



Article 89

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‘Angels’ Among Us

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The first investor in any new business is usually the entrepreneur — with help from friends and relatives whose motivation is often more personal than financial. But once the market research is done and the idea is patented, it’s time for the entrepreneur to begin the second round of financing.

Startups typically find traditional lenders wary of lending money at this stage to small, risky ventures with no track record. They’re better off looking for an “angel” investor — a wealthy individual or group of individuals willing to put their own money on the line for a business venture in hopes of reaping substantial returns in a short period.

A niche in the financial ecosystem

Unlike venture capitalists, who invest other peoples’ money from a professionally managed pool or fund, angels dig into their own pockets. Where a venture capitalist typically invests more than \$1 million and seeks an annual return of 25 to 30 percent, an angel investor typically gives between \$25,000 and \$250,000 in expectation of a payback of 10 times that amount over three to five years.

This makes angel investment an increasingly common source of financing for high-risk, high-growth ventures. In 2007, 258,200 angels pumped \$26 billion into 57,120 U.S. companies, according to figures from the University of New Hampshire's Center for Venture Research. That compares with \$30.7 billion invested in 3,918 companies by venture capitalists.

Another study recently published in the *Journal of Private Equity* shows that angel investors account for 70 percent of the capital being invested in new ventures — 11 times the amount being invested by venture capitalists globally.

The value of a guardian

Because angels expect a high rate of return on their investment, they can be considered an expensive source of money. But they’re ideal for companies that banks deem too risky and venture capitalists consider too embryonic.

Another benefit of angel investors is the personal involvement of the angels, who are typically former entrepreneurs with a high tolerance for risk, firsthand knowledge of how to succeed in the business world, and a personal stake in pushing the venture to market leadership and increased value.

According to a November 2007 Kauffman Foundation poll of 86 North American angel investor groups consisting of 539 individuals, a typical group-affiliated angel investor is a 57-year-old, highly educated male (50 percent of those polled had earned a graduate degree) with experience working for a large corporation.

Because of their backgrounds, most angels have valuable contacts and experience that can help a new venture get on its feet. And because of their stake in the outcome, most angels expect to play a decision-making or mentoring role during the time they're involved in the business.

For all of these reasons, angels are an important resource for the entrepreneur in search of enough capital to take his or her business to the next stage.

Finance New Mexico is an initiative of the New Mexico Small Business Investment Corporation (NMSBIC) and its partners to assist individuals and businesses in obtaining skills and funding resources for their business or idea. To learn more about resources available to New Mexicans, go to www.FinanceNewMexico.org.

