (the legal limit in an LLC structure) who have put in between $1,000 to $50,000 each.

We did one of the first, back on March 11, 2014, for a company called Calm.com, for which we raised $328k. They've done exceptionally well since then, and I'm optimistic we will return a multiple on our cash back to investors on this company, in which few people wanted to invest at the time (back then mindful meditation and paid Apps weren't as proven; today the company is doing millions in revenue).

Calm.com is not a done deal, but I love that we did that deal when folks speculated we shouldn't have.

That's what I do for a living: really, really risky investments. That's why I call our syndicate the "trench run syndicate," after Luke Skywalker's -- spoiler alert -- risky attack on the Death Star.

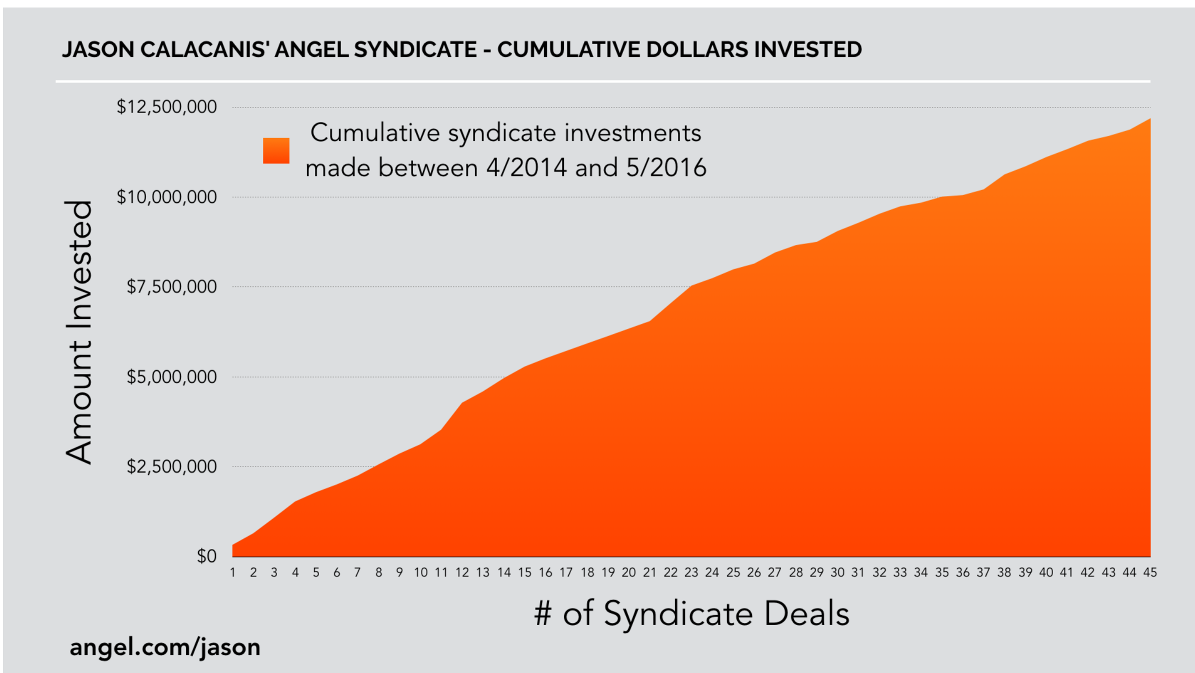
We are currently running our syndicate on AngelList (angel.co/jason) and we've done 45 syndicates to date, for a total of $12.2m, with many of them being oversubscribed (as in, people who wanted to invest were not able to because we filled our “allocation” which is given to us by the founder of the company).

There are 954 members of my syndicate, representing $3.9m per deal. Since only 99 people can invest in each SPV, we typically invest $200-300k per deal.

Included in the 45 deals are folks like: Calm.com ($328k), Brilliant ($258k & $207k), OneDrop ($408k & $489k), Butterfleye ($748k & $168k), Signpost ($499k), Wrapify ($309k & $134k) and Cafe X ($416k).

Here’s a Google sheet with all 45 deals.

Here is the two-year, cumulative chart which shows a nice pace:



These syndicates have actually started to take over the early-stage financing that used to be done by VC firms, which are now stepping back and waiting for startups to launch their products and get traction before writing their three-million dollar (or more) checks.

THE RUB

Now, here’s the rub. In the United States only rich people -- known as accredited investors -- were allowed to invest in private startups.

Why?

Well, it's complicated, but our government has historically wanted to protect unsophisticated (read: poor) individuals from putting their money in risky assets. You can read more about this at the Wikipedia.

