HOW INVESTING IN PRIVATE STARTUPS COULD 1,000X YOUR MONEY

the startup investor

with NEIL PATEL

How Investing in Private Startups Could 1,000X Your Money

Before Google, Amazon, and Facebook were the tech giants that they are today, they were little-known startups operating out of garages and dorm rooms.

The founders behind these startups – not to mention Apple, Uber, Pinterest, Twitter, Spotify, and many more – were visionaries and innovators who used courage and skill to solve some of humanity's biggest problems.

Before they were legends, these founders and their companies shared one thing in common: They needed infusions of capital from angel investors to bring their visions to life.

The earliest investors in those enterprises made out with life-changing gains unlike those found in any other investment class. Here are some examples...

The angel who wrote Spotify's first check saw his investment grow by 133,765%. Pinterest's angel investors cashed out with 583,264% gains. The list goes on and on. In fact, most of the world's leading companies have also served up stunning returns to their early investors.

Peak Valuation Growth	COMPANY	ANGEL INVESTORS	IPO INVESTORS
	Pinterest	583,264%	28%
	Dropbox	336,300%	51%
	Fitbit	305,137%	750%
	Etsy	280,572%	184%
	Eventbrite	165,860%	120%
	Twitter	159,627%	113%
	Spotify	133,765%	33%
	Twilio	138,375%	631%

Today, innovation from startups hasn't slowed down one bit. There are more "unicorns" – startups valued above $1 billion – than ever before. Each year, millions of ambitious entrepreneurs start new businesses, many of which have the potential to skyrocket in value and deliver life-changing windfalls to their earliest investors... their angels.

Now, here's why this is so important for you to know *right now.*

Up until 2016, the world of angel investing was reserved for Silicon Valley's high and mighty… aside from needing all of the intimate connections and a tight-knit network of CEOs, VCs, and billionaires, you also needed to be an accredited investor − meaning you needed a net worth over $1 million to be an angel.

But times have changed. The JOBS Act of 2016 opened the doors for everyday investors to participate in private equity deals. Today, you can get in the game with just $50. Of course, you can invest much more too – it's all about what you're comfortable with.

Private equity is where fortunes will be made in the next few years… which is why we're getting in now.

Let's get started with everything you need to know.

What Is Angel Investing?

Angel investing is one of the best and most reliable ways to make money.

But when you do a quick Google search for "angel investing," you're overwhelmed by more than 36 million results – none of which are able to start at the very beginning and personally walk you through the process. So today, let's cover what angel investing really means – for you AND the founders you'll be working with.

First off, an angel investor is a person who sees the potential for greatness in an early-stage startup – think Zuckerberg in his garage – and throws in that first real investment, or seed money, to help the business grow.

Now, this is all happening before a company goes public. That means you're not going to be buying shares on the Nasdaq or the New York Stock Exchange. Instead, you're going to be buying directly into the company itself. (We'll go over the mechanics of that later.)

As an angel, you'll be getting in way before typical investors. That means two big things for you…

1. You'll have a chance at way bigger profits than someone who waited until the company went public to buy stock. In fact, when everyone else is flooding in, we'll be making our *exit* and cashing out.

2. You will have the opportunity to make real changes and a real impact as a company develops. Imagine buying shares in Tesla right now. Do you think Elon Musk is going to invite you to the boardroom? No way. But as an angel, you have a direct line to the founder – you have influence.

And the private equity market itself is exploding – there are record levels of capital being exchanged. Last year, investors poured $453 billion into private equity (and that's all while the number of public companies has been cut in half).

With that much money coming in, even a small chunk of it could change your future.

But before making your first move, there's one thing you need to do.

The Very First Thing You Need to Do to Become an Angel Investor

They say that the hardest part of accomplishing any goal, no matter how simple, is getting started. After that, it's just one foot in front of the other. Perhaps you've heard the old joke...

How do you eat an elephant?

One bite at a time.

Getting started as an angel investor can feel like an insurmountable task, especially when you're completely new on the scene.

After all, Silicon Valley feels like its own little planet sometimes. The "fresh new thing" almost always happens here first, and everything that came before becomes passé.

We're so obsessed with change (we call it disruption… for now at least) that even our terminology changes – seemingly on a day-to-day basis.

We don't make money here; we make exits. We don't hire marketing specialists; we hire growth hackers. And unicorns aren't rare anymore; now, we look for decacorns.

For better or worse, startup-speak is never going to stop evolving. New words are being added to our lexicon every single day.

And when you meet your first founder, you're going to need to know the language – or else risk looking like a clueless newbie.

