Why and How Angel Investors Should Invest in Early Stage Companies ©

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Having been the owner and Editor-In-Chief of Venture, The Magazine for Business Owners and Entrepreneurs, and the author of "The Guide for Venture Investing Angels" and having been involved in the financing of many startups I know something about the subject.

The "Why" is easy. It's fun to be involved with progress and ingenuity. Those starting new ventures tend to be interesting people with a vision for improving the life of others. New employment and new ways of doing things come from new companies. Also, if the right deal is struck and the company succeeds in creating a product or service which is found desirable by customers, a lot of money can be made. The amount made does not have to be Apple or Google-like in terms of identifying winners of that magnitude to make the risk taking reasonable for those who can afford to play at the casino of financing innovation. I hope this article encourages new company investing, just not the way most Angels do it.

The "How" is a deeper question and has a longer answer. First, the Angel has to understand and know why the risk is being undertaken. Is it primarily to make money on the investment, and how many other pre-profitability investments are in the Angel's portfolio? Yes, the Angel should have a portfolio, as any professional investor would have, as the identifying of single early stage winners is difficult, if not impossible. Even professionally managed venture portfolios will have a full complement of losers. Indeed, the question is: will the fewer winners produce gains sufficient to provide an overall profit on the total investment used in creating the portfolio?

Venture investing is a home-run seeking exercise, frequently dependent on a buyout, rather than an accumulation of profits. Serendipity plays a much larger role than is generally admitted by the players and most earn a sub-market rate of return when risk assessment is included in the calculation.

However, there is a better way, one that reduces risk and promises a more satisfactory financial result, while still participating in the success of the selected companies.

A portfolio of well-structured royalties issued by early stage, pre-revenue, companies can better meet the needs of both investors and entrepreneurs.

Royalties, an agreed percentage of revenues for an agreed period, can be structured to have an issuer assured minimum of royalty payments during an agreed period. That minimum can be a multiple of the cost of the royalty.

Pre-payable, bank interest rate level, loans can be made, without borrower personal guarantees, with modest level royalties commencing on the repayment of the collateral secured loan.

Royalties can be redeemable on terms acceptable to investors so in the event of a buyout or IPO opportunity the royalties can be terminated or possibly converted into equity.

Royalties do not vote and only own the agreed percentage of revenues. Royalty owners do not have an ability to influence management of the companies issuing the royalties.

Royalties are the better way of both investing in and financing of privately owned companies. As seen at www.Royalties.Website

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