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The 25 Percent Annual Return

Why Everyone with Six Figures to Invest Should Consider Angel Investing

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Angel investing since the new millennium has moved from an arcane, tiny backwater of the financial world to a business arena that receives coverage in mainstream newspapers and smash hit television shows such as ABC's *Shark Tank* and HBO's *Silicon Valley*. Today, any sophisticated investor with a portfolio of alternate assets should be considering direct, early-stage investments in private companies as one component of that portfolio. Why? Because multiple studies have shown that over the long run, carefully selected and managed portfolios of personal angel investments—even those without a Pinterest—produce an average annual return of over 25 percent. Compared to average annual returns of less than 2 percent from bank accounts, 5 percent from bonds, 10 percent from stocks, 13 percent from hedge funds, and even 15 percent from venture capital funds, that is an impressive, if not astounding, number.

What's even more interesting about angel investing is that, unlike sitting back and clipping coupons or just reading the stock listings in the daily paper, being involved as a part owner of an exciting startup company can be a great deal of fun. You get a ringside seat at a venture that's out to change the world, direct access to company CEOs who may be the corporate magnates of tomorrow, and often early access to the latest products and services before they become generally available. You may even have the opportunity to advise and mentor a company as it develops, pivots, and changes its business plan in response to real market experience.

This must be sounding too good to be true: outsized returns and having fun; what's not to like? Here is the sobering reality: a large majority of self-proclaimed angel investors actually *lose* money, rather than make anything at all! How can these two true facts be reconciled? Simple: those 25 percent—plus returns are over the long run on carefully selected and managed portfolios of angel investments. In practice, however, most people who call themselves *angel investors* don't carefully select or manage their investments, don't take a long-term view, and in fact don't have a clue about how to approach angel investing as a serious part of an alternative asset portfolio. You are going to be different, because you are smart enough to want to understand how to engage in angel investing as a serious part of your investment allocation.

Let's begin with the basics. What exactly *is* angel investing?

Angel investing is when individual people (as opposed to professionally managed investment funds, corporations, governments, or other institutions) invest their personal capital in an early-stage company—often known as a *startup*. Angel investors, then, are individuals who invest their own money, typically in small amounts and typically very early in the life cycle of a company.

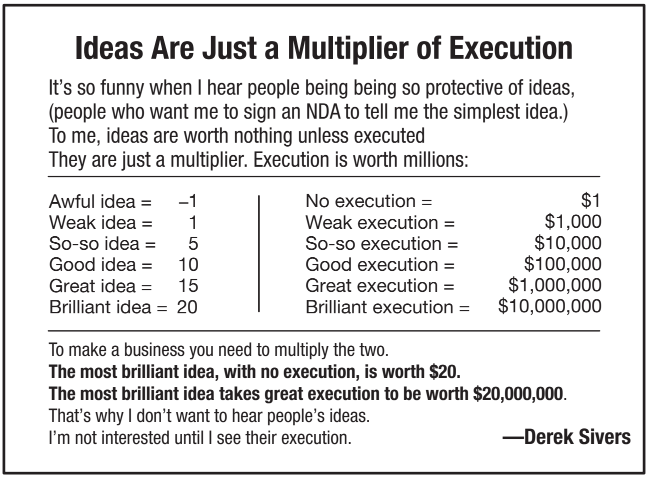
Angels find investment opportunities through referrals from people they know (such as CEOs of companies in which they've already invested), through attending regional or national events at which early-stage companies launch their products, by being approached directly by ambitious entrepreneurs, through joining with other angel investors in organized angel groups, or, increasingly, by participating in reputable online early-stage investment platforms or syndicates. All of these techniques for identifying angel investment opportunities, and many others, will be described in much more detail in later chapters.

The fact that angel investors use their money to back companies they hope will grow and bring them significant profit is not, in itself, unusual. Most mainstream investors do the same thing. They invest in blue-chip companies like Apple, Microsoft, Procter & Gamble, and JPMorgan Chase, or in mutual funds that support an array of companies, hoping their money will grow as these businesses do. The crucial difference between these mainstream investors and angel investors is the fact that angels invest in startups—companies that are relatively new, relatively small, and are privately held (rather than publicly traded in a marketplace like the New York Stock Exchange or NASDAQ). Because these companies are like tiny plants, striving to one day become giant trees, the very first investments in them by angels and others are often referred to as *Seed investments*.