Starting today, non-accredited investors are going to be able to invest in these type of deals, thanks to some changes the SEC made right after the financial crisis under something called the JOBS Act. You can read about the history of this at the Wall Street Journal or at the SEC.

What this means is that our average group investment of $200-300k, limited to the top 3% of Americans who are accredited investors, could grow to 100% of Americans and perhaps the top $1m in each deal -- or perhaps more.

Now, there is the issue that in a recent survey 47% of Americans said they would have a hard time coming up with $400 if they needed it for an emergency -- a very sad state of affairs (and I've been there, with my parents living paycheck-to-paycheck for most of my childhood).

Paradoxically, I believe the ability to make high-risk investments is a way for folks to break out of poverty with very little downside risk. Losing $250 in a poker game playing Blackjack or betting the "sheets on the streets" is a common occurrence all over the country -- why not put that to risk on a startup?

In my mind, most rank-and-file individuals could have told you that Facebook, LinkedIn, Uber and Google had a chance to be important companies based on simply using their early products.

If you're reading this and you're part of the 97% of individuals in the USA who are not accredited investors, ask yourself what products you used in their first year of existence, but long before they went mainstream, and you just knew they were going to be big. Now ask yourself, what if you could have invested in them?

Think about how your life would be different if you put $250 into the next Google or Facebook or Uber -- powerful stuff, even with the massive risk. Perhaps you could have invested in Google at 1/10th the IPO price and turned that $250 into $50,000, and in turn, invested half of those returns in another 10 companies, but this time putting $2,500 into each.

Perhaps you had used Google when they were simply 10 blue links on a page, or Facebook when it was trailing MySpace, or MySpace when it was only bands and long before it was bought for $600m by News Corp.

Maybe you used Waze when it was a poorly designed App that had massive utility and before Google bought it for a billion -- and made it even more poorly designed!

ANOTHER RUB

Now, here's the real rub about non-accredited investors investing in startups: they're going to get pitched the worst, or the worst in terms of deal flow, because top entrepreneurs get to pick their investors. If you can raise $50,000 or $100,000 from an angel investor like me, why would you go raise $250 from 200 to 400 non-accredited investors?

Well, I can see three really great reasons:

1. You get 400 amazingly passionate investors who are superfans of your product and who, after investing, will become super-evangelists for your product. Who knows, maybe you could even offer these slots not to the public, but to the top 1% of your user base, then the next 5% of your top users, until it's filled.
2. You get 1,000 of your best partners (think Uber drivers or Airbnb hosts)

who will have even more loyalty and love for your platform. Perhaps you offer them the ability to buy shares on a 1-to-1 ratio to their earning on your platform (to the legal limit). Maybe you could let them invest their future earnings -- how cool would that be (paging attorneys out there)?

3. Some maniacal angel investors decide to share their world-class deal flow because they want to shake things up and maybe make the world a little more fair -- and exciting! Imagine if that angel had a platform like, say, a TV show, conference, podcast, book or email newsletter, to promote these huge crowdfunding efforts. That would be neat, wouldn't it? ;-)

I'm not sure if this will all come to pass, but I'm monitoring the situation deeply and I've built a landing page for folks who might be interested in reading my continued thoughts on this subject: jasonssyndicate.com.

Also, I'm hosting a webinar on "How to be a 1,000x+ angel investor" for 100 individuals. If you want to join that seminar fill out the form at jasonssyndicate.com (we'll be inviting those folks first).

best @jason

PS - One test I like to take when I give advice to people about investing, is what would I tell my mom or two brothers to do. In this case, I would tell my mom and two brothers to put 1-5% of their savings into angel investing because, heck, it's probably the only and best shot they will get at having a break-out financial event in their lives. So, if one of my brothers said "I've got $100,000 saved up, what should I do?" I would say "put $95,000 into an aggressive portfolio at Wealthfront and $5,000 into 20 angel investments syndicated by a world-class angel investor."

PPS - We'll be talking about syndicates a lot at the Angel Summit in Napa on July 12-14. We've already filled 12 of the 25 angel slots, and each angel gets to bring one founder on the 14th to network and meet the other 24 angels. I've modeled this event after the Allen & Co. Retreats (commonly referred to as

“Sun Valley”), which is to say: high-level meetings, casual discussions in a beautiful location complemented with fine food and fun activities (poker, hiking, spa, clay pigeon shooting).

PPPS - If you’re a founder and want to come, I suggest having one of your early-stage investors apply (note: we are obviously taking active angel investors, but VCs who do seed and series A investments, as well).

PPPPS - If you’re one of *my* 150 investments, I obviously can’t bring all of you, or it would go from a ~25 investor event to a 175-person event (and defeat the purpose). My best suggestion for my founders is to ask one of your other angel investors to come to the event and bring you as their +1!