Most folks who move to Silicon Valley agree that one of their biggest roadblocks in the beginning was learning the lingo. I'm here to make sure you're ready to stop scratching your head and dive right into the action. Here's a sampling of the most common terms you'll need to know...

Accredited investor: Someone who can legally participate in risky deals and larger investments because they satisfy certain requirements regarding income, net worth, asset size, governance status, or professional experience.

Angel investor: A bold and savvy individual who takes measured risks by investing capital in early-stage startups and reaps massive rewards when those businesses take off. In other words, you!

Cap table: Capitalization table; the official list of all the shareholders in the company, how much they paid for their shares, and what class of shares they own.

Decacorn: A privately-held company that's valued at or above $10 billion.

Deal flow: The number of potential deals you have stored in your pipeline.

Due diligence: A comprehensive appraisal of a business undertaken by a prospective buyer (a.k.a. you), especially to verify its assets and liabilities and evaluate its commercial potential.

Equity: The ownership of the startup – who owns how much; in the most common sequence, the founders own 100% equity at first, then give up chunks of ownership to investors in exchange for cash, mentorship, connections, or work.

Exit: The moment when founders and funders get their money (or don't); favorable exits include IPOs and acquisitions.

IPO: Initial Public Offering; the process of offering shares in a private corporation to the public for the first time. This is the point at which shareholders can exit some or all of their ownership by selling shares; it allows companies to reward employees through stock compensation.

Moonshot: A project that addresses a huge problem, proposes a radical solution, and/or uses breakthrough technology; a lofty target.

Pro rata: A tactic in which an investor continues to contribute in subsequent funding rounds in order to avoid share dilution as more funders join the game.

Raise: A round of investing; e.g., Series B is a raise.

Seed funding: The first official equity funding stage which finances a company's first steps into market research, product development, etc.

Startup: A young company that is just beginning to develop, usually small and initially financed or operated by a handful of founders or one individual. Pretty much any small business can call itself a startup.

TAM: Total Addressable Market; a reference to the revenue opportunity available for a product or service; e.g., the underlying revenue potential.

Unicorn: A privately-held company that's valued at or above $1 billion.

This is just the tip of the iceberg; there are dozens more terms you'll learn as you continue on this journey. But these are the absolute basics – the words you'll hear every day as an angel investor. Now that you know these, you're well on your way to investing like a true professional.

The 10 Things You Need to Look for in a Startup *before* You Invest Even a Penny

By now, you have a handle on the lingo. You've tuned into some good deal flow. Maybe you've even looked at a couple of promising options for your first investments.

Excited? Good! You should be. But before you go writing checks for the first great pitch you come across, let's take a minute to talk strategy.

When I first got started in angel investing, I made a lot of deals based on my gut alone.

Gut instincts are important. Sometimes they even work. But angel investing isn't a crapshoot. The more investments I've made, the more I've realized that strategy is just as important as intuition.

Some of those early leaps of faith did turn out to be winners – but switching to a more logic-based system has greatly benefited my bottom line. Now, I only invest in and recommend startups that meet every one of my criteria. I'm not here to throw money away – and neither are you.

I hear pitches from a lot of people. Now that you've started, it won't be long before you know what I'm talking about. There is no shortage of ideas out there – in fact, more than 100 million startups are launched worldwide each year.

That's about three new businesses per second! It can be overwhelming, especially when every founder is maxed out on passion. Here are some of the ways that I narrow down my search.

1. I only invest in startups with a big total addressable market (TAM).

Think about it. Say you're looking at a startup that solves a small problem in a huge market – like the e-commerce industry, which is projected to hit $735 billion in just a few years.

The odds are small that a tiny startup will dominate that massive space overnight. But say that they harness just 1% of that market...

Well, a small piece of a huge market is still a huge piece. Because 1% of that massive market means $7.35 billion straight into our startup's bottom line.

2. Another thing I like to see is revenue in the bank.

A business that hasn't made any money yet is basically a shot in the dark. I don't care if it's $500 or $50,000 – revenue in the bank tells me that there are customers out there willing to pay for their product.

3. I prefer to invest in startups with more than one founder.

The ideal number is two. Two co-founders can get more done while using less capital than one can. A single founder will inevitably need to hire out help. But more importantly, a team of two or more shows me that the original founder isn't just a crazy person with a big idea who couldn't convince a single person to get on board.

4. Invest in founders who have a solid track record.

It's always a good sign when the founders of a business have a history of building successful companies. I have way more confidence in an entrepreneur who has already steered a startup to an exit than I have in a first-timer.

5. Look for startups that solve a specific problem.

The most successful businesses out there are the ones that solve urgent problems. We call them "painkillers" – people need them and would suffer without them. A product that solves a real problem is generally on a path to success. It's even better if customers find that they can't live without it.