Unlike public companies, startups are usually little known. They generally don't appear on the cover of *BusinessWeek* or *Fortune*, and you won't hear them talked about by stock analysts on cable TV or even by your favorite broker. Understanding what these startup businesses are like, where to find them, and how to identify those with significant growth potential is one of the keys to being a successful angel investor.

The world of startups and the ways in which angels and startups work together is a fascinating topic—and one in which change is constant. The stage at which an angel would typically begin supporting a startup with a cash investment has been changing since the early 2010s as a direct result of the decreasing costs of starting up a scalable company using current technologies. In the past, when the only way to get a company going was by spending cash, early investors would often have no alternative to "taking a flyer" and supporting an entrepreneur who had only a vision and a plan.

These days, with technology providing startup business with virtually free hosting, bandwidth, tools and marketing (or at least "free enough to get you started"), the bar for a company to be considered fundable has been raised quite a bit, because it is so easy for anyone to get started. Since the large majority of opportunities with which angel investors are presented already have something going for them (a finished product, initial customers or users, perhaps even revenue), it makes it extremely challenging for entrepreneurs with only an idea.



Ideas Are Just a Multiplier of Execution

It's so funny when I hear people being being so protective of ideas,
(people who want me to sign an NDA to tell me the simplest idea.)
To me, ideas are worth nothing unless executed
They are just a multiplier. Execution is worth millions:

Awful idea =	–1	No execution =	$1
Weak idea =	1	Weak execution =	$1,000
So-so idea =	5	So-so execution =	$10,000
Good idea =	10	Good execution =	$100,000
Great idea =	15	Great execution =	$1,000,000
Brilliant idea =	20	Brilliant execution =	$10,000,000

To make a business you need to multiply the two.
The most brilliant idea, with no execution, is worth $20.
The most brilliant idea takes great execution to be worth $20,000,000.
That's why I don't want to hear people's ideas.
I'm not interested until I see their execution.

—Derek Sivers

Figure 1.1 Ideas versus execution.

Source: sivers.org/Derek Sivers

Why should angels take the added execution risk if they don't have to? Derek Sivers, an entrepreneur, writer and frequent speaker at the TED conferences, neatly summed up the idea versus execution relationship in a seminal blog post from which I've borrowed this eye-opening chart (Figure 1.1).

Many companies in their earliest stages are unable to attract financing from angels and other professional investors. Consequently, so-called Friends and Family rounds of investment are the most common way (other than the founder's own capital) of funding a startup, accounting for nearly a third of all financings. (I'll explain the various stages of financing a startup in more detail in Chapter 4, "The Financial Life of a Startup.") Friends and Family investors are not basing their investment on the merits of the business, but rather on their support for the entrepreneur personally. By contrast, the true angel investor focuses on the long-term strengths and prospects of the business, in much the same way a mainstream investor picks stocks based on an evaluation of the strengths and prospects of the companies issuing those stocks.

As with investors in public company stocks, angels are part owners of the companies in which they invest. The difference is that

$10,000 invested in Apple might buy you 40 shares of stock, representing one 375 millionth of the company. That same $10,000 invested in a promising startup might buy you 10,000 shares of stock, representing a full 1 percent of the company's ownership.

With that low a cost of entry, it would be fair to ask if one angel ever becomes the majority owner of a startup. The short answer is "virtually never." While there are, indeed, individuals who have put $1 million or more into one company, the vast majority of serious angel investors play at much smaller numbers. This is because investing at the Seed and early stages of a company's life cycle is incredibly risky, with the large majority of all such investments failing completely. The corollary is that angels therefore try to invest into between 20 and 80 companies, thereby limiting the amount that will be lost on any one in particular.

Here are some specific numbers: the average individual angel puts in about $25,000 per company, typically with 10 or 20 angels joining together to make up the investment round. (As we'll explore in detail, many angels participate in angel groups or syndicates of various kinds. It's a very effective way to pool insights, ideas, connections, and other resources, enabling angels to invest far more powerfully than they'd be able to do as lone individuals.) A recent survey showed that the average total round size for a large angel group was between $500K and $1 million … although increasingly groups are joining together to syndicate deals in order to raise even larger rounds.

