IMAGE JOHN J BREEN

IN WITH THE IN CROWD

DOMINIC BERGER CEO OF ANGEL EQUITY GROUP LOOKS AT THE EFFECTS OF CROWD FUNDING AND THE NEW GENERATION OF MILLENNIAL INVESTORS

"Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years."
Warren Buffet

DOES CROWDING AND NEW FINTECH (FINANCIAL TECHNOLOGY) REALLY CHANGE THE FUTURE OF PRIVATE INVESTING?

Over the last decade the private investment landscape has changed radically with the demands of the millennial generation and the rise of fintech companies that some say are democratising the investment world and others say is the beginning of a raft of investor losses from companies that should not have been backed in the first place and a system that does not address in the same way as private equity does the rigours of post investment management and investor protection.

The phenomenal rise of crowd funding over the last few years which people predict will go through $40 billion in 2017 has certainly opened up the opportunity for the general public to access investment opportunities as never seen before and in so doing creating a completely new investment class that simply did not exist before.

In the good old days this class would have been described as retail on stock markets…

But unlike buying shares in quoted companies these private companies and crowd funding platforms don't have the same rules or reporting obligations in place than the former – making investing a much riskier proposition than trading junior stocks. Is this a threat to stock markets? – it would seem so as certainly this sector continues to grow ….

So why have the millennial's in particular embraced this new form of private investing? Much of this has stemmed from mistrust of the old systems – the old school - and a lot to do with the digital age where private companies can embrace shareholder transparency, and shareholder communication.

But the question is will people make money? Will it ultimately create returns on investment? Has this new investment class really changed the fundamentals in the private investment arena?

To understand wealth creation in the private sector one really needs to look at the success of private equity (PE) companies and understand their approach and understand how the two classes compare. Its worth noting that 21% of all private equity deals in the UK last year were fulfilled by Seedrs and Crowdcube. But do these new kids on the block have the same rigours as the world of private equity or do they even need to?

When analysing the way in which PE works it soon becomes very apparent that these new forms of investment do not come with the same rigours of the private equity model. Investors are not afforded any special rights nor are there any shareholder agreements which ultimately means the investee companies can continue to act as a private business under normal articles with no real and tangible restrictions or reporting requirements to the investor. Moreover there is no obligation on the platform to manage the investment on your behalf but more importantly no incentive as the platform makes money as a commission on your investment after that there are no obligations to the investor and no more money for the platform … they are merely an investment advertising business.

Furthermore this class has adopted the name of Crowd Funding – surely they have missed the point? The notion of a collective crowd suggests the pooling of investment so that the crowd acts as one – thereby insuring influence and increasing protection. But no there is no crowd really you are all just individuals in this model with a crowd mentality … probably the worst trait of the crowd definition.

Has this new generation really missed the point? The significance of the digital economy is surely its ability to create communities, unify people from different nations with a common goal, and take communication and transparency to a new level. Do any of these new kids on the block do that? Have they totally missed the point of the social media revolution?

What is the very essence of driving profit from investment? The Private Equity world (and business angels) is very clear on this point, investing in businesses that you can make a tangible difference to in order to benefit in the increase in value created. If you agree that this is the essence of successful investments and to a certain extent being to control the destiny then surely this fintech revolution has again missed the point. The power of a community must be to pool the collective know how and contacts of that community and focus that on driving growth in the selected business? Is this not just common sense?

Do you still think Crowdfunding and the emergence of DIY investing is the answer? Do you even have the time? Our feeling is that the current fashion for Fintech will be short-lived and the age old principals of private investing a la Warren Buffet remain.

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Warren Buffet | Berkshire Hathaway

It was with the above in mind that we conceived and launched the Angel Equity Group and our invitation only Community driven Private Equity Club – our vision is to harness the collective knowledge of a network of business angels to drive accelerated growth in investee companies and provide a post investment management regime to both protect and manage investments in the same way as Private Equity. As far as we can tell we are unique and today we have over 11,000 business angels across Europe with an exciting portfolio of potential high growth businesses the likes of which we will now showcase to Paddock Life readers.

We are also pleased to offer Paddock Life readers the exclusive opportunity to join our Club by using the following invitation link:

https://abc.angelequitygroup.com/user/paddock

Angel Equity we believe unlike crowdfunding is truly democratising the world of Private Equity where members can be comforted that their investment choices are highly curated and actively managed but more importantly where you the investor have full transparency, have the opportunity to learn and the luxury of engaging in your own time and within your constraints