6. My ideal investment prospect is a product that can scale without spending a lot of money.

A great example of this is software. When a software company grows and starts selling more of its product, it probably won't need to hire a proportional number of new employees. All they really have to do is distribute more copies of the software online. On the flip side, consider a tutoring business – for every new batch of students that you take on as clients, you'll need to hire another tutor. That's poor scalability.

7. I like to invest in businesses that I understand.

I do make exceptions to this rule sometimes, especially when the founders have an amazing track record. But generally speaking, I like to stick to what I know. First of all, it helps me make better-informed investing choices; it also gives me more of an opportunity to help out if the company needs my skill set down the line.

8. Look for companies that have the intent (and ability) to scale globally.

This one's a no-brainer. Under 5% of the world's population lives in the U.S. If a startup isn't at least planning to go global, it's missing out on 95% of the profits.

9. Find out what other people think about the founders and the product.

Every founder you meet will tell you that their company is going to be the next Airbnb or Uber. Most of them probably even believe it. But what really counts is what other people – the potential customer base – think. Ask as many people as you can what they think of the product or service. Would they use it? Would they pay for it? If so, how much?

10. Take a good, hard look at the deal terms before you sign a thing.

Deal terms basically amount to the contract you'll be signing if you decide to invest. These terms lay out exactly what your dollars will get you – think equity, convertible notes, and so forth. Read them carefully and, if you can, have your legal counsel read them too. You'll want to make sure you're getting in at a valuation that's best for everyone. But don't let minor technicalities keep you away from a life-changing deal. Terms won't always be perfect, and that's okay.

There are plenty of other things you should keep in mind when you're scouting for deals – and of course, gut instinct should still be one of them. After all, if everything looks great on paper but you find yourself feeling uneasy, you should trust your instincts. Never get into an investment that doesn't thrill and excite you.

Still, that's rarely the problem. Much more common is the scenario in which a novice investor is so starstruck by the wonder and opportunity that "startup-land" presents that they rush into subpar investments at first. Startup founders know this too – that's why so many of them will try to tell you to *get in now or risk missing out*!

Don't fall for that old trick. Instead, try riding on the coattails of experienced, successful angel investors. It's a simple strategy, but it works.

Keeping up with my free newsletter, ***The Startup Investor***, is a great start. It's where I highlight the hottest startups, dig deeper into the biggest stories from Silicon Valley, and let you in on all the tips and tactics venture capitalists don't want you to know.

I'm thrilled to have you on board.

Cheers,

Neil Patel

PLEASE NOTE

From time to time, Angels & Entrepreneurs, LLC. will recommend stocks or other investments that will not be included in our regular portfolios. There are certain situations where we feel a company may be an extraordinary value but may not necessarily fit within the selection guidelines of these existing portfolios. In these cases, the recommendations are speculative and should not be considered as part of Angels & Entrepreneurs, LLC. philosophy.

Also, by the time you receive this report, there is a chance that we may have exited a recommendation previously included in our portfolio. Occasionally, this happens because we use a disciplined selling strategy with our investments, meaning that if a company's share price falls below a certain price level, we immediately notify our subscribers to sell the stock.

Angels & Entrepreneurs, LLC. is not a broker, dealer or licensed investment advisor. No person listed here should be considered as permitted to engage in rendering personalized investment, legal or other professional advice as an agent of Angels & Entrepreneurs, LLC. Angels & Entrepreneurs, LLC. does not receive any compensation for these services. Additionally, any individual services rendered to subscribers by those mentioned are considered completely separate from and outside the scope of services offered by Angels & Entrepreneurs, LLC. Therefore if you choose to contact anyone listed here, such contact, as well as any resulting relationship, is strictly between you and them.

---

angels +
entrepreneurs

PRIVACY NOTICE

You and your family are entitled to review and act on any recommendations made in this document. All Angels & Entrepreneurs, LLC. publications are protected by copyright. No part of this report may be reproduced by any means (including facsimile) or placed on any electronic medium without written permission from the publisher. Information contained herein is obtained from sources believed to be reliable, but its accuracy cannot be guaranteed. Angels & Entrepreneurs, LLC. expressly forbids its writers from having a financial interest in any security recommended to its readers. All Angels & Entrepreneurs, LLC. employees and agents must wait 24 hours after an Internet publication and 72 hours after a print publication is mailed prior to following an initial recommendation. Angels & Entrepreneurs, LLC. does not act as a personal investment advisor, nor does it advocate the purchase or sale of any security or investment for any specific individual. Investments recommended in this publication should be made only after consulting with your investment advisor, and only after reviewing the prospectus or financial statements of the company.