Outside of that context, the range is very wide, with individual, solo angels investing anywhere from $5,000 to $500K (or more) in a given company. "Super angels," which is the misnomer usually applied to experienced investors who manage micro-venture funds, seem to be averaging about $100K–$250K per investment. It is only when you get into the territory in which venture capital companies operate that you'll find early-stage investments going over $1 million from a single source.

In a nutshell, an angel investor is a private individual who invests significant but modest sums, usually in five figures, in each of a variety of startup businesses. These investments collectively form a portfolio that, over time, will almost certainly include both winners and losers. The key to being a successful angel, of course, is to have enough winners to offset the losers—and then some.

Can You Really Make 25 Percent a Year?

The essence of successful angel investing begins with recognizing and accepting one hard fact about investing in startups: your chance of making a profit by investing in startups is somewhere between very, very slim and almost negligible if you're talking about investing a very small amount into one company. But those odds increase significantly once you begin diversifying your investments (even if they are relatively small) into dozens of companies.

Why is this the case? It is because a majority of all new, angel-backed companies fail completely, so if you invest in only one company, the odds are that you will *lose all your money*, not just "not make a profit". When a company succeeds, it has the chance to *really* succeed, return many times the initial investment. This is known as a "hits" business.

So how well does the average angel investor do?

Unfortunately, the data needed to answer this question doesn't really exist (no matter what anyone tells you). Period. The reasons are: (1) there is no such thing as an "average" angel investor, and (2) there is currently no way to track the activities or record of individual investors, even those within well-documented groups.

That said, my best guesstimate of the key statistics describing the activities of a typical angel investor would be as follows:

- **Individual angel investors receive anywhere from 0 to 50 inbound pitches a month,** depending on how actively they promote their availability and how accessible they make themselves (although many more can be accessed online and elsewhere if one proactively goes looking for them).
- **Organized angel investment groups might typically receive between 5 and 200 submissions monthly**. All angel groups taken together probably receive about 10,000 unique submissions monthly. All individual angels taken together probably receive about 50,000 unique funding requests each month.
- **Organized angel groups typically look at about 40 companies for each one in which they invest** (compared to 400 for venture capital firms).

And of all requests for funding received by an angel group each year …

- **30 percent may be invited for a preliminary screening review.**
- **10 percent are invited to pitch to the full group.**
- **2 percent receive funding from at least some members of the group.**

On average, individual investors in US angel groups invest about $35,000 per angel per company, and members of a group taken together invest about $500K per company.

Once an investment is made, the very rough outcomes (averaged from several independent studies of angel returns) are as follows:

- **50 percent eventually fail completely.**
- **20 percent eventually return the original investment.**
- **20 percent return a profit of two to three times the investment.**
- **9 percent return a profit of 10 times the investment.**
- **1 percent return a profit of more than 20 times the investment.**

Where do these numbers—assuming they are approximately accurate—leave our mythical "average" angel investor?

The reality is that results in angel investing tend to bifurcate.

The large majority of self-described "angel investors," both in the United States and internationally, are either new to the field, not taking it seriously as a financial business, not in it for the long haul, or not willing to continue investing until they have a fully diversified investment portfolio. For those people, returns tend to be flat to mostly negative.

By contrast, "professional" angel investors, who follow the approach described in this book, are investing calmly, steadily, relatively rationally, over a long period of time and with a strong knowledge of both investment math and early-stage realities. They tend to not only make money but also do quite well; in fact, *the average return for a comprehensive, well-managed angel portfolio is between 25 percent and 30 percent Internal Rate of Return (IRR) over the long haul.*

There is much more to be said about how the economics of angel investing work—and how you can manage yourself and your portfolio to make them work on your behalf. We'll delve into those details in Chapter 6, "The Portfolio Theory of Angel Investing."

Who *Can* Be an Angel?

