

Investment Strategies: Should You Become an Angel Investor?

With a turbulent stock market and a real estate market in serious decline, it definitely makes sense to seek out alternative investments. One possibility that many wealthy individuals overlook is making investments in private equity. This simply means investing in a company that is privately held rather than in a public company that offers its stock to the public over a stock exchange. People who make these sorts of investments are sometimes referred to as "angels," a term that originated in show business, to describe individuals who provided financial backing for theatrical productions. It is now widely used to describe an investment in any business venture, particularly start-up companies. Many of today's most successful technology companies received their initial capital from wealthy individuals.

An angel investor is sometimes called an accredited investor. That is defined as an individual who has a net worth of at least a million dollars not including the value of their residence.

Angel investing is riskier than investing in public companies because many times the companies seeking capital are early stage enterprises without significant cash flow or earnings, and it is difficult to predict how profitable the company is going to be. A significant number of early stage enterprises fail, so there is a very real possibility in any investment of this type that you will lose all of the capital you invested. The other significant element of risk is liquidity: private equity investments typically must be held until the company is sold or goes public, which could be 2, 3, or 4 years in the future. You can't simply log onto your investment account and put in a "sell" order as you can with a publicly traded security. The upside potential is extremely attractive, however. It's not unusual for angel investors to earn a 50% compounded return on their money. And angels also get the satisfaction of watching a small, unknown company become large and successful—and knowing they contributed to its success.

Angel investing is definitely an activity for high net worth individuals. Although the amount of investment in any one deal varies widely, it is quite high, \$20,000-\$100,000 or more. The average investment in a single company by an angel is \$78,000.

How do you get started in angel investing? There are angel investor organizations, called angel networks, in many cities in the US, and not just in traditional centers of venture capital investment such as the San Francisco bay area, or Boston. Joining one of these and attending their monthly meetings is a good way to see how angel investments are made. The investment can be made as a group to spread the risk or on an individual basis, each angel conducting their own due diligence and deciding whether to invest or how much to invest. By becoming part of an angel group, it allows you to network with other angels and learn from their experience. To find an angel group in your area, contact your local chamber of commerce, entrepreneur organization, or small business development center. You could also contact the business editor of your local newspaper.

About the Author

Are you interested in increasing your [net worth through investing?](#) Brian Hill is the author of several nonfiction books including "Attracting Capital from Angels," and Inside secrets to Venture Capital." In his spare time Brian enjoys [gourmet grilling.](#)

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