Hubert Senters here.

Let’s talk about angel investing. You may have heard this story before but when Jeff Bezos convinced 22 investors to back his new company called Amazon in 1994, the returns were mind boggling for those folks. Now, heads up I think he tried to convince I think it was like 60 or 70 people and he was only able to convince 22 of them.

If you'd had the opportunity back then, to invest in his crazy idea, which is called Amazon back in the day and still is today, your $50,000 would be worth, it would have increased by 14,000,000% and your return would have been $7 billion. Not a bad return. You could have also been an angel investor in Dropbox and invested a potential $15,000 in investment, would now be worth $21 million.

Now, I didn't do either one of those but I was an angel investor in a fund called Slack. You may have heard of it before. It's went public and we were able to sell our angel investment to another group of angel investors before it went public, so it was a nice little exit for us. Now, you might be saying I don't have $10,000 or $15,000 laying around to invest in startups and I understand that.

You could have invested $500 into Dropbox and it would be worth $536,000. I'm going to walk you through some of my investments in angel funds, so I've either invested in these in an angel investing fund or individually: Slack, Z Cash, Stream Labs. These are the exits. Unicorn exit is when the company grows to at least a billion dollars of valuation. Z Cash, we had a 25X- 69 X so that's a multiple.

So if you put in a dollar every dollar would have been worth $25-$69 depending on your exit. And then here's another list of some that we exited for are currently growing. Clearbit were up $125. CARTRA, you can see these on the screen. CARTRA 44 X. Teachable was a 28 X, which we held that on the online stuff going through COVID, we would have made more.

The hardest thing about being an angel investor is trying to figure out how to pronounce some of the names that you invest in. So, let's discuss what is angel investing and how do you get started in this potentially lucrative business.

First and foremost, it is super simple. All you are doing is you are giving your hard earned money, your cash, in exchange for either a percentage ownership in the company, as an investor, or percentage cash flow or both. Or they will try to just sell you the product, and you don't never want those deals so stay away from those deals

So, percentage of ownership or percentage of cash flow, and/or both. Or it'll be a crowdfunding thing which you never want to mess with. But, before we get started in that lane, let's talk about, in one of two categories, that you're going to have to figure out are you an accredited investor or are you a non-accredited investor. It's super easy to figure out. Now, it used to be that only high net worth or wealthy individuals used to be able to play in this game before I got started. And when I got started it was still the fact.

But the rules have changed slightly lately. So, if you're an accredited investor. They actually designed it in, my opinion, to keep the little guy out. They always guise it is they're trying to protect the little guy, but really I was trying – I think it was just to keep the little guy out of the game. So, an accredited investor is someone that makes at least $200,000 per year, or $300,000 with your spouse for a previous 2 years and you have a highly reasonable expectation that you'll earn at least that much this year. You can also qualify if you have a net worth of over $1 million, either alone or together with your spouse excluding the value of your private residence. That's an accredited investor, and when you're an accredited investor you can invest in other funds and you can take a little bit more risk. So, one of the funds that I'm in with a group of my friends that are successful angel investors, I think we invest $50,000 a year, every year in that fund.

And you need to know that it's a risky business if you don't understand the risk that also comes with a potential reward. You just have to be careful. It is a very lucrative business if done correctly, but it also has a high amount of risk.

Now, if you're not an accredited investor, you're what's called a non-accredited investor. Now, the cool thing about non-accredited status is they've actually opened up and loosened up the rules a little bit lately. Where now companies or startups can raise up to $1 million in a 12-month period from non-accredited investors.

So in other words, if you make less than $200,000 a year, you're considered a non-accredited investor. That's okay because they've loosened up the rules a little bit. Now startup companies can go to non-accredited investors and ask them for money. And you don't have to put in a million dollars, you could put in like 50 bucks and invest in these things.

You do have to qualify in this one way, which is super simple. You've got to be 18 years of age to be eligible to invest in these types of companies. They'll set a minimum based upon how much money you make every year. So, it's based upon your net worth, so they're trying to keep you from hurting yourself too much.

Now that's how it begins. Let's talk about the types of investments that you can look to invest in. I focus on tech because I think it gives me the biggest return.

So, the one thing you've probably seen online is a bunch of crowdfunded things. Right? Because this is being more and more popular lately, where they'll crowdfund, a product. That's not angel investing. An example of a crowdfunded product. Let me just go grab one. So I just googled crowdfunding services insights of Google and came up with GoFundMe. All of these sites are going to be slightly different. What to stay away from are the ones like a GoFundMe account, that or a crowd raising site that gives you access to the product but no ownership.