Angel investing is—as we have seen—very risky (even if you take the approach described in this book and invest rationally and consistently in 20–80 companies over a long period of time), so until 2014 only a limited group of people were allowed access to this asset class. According to the regulations of the US Securities and Exchange Commission (SEC), in order to protect small investors from unrealistic, high-powered sales pitches, angel investments in the United States have historically been available only to those people who qualify under the SEC's definitions of an Accredited Investor or Qualified Purchaser. (Actually, the restriction is not on the activity of the investor, but rather on that of the company selling the ownership shares, but the impact is much the same.) Similar rules exist in many other countries that have active financial markets.

In the United States, the definition of both an Accredited Investor and a Qualified Purchaser is specifically set out by the SEC. While there is a lot of legalese surrounding both definitions, for all practical purposes you can think of it like this:

> An Accredited Investor is a person who has a steady annual income of at least $200K individually (or $300K together with a spouse), or else net assets (*not* including the value of one's primary residence) of at least $1 million, or else has passed the basic stockbroker qualifying exams of the SEC.
>
> A Qualified Purchaser is a person who has at least $5 million in investable assets themselves, or else manages at least $25 million for other people.

Throughout this book, we'll be referring back to this definition of Accredited Investor, which is the class into which practically all traditional angel investors have fallen.

… And Who *Should* Be an Angel?

Because angel investing should be only one small part of well-balanced portfolio, most angels do not (and should not!) invest more than 10 percent of their assets into such ventures. Therefore, in the United States, it is probably fair to say that a typical serious angel investor has invested in between 5 and 10 companies, in amounts ranging from $25,000 to $50,000 each. Of course there are individuals who regularly make much larger investments, and there are many more who invest smaller amounts. There are very, very few "professional" angel investors who see this as a full-time occupation, as opposed to venture capitalists, who are, by definition, professionals. (We'll explain more about venture capitalists and how they resemble—and differ from—angels in Chapter 23, "Sit Back and Let Someone Else Do the Work.")

Who are these angels, and what drives them?

Angel investors have always been financially motivated (*investment* by definition implies the expectation of economic returns), although there is often a healthy overlay of social giveback in their calculations. Many active angel investors are, or were, entrepreneurs, which is where they first made the money that they can now invest. Thus, they are often strong believers in the ethos of entrepreneurship, excited by the prospect of supporting small companies that they believe may one day transform some segment of the business world, spurring economic growth to the benefit of millions. Angels like Reid Hoffman of LinkedIn, Peter Thiel of PayPal, Yossi Vardi of ICQ, or Esther Dyson of EDventure are quite literally changing the world around them.

However, angel investors by definition are *not* philanthropists or "do-gooders" in this area of their lives. Most angels I know are increasingly professional and serious about the economic aspects of the business, driven primarily by the prospect of strong financial returns over the long term.

Angel investing is one of those areas in which the so-called Law of Large Numbers applies. This is a theorem that describes the result of performing the same experiment a large number of times. According to the law, the average of the results obtained from a large number of trials should be close to the expected value and will tend to become closer as more trials are performed.

The implication of the Law of Large Numbers for angel investing is that any one specific investment is almost by definition going to be completely unpredictable and, according to statistics, likely to be an economic disappointment … but if you invest consistently, intelligently, and over a long period of time, the results are demonstrably repeatable and can be quite lucrative.

This means that in order to be a successful angel (and, more important, to *enjoy* being an angel), it is imperative that you have the following personal characteristics:

- Long-term view (measured in at least years, if not decades)
- Strong economic base and the ability to tolerate losses
- High tolerance for risk
- High tolerance for failure
- Even temperament
- Strong people skills (to deal with Type A entrepreneurs)
- Self-discipline
- Willingness to learn
- General love and respect for entrepreneurs and startups

There are other characteristics that come into play if you are considering being an *active* angel, one who spends time working with the company on its operations or strategy, and/or helping the company raise its financing. These additional attributes include teaching/mentoring ability, domain expertise, business experience, financial savvy, personal networks, the ability to suffer fools gladly, and other personal traits that I find myself employing with great frequency. The previous bullet list generally applies to any prospective angel investor, whether active or passive.

