Are You Really an Angel Investor?

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There was a time before WWII where it seemed that every second person in Southern California professed to be a movie mogul. Today it seems that every second person in San Francisco, Boston, and other innovation hubs professes to be an angel investor, a venture capitalist who swoops in to nurture a penniless start-up and give it crucial help towards commercialization. Brad Feld, the author of "DO FASTER: Tech Stars Lessons to Accelerate Your Startup," writes that 95% of angels in angel groups are not. According to Mr. Feld they come to angel meetings to eat tiny sandwiches and for entertainment and afterward have a good laugh. But they hurt the companies they supposedly help.

Start-up and venture capital used to be confined mainly to Silicon Valley and to Rt. 128 near Boston. Investing by small investors, who gamble as low as $10,000, has been gaining tremendous popularity. A genuine angel investor brings not only money but essential expertise and mentoring, and provides his network for the less socially adept technology inventor/entrepreneur.

The proliferation in the past decade of venture capital, start-up incubators, accelerators, angel groups and venture mentoring are breathtaking in spite of the fact that venture investments account for less than 0.4% of the United States GDP. (The only country where venture capital investment is substantial relative to its GDP is Israel, “The start-up nation,” where funded start-ups are 10 times higher per capita than the US). The average return for all US venture capital investments is less than Standard and Poor’s, but the frenzy is fueled by the exceptional success stories like Google, Facebook, and Uber. Today there are angel groups from Mississippi to Bucharest, Wyoming to Kazakhstan. Recently a new incubator, Angel Labs, was established not for nurturing entrepreneurs but to nurture angel investors. Apparently, the venture food chain is lengthening…

If you are a founder of a start-up in its early phase and seeking a six-figure investment from venture capital firms, your chances are less than slim. (In fact, according to *Forbes* 99.95% of all start-ups are never funded). Venture capital firms have billions of dollars to invest and are seeking to invest eight figures in companies in the later stages. There are however potential resources that can help you but be careful; they have the potential to harm you as well.

Let’s explore the venture start-up food chain, which is hardly a chain, nor food. The first category is venture mentors, who could be alumni of your university who are also successful businessmen, who can guide you to navigate the shoals. Mentors who are patent attorneys or accountants could help you tremendously with their expertise. But mentoring groups consist in many cases of a substantial number of retired, bored mentors who never ran a business, produced a cash flow analysis nor prepared a business plan. The best help they can give is to assist in creating a crisp 10-slide pitch. But at the same time these mentoring groups mentor numerous other entrepreneurs to prepare their 10-slide pitches. All these pitches are chasing the same funding. It is not as if an investor would say, after being pitched "I saw two great pitches today. Although I wanted to invest in one, I will invest instead in two." Venture capital, at least in the short term is a zero-sum game. If funding is given to Peter, it is less likely to be given to Susan. So, in most cases mentors could help you to prepare a 10-slide pitch but nothing more.

One energy entrepreneur told me about her experience with her mentor. She sighed with exasperation: "my energy mentor doesn't know the difference between a "kilowatt" and a "kilowatt-hour." She added facetiously: "This mentor most likely doesn't know the difference between "horse-power" and a "horse" …

The second category of characters who attend venture forums and angel meetings are the Machers. A "Macher" in German and Yiddish is a "maker," one who makes things happens. Macher is also defined in the Free Web Dictionary as "an important or influential person: often used ironically."

The Macher is a broker or a finder. He will promise you to find an investor for a percent of the money he raises and sometimes for additional stock in your start-up. There are two types of Machers; the licensed broker and the non-licensed wannabe finder. The licensed broker does not give a hoot about your early-stage venture. He is seeking to raise seven or eight figures capital for established, later stage companies where his fee could be substantial. Sometimes a licensed broker feels pity for an entrepreneur or takes a special personal interest in her technology and will try to help, but this is rare.

Be aware of the second category of the Macher who is neither a licensed broker nor a genuine finder. This Macher knows nobody. He is an amateur and sometimes an unscrupulous character who might ask you to pay an upfront fee (never do it) or ask you to sign a contract for exclusivity. The exclusivity clause gives the Macher the exclusive rights to raise funding for you and to pay him a fee even if you receive funding from sources that were not introduced by the Macher, and even if you receive funding after termination of your contract with him.

A few years ago, such a wannabee Macher joined my venture as a partner/executive. At a certain point he found another wannabee off-shore finder who claimed that he could bring an investment from a Hong Kong company. My partner then requested that not only would he continue his employment with my venture, but he would also be paid a finder fee for finding the off-shore finder…. No investor would agree to his money being used in such a way so I showed him the door.

The start-up culture is a new version of the American Dream, fueled by the false perception that venture capital is easy money. In fact, venture capital is difficult to obtain and manage as the investor is continuously looking over the entrepreneur's shoulder, watching how his money is spent. Hollywood and Broadway should explore the trove of dramas and comedies in the new start-up culture.

A glaring debacle in my venture agenda occurred recently. During the past few months, I have been cultivating from my base in Cambridge a time-consuming relationship with a genuine angel investor from Silicon Valley. My venture requires facilities from a certain company in Sacramento. The angel agreed to travel without me to visit the company with the required facilities. And what happened during this visit? The wannabee Macher of the Sacramento company veered the discussion to another venture agenda that has nothing to do with mine.

But the real farce is the false angel investor. According to Mr. Feld, for every one real angel there are 20 wannabees. Take the time to browse through AngeLlist.com where you will find thousands of kids who just finished college claiming they are angels. A genuine accredited angel investor (most are males) is one whose net worth, excluding his home, is $1 million. A real genuine angel refrains from telling the public that he is an angel; he relies on word of mouth.

Such an angel from San Francisco, who is a member of a few angel groups, and administers one such group, offered to help me to raise funding. So, I asked him innocently why he, himself, wouldn't invest in my venture. His answer was that he promised his wife that he would make only one investment a year and his quota for that year was done. When I told him my impression that angels were not real but wannabees, he seemed somewhat defensive. Later, since I had his address, I found a photo of his home on Google Maps. I am still ashamed of such snooping, but I must tell you that his poor dwelling didn't seem to be owned by a person whose net value was $1 million.

What harm can wannabee investors or finders do? First, they frustrate, demoralize, and waste precious time of the hapless entrepreneurs. The second harm is more subtle. Wannabee finders and angels will distribute your plan indiscriminately to numerous venture capital firms found on the Internet, a task you can do for yourself. A real venture investor does not want to consider a stale, musty deal that was over-shopped. Be sure to send your request for funding to investors who never saw your deal before.

My doubts were confirmed a few years ago when I ran across a familiar name, in an unfamiliar context. 20 years ago, I saw a post on the bulletin near the MIT Department of Mechanical Engineering telling its students: "If you have a venture idea contact me. I will raise funding and you will retain control." It was signed by, Bruce Anderson. About 5 years ago I contracted a real licensed broker, Zick, to raise funding for my start-up. Zick gave me a list of references for whom he had successfully raised funding. And who was on the list? Bruce Anderson. He formed an energy start-up but when he needed money, the finder needed another finder.