

Are You Talking to the Right Investor?

By Ken Hollowell

In my 27 years of assisting businessmen in raising funds for both startup and small business operations, I have found that most people become extremely frustrated in attempting to raise money because they make two major mistakes.

The first mistake is using the wrong document to talk about money. Most people rely on a business plan, which usually leads to disaster and failure. A business plan has its place but not as a tool to raise money alone.

The other mistake is not talking to the right investor. There are three (3) distinct types of investors. The first is an Angel Investor that I refer to as a Demon Investor.

The Angel Investor is usually looking for an opportunity to take control of a naive individual and situation. The Angel Investor often times does not provide the necessary funding but will provide a limited amount of money for the project for both interest and equity. The equity can be upwards to 80% with interest being accumulated at 10% to 18%. You can see why I refer to the Angel Investor as a Demon Investor.

The Venture Capitalists is the wrong person to speak to if the project and funding is small. Most Venture Capitalists are institutional financing related. They are usually looking for \$20 million deal and up. They will be nice to you and offer to look at your project, business plan and PPM but seldom do they invest in small projects.

The next investor is the Private Investor. There are 2 types of Private Investors, Accredited and Non-Accredited Private Investor. For purposes of a REG D 504 Private Placement Memorandum, the Non-Accredited Private Investor is who you want to speak with.

This Private Investor is usually looking at multiple offering and business opportunities daily. It is not uncommon for this investor to have small amounts of money in 10, 15, 20 or even 30 separate deals. The investment ranges from \$10,000 upwards to \$50,000. Seldom does this investor fund projects with \$100,000 or more. What this investor is looking for is a "Home Run". This investor knows that over three fourths of his deals will not yield money back. But that one that makes it more than enough makes up for the losses.