As you may be sensing, being an angel investor has a lot in common with being an entrepreneur—and entrepreneurship is inherently a crazy-making business. By making a personal angel investment into one of these by-definition-crazy people, you, as the angel, have now voluntarily entered into their Alice in Wonderland world of roller coaster ups and downs, with all of the appurtenant "thrill of victory and agony of defeat."

After all the angel investments I have made myself, I can just about guarantee that you are going to experience every disaster, disappointment, and insane improbability you could imagine … and then some. As crazy as each entrepreneur is, you're simultaneously doing this a dozen or more times! And the nature of the business is that the crazy, disappointing, aggravating, unpleasant, and economically disastrous outcome is going to be the default case for 50–90 percent of your investments!

If you are the kind of person who is going to get upset when you lose 100 percent of your $50,000 investment in a promising startup, or can't deal with the fact that the day after your founder launches a breakthrough product, Google unveils a better, free version that soaks up the entire market, then angel investing *is not* the business for you to be in … just as you clearly *should not* be an entrepreneur yourself.

Don't for a moment assume that the warning I've just offered is purely pro forma, or that anything I'm saying does not apply to me—in spades. Yes, I have been successful as an angel. And yes, I have experienced my share of failures, mistakes, and heartaches. It comes with the territory. Like every experienced angel, I have many stories to tell about sure-fire winners that went down in flames, as well as my "anti-portfolio": opportunities I passed on that turned into major hits.

For example, at an industry conference some years ago I saw the first demonstration of a device that would take live broadcasts from your home TV and deliver them to you on your smartphone or computer through the Internet, anywhere in the world. I thought it was amazingly cool, and I quickly accosted the startup's founder, Blake Krikorian, as he walked off the stage. I told him how impressed I was with the product and asked if he would be willing to come to New York and make a presentation to my fellow investors at New York Angels. He agreed, came to visit us, and demonstrated the system in the Starbucks downstairs from our angel group meeting. We all thought it was great and filled a real need at the time, and offered to invest several hundred thousand dollars at a valuation for this pre-shipping, pre-revenue company of something like $5 million.

As I was preparing the term sheet, Blake called us to say that two major Silicon Valley venture capital funds were prepared to invest $10 million at a $20 million valuation for his company—four times the value we'd assigned it! He invited us to participate in that round and even pleaded with us to invest. We were smart, experienced investors, and we knew full well that a $20 million valuation was simply out of the question for a company whose product hadn't even shipped, let alone generated any sales. So, despite the fact that we loved the product, that Blake and his cofounder/brother Jason literally begged us to participate, and that some really smart venture capitalists thought it was well worth the high valuation … we regretfully passed.

Less than three years later, Sling Media was acquired by EchoStar for $380 million, and today, as part of DISH TV, it is worth billions. Ouch!

However, a few years ago I came across an intriguing startup with an iPad application that was truly state-of-the-art. It brought a novel approach to an existing, large, and lucrative market, and it had a killer founding team. The CEO had been one of the first executives at a major, high-powered public company in the industry, and the chief technology officer (CTO) had been a mobile engineering leader at Apple, who had brought with him a whole team of Apple engineers. Both cofounders had personally invested hundreds of thousands of dollars of their own cash already, and the prototype they showed us was a combination of sexy and functional. I led the investment round in the company together with a dozen other sophisticated angels, joined the company's board of directors, and started working to introduce them to potential partners, investors, and customers.

Things seemed to be going well, as the company expanded with our new investment and got ready to launch its initial release. When it did, it was featured in the Apple App Store and got a great many downloads. Unfortunately, very few of them converted into sales that generated revenue. This was disappointing, but not necessarily unexpected. What *was* unexpected, however, was that less than 90 days after our $350K investment went into the company, the CTO/cofounder abruptly gave notice that he was leaving, walking away from $200K that he had personally put into the company! Then the whole engineering team quickly followed him out the door. The poor CEO was just as blindsided by his partner's desertion as we were and struggled valiantly to save some value in the company, but to no avail. Ouch again!

The funny (or, to be accurate, not so funny) thing is that experiences like this are more the rule than the exception when you enter the wacky and wonderful world of angel investing. Although I didn't invest when I had the opportunity into companies like Sling Media, Pinterest, or Bombas Socks, I *did* invest in quite a few companies that went belly-up, taking all my investment with them. In fact, since I've made well over 120 personal angel investments and have been doing this for well over 20 years, I've had more than 50 companies completely fail. Failure is part of the game, and if you are serious about becoming an angel investor, you need to truly and completely understand this right up front.