So here's a good example of a crowdfunding product business, this is Kickstarter. So let's say that you were interested in investing in a wind catcher portable power generator or an old one stovetop cook maker. It's not techy enough for me, I like actually in Silicon Valley stuff but this is a good example.

So, this has been funded $272,000, there goes $250,000. And how they do this is you can see down here where you pledge. If you pledge $120 or more, you will get a big thanks for Kickstarter and you'll get, let's see here only certain countries. Let me read really quickly. So basically, all you’re going to get here, is if you get a big thanks from Kickstarter supporting it.

You will also receive one stovetop cooker or coffee maker for 20% off. Basically, if you give them $120, they're going to take a 20% off your coffee maker purchase. You just get the product you don't get any ownership or any cash flow. If this thing is successful or not, you're basically just pre-paying or you're betting on this product but you're not betting on the business.

Now, if you want to get into accredited investing stuff, you would go over to Angel. I figured out, pull it up here, so where me and a bunch of my buddies hang out is angel.co and here you can see AngelList talent, AngelList Venture, Product Hunt. And this is where if you're an accredited investor you can spend some time. But the number one key is if you're an angel investor the most important thing is, you've got to have a really good deal flow. If you don't have really good deal flow, you better know somebody that knows somebody, who knows somebody, that knows somebody. It is a deal-centric business and you have to know the good deals and you also have to have a particular way of how you vet the companies that you're going to invest in.

So we covered the ones not to deal with on the crowdfunding side, and we also covered one if you're an accredited investor. But what if you're a non-accredited investor and you want to invest in companies. Well, you can go to sites like this. Now, this site is called Republic and it's a good site to find deals for non-accredited investors, but you still have to know how to correctly pick these bad boys.

And this is why, number one having a decent deal phone. There's a bunch of websites like this out there. Some are good, some are not so good. I do like this one though. Now, the reason I say, you have to be really good at picking them, is you have to know about the J-curve and being a successful angel investor. So, I'm going to grab a pen and draw on the screen really quickly for you.

This is what I have found over my career of being an angel investor and a lot of my friends have agreed on this so this is how this works so we're going to pretend that you've got an X and Y access right here like this. My drawing's not going to perfect. But what's going happen is you're going to invest some money. And let's say you're going to do, you're going have 10 deals, you're only going to have 1 or 2 out of 10 that it'll actually going to work and pay you and that's ok that's by design. And what's going to happen when you give a company some money.

Let's say you put $100 in each one of these was going to be thousand dollars apiece so your first three or four, you'll start out, you're giving them some investments and then those go out of business so that's your first. One, two, three companies just go out of business. And you want them to go out of business fairly quick and that way you know, you're picking and some of them are working and some of them are not so you got three so you got seven left.

And let's say you have 8. And then you're going to have 9 and then 10. You'll have about three of these, that'll kind of just be breakeven and then you'll have two of these right here so you've got actually got 6 of them, 3 of them are out of business, 3 of them are kind of just hanging on, they're just breaking even, 2 of them will begin to grow slowly. And then 1 or 2 of them will go vertical.

Okay, so this little initial loss that you experience is very normal. You should get a hockey stick type of return from 1 or 2 of your picks and what you want to do is you want to pick anywhere from 10 to 20 deals a year. I like about 10 to 12 myself. And that way I only have to be right on 1 or 2. Now, when you put your money in these investments, you don't get a seat on the board, you don't get a vote. You're giving them your hard earned cash and you're saying, good luck, I hope you make it.

Now, you can be what's called Smart Money and you can advise them in a niche or a category that you know something about. Or if you can help them cut some deals and grow above that. Or if you can be dumb money and just throw your money at them saying good luck, I hope you make it.

So it's very important that you invest in a category that you know a lot about, because there are way more deals than there is money so it's really important. You're going to have a lot of people asking you for money and you can invest in more deals than you'll have cash available. So it is important to for you to invest in your area of expertise so you can get 1 or 2 out of 10 deals. Initially the first 2 or 3 of are going to go out of business and then 3 or 4 of them are just kind of breakeven and you'll have 1 or 2 that will start growing slower. This does take time for this to work, Amazon didn't make their investors $7 billion overnight so this is not a day trade, this is not a swing trade this is an investment.

Average hold time is probably around 6 years or more. But the returns can be exceptionally high if done correctly. I hope this answers some of your questions about angel investing. It’s not hard. It's not complicated. You just got to have to figure it out on your own or know somebody that knows how to do to it to open up the door and let you sneak a peek inside and see how this business works.

Good luck. Hope it helps. See you on the next video.