Having said this, if you do have most or all of the angelic characteristics I listed previously and are the kind of person who actually enjoys uncertainty, competition, mentoring, taking risks, new ideas, and newer technologies, then angel investing can truly be one of the most enjoyable, fulfilling, and exciting endeavors in which you can engage.

Statistics suggest that successful angel investing is a numbers game. The odds of any single investment paying off with an enormous return are very small. But if you invest intelligently in enough companies, you'll have a good chance of having at least a few of those companies being profitable. If they are profitable enough, they'll not only pay for all the losers, but they'll end up giving you a handsome overall rate of return. If done thoughtfully and correctly with a large enough portfolio over a long enough period, the Law of Large Numbers suggests that you will make a much better return than you could have from any mainstream investment class.

From a personal perspective, watching the long-term growth of some of my portfolio CEOs has been almost as fulfilling as watching my own children grow up … and the fact that these heartwarming stories have come along with a 25 percent—plus portfolio IRR over a decade makes it all the more delicious.

Getting Started in Angel Investing

The SEC regulations governing angel investing have recently begun to shift, opening up new opportunities for startup investing even among Americans who are not currently at the Accredited level ($1 million in investable assets, or $200K annual income). If you fall into this non-Accredited category, then all of your angel investing will be through what the SEC calls *Online Funding Portals*. With the JOBS Act of 2012, Congress opened up a limited form of angel investing to everyone, but with very strict limitations. Provided you invest only through an SEC-registered Funding Portal, anyone can invest $2,200 year into private companies, with that amount scaling up to $107K based on your income or assets, until you reach the Accredited Investor level. I will discuss these new platforms and the emerging world of *equity crowdfunding* at greater length in Chapter 22, "Crowdfunding, Syndicates, and the Global Revolution." (Of course, you can still buy emerging *public* companies on the stock market like everyone else.)

The general theories about startups and investing presented throughout the book, however, still apply to this new method of investing, although you will find yourself operating in a much more constrained and simpler environment.

However, if you already qualify as an Accredited Investor, you can legally invest in startups today, and the rest of this book will walk you step-by-step through both the general theory and specific steps you will take to make your first investment.

One of the best options for a new angel investor today is to join a local angel investor group, where you will work collegially with 15–150 other serious investors to hear presentations from companies, do your due diligence homework, and then—if you are interested—pool your money with the others to make meaningful investments. While many of these groups have historically met in person and invested primarily in companies based in their region, since the COVID pandemic a great many groups have now gone virtual, conducting meetings online and investing across geographies. I'll discuss the advantages and disadvantages of angel groups—and describe their typical investment process—in Chapter 17, "Joining an Angel Group."

If you want to strike out on your own, however, this book will walk you through everything you need to know to find opportunities (Chapter 9, "Generating Your Deal Flow"), do your due diligence homework on the opportunity (Chapter 13, "Look Under the Hood and Lead a Deal"), negotiate the terms of an investment (Chapter 15, "The Art of the Angel Deal"), and continue to add value during the term of your investment and beyond (Chapter 19, "One Plus One Is Three").

One reason why this a great time to become an angel investor is that explosive advances in new technologies like artificial intelligence (AI), robotics, quantum computing, and blockchain are literally redefining every business under the sun. This means that opportunities abound for revolutions in industries and markets across the board. Combined with dramatically dropping costs to start a new company, increasing computing power to deliver unheard of utility, and the near universal growth of mobile internet connectivity to a large majority of the world's population, the world is being redeveloped in front our eyes, and *you* have a chance to get in at the ground floor.

Getting started as an angel is becoming easier than ever. But what must you do to get started *successfully?* What kind of strategy do successful angel investors employ to make the numbers work in their favor?

As you might expect, there's no single answer to that question. Trying to generalize about angel investors is like trying to generalize about clouds: they share some similar fundamental characteristics, but after that, things begin to differ.

One characteristic of most successful angels is they start by developing their own investing *thesis* about the types of companies into which they are planning to invest. While I do know some completely opportunistic angels who will take a flyer on a social networking site one day, a urological catheter the next day, and a sushi/steak restaurant at the end of the week, they are by far the exception rather than the rule. They also tend to be very rich people who have lots of money that they're playing with on a whim, rather than making a considered attempt at generating financial returns. In Chapter 7, "Developing Your Personal Investing Thesis," we will dive deeply into construction of your personal thesis, discussing industries, geographies, stages, and more.

Most professional angels (that is, people who would self-identify with the term *angel investor* and are ultimately planning to do 10 or more investments) tend to invest in business arenas or markets they already know well. That's why most serious angel groups tend to cluster around particular industries or demographics. For example, in New York we have, among others, New York Angels (tech-ish), Golden Seeds (women-led), Empire Angels (millennials), and Pipeline Angels (traditionally underrepresented founders). Other groups specialize in business sectors like space, life science, medical devices, Software as a Service (SaaS), blockchain, AI, entertainment, pharmaceuticals, consumer products, big data … and the list goes on.

Experience, backed up by a number of studies, has shown that if you invest in an area to which you bring some background and expertise, you end up doing better over the long run than you would by putting money into a deal which might sound sexy on the surface but would not pass the "sniff test" for someone knowledgeable in the field. Keep in mind, though, that these are not hard and fast rules. Businesses in my own portfolio range from animal-lover social networking through zero-gravity space tourism, but they are all areas that (at least I think) I understand. However, that's also why I haven't invested in any drug discovery, restaurant, or film deals.

Another characteristic that virtually all successful angels share is a constant search for the "big vision" investment.

Look at the numbers I presented a few pages back. You can see from this breakdown that, to be successful, an angel needs at least one or two *really* big winners to make up for the many losers a portfolio is almost certain to include. This is why angels aren't shy about looking for businesses whose equity value they expect to grow at a rate of 10 times or 20 times during the next several years.

As a novice investor, you particularly want to avoid these common mistakes made by first-time angels:

- Investing in one of the first deals they see
- Not going thorough due diligence
- Investing outside their domain of experience
- Investing at too high a valuation
- Investing on an uncapped Convertible Note
- Signing the company's nonstandard documents without having a lawyer review them
- Not reserving additional capital for the inevitable follow-on round
- Investing in fewer than 20 deals
- Becoming an angel without a long-term (10 year+) commitment
- Dragging out the investment process unnecessarily

Some of the terms I use in this list (*Convertible Note*, *follow-on round*, and so on) may be unfamiliar. Don't worry—after you read a bit further, you'll understand what you need to know about them. Then you'll be prepared to return to this list, something you may want to do several times before you actually write your first check for an angel investment.

The bottom line is that this is a great time to start thinking about investing in high-growth startup companies—especially given the revolutionary developments that I discuss in Chapter 20, "The Impact of AI and Advancing Technology." Whether you're an Accredited angel investor or a non-Accredited crowdfunder; whether you want to invest with a group or on your own; whether you want to meet founders in person or do everything online; whether you want to invest $1,000 or $1 million; whether you want to lead an investment syndicate or participate along with other investors; there are, or shortly will be, groups, platforms, and services that will be delighted to help you get into the game.

Types of Angel Investors

There are almost as many different types of angel investors as there are public market investors. Many people who are angels are also concurrently entrepreneurs in their own right. I'm a serial entrepreneur as well as a serial angel investor, and I'd estimate that at least a third (perhaps more) of the members of New York Angels are also currently running their own startups.

Many other angels are executives at Fortune 500 companies. Unless there are specific competitive or ethical issues with a particular investment, there is nothing different from their employer's viewpoint about investing in a private company rather than a public one.

Some angels have retired from the legal or medical professions, or from a corporate executive role. Others have inherited the capital they use to invest. They are young and old, male and female, of every race and ethnic background, and located in every state of the union and countless nations around the world. What they all have in common is a readiness to work hard, do their homework, and take a few calculated risks in pursuit of some exciting business opportunities. If you're the right kind of person to take the plunge, I can promise you that angel investing will be one of the most stimulating and personally rewarding activities you'll ever enjoy.