



12 SECRETS OF INNOVATION AND WEALTH

PART OF THE WEALTH MASTERY SYSTEM

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However... there's one essential secret: do everything in your power to reduce the risk of losing everything, and that is....

Follow in the footsteps of the titans. *Angel Investors* create wealth by investing in innovative entrepreneurs with potential for ‘the next big thing’, and local passionate entrepreneurs that have a novel approach to solving a problem to make people's lives better in their community. Year after year they put a portion of their money to work with multiple private companies, diversified by stage and industry, to compound the potential for return on that investment, they expect will change the world or uplift their community in their own backyard. If building a successful business is the greatest pathway to generational wealth, owning a piece of multiple successful businesses is the 2nd best way to create a legacy of riches - both financial and emotionally impactful.

My story and deep relationship with the fantastical world of angel investing began over 23 years ago. I first discovered there was a ‘secret society’ of investors when I attended a monthly pitch event for the Network of Business Angels and Investors. In my corporate gig at IBM as the ‘deal maker’, I only knew about bank and venture capital. I had never heard of angel investors until I was invited to the NBA&I pitch event. I quickly realized that this is where the money that fuels the world comes from. I knew the biggest challenge entrepreneurs had been getting capital to launch and grow their business. To this day, I remember standing in the parking garage afterwards, shaking my head side to side, feeling tingly, and thanking God for this window of opportunity. I didn’t know how, but I knew I wanted to bring more investors into the pool to help entrepreneurs swim and ride the wave of success.

There was a fundamental challenge to fulfilling this vision. Angel Investing was like a secret. I mean, I had been helping IBM startup customers get venture capital, and I thought I knew the venture landscape so well that I left IBM in 2000 to work full time for my IBM client, raise capital and bring his medical software to market. Yet, I had never heard of “angel investors”. The biggest reason it seemed like a ‘secret society’ was because security laws were written to exclude people based on income. It was like an “old rich boys club” because of the way angel groups evolved after the big tech IPOs in the 1980s and most investors came from the tech sector, which was not a diverse community back then. In fact, it had been that way since before the 1920s and only began to change a few years ago when the laws were re-written. The barrier to access to investors was high for entrepreneurs seeking capital because the laws were written to make it illegal for them to solicit investors outside of those ‘secret societies’ of angel investor networks. Even as people reached the income level to become an angel investor, it was de facto illegal for their financial planners and wealth managers to talk about angel investing. This ‘don't ask, don't tell’ philosophy about investing in private companies spilled over into other trusted advisors. Lawyers and accountants also would avoid talking to their clients about investing in private equity, unless they were already one of the rich ones in the secret society of angel investors.

All of that changed in 2012... well the potential for change happened with the bi-partisan passage of the JOBS Act. It took another 5 years for the new security regulations allowing for General Solicitation (raising capital from ‘the crowd’) to be fully rolled out. If I was to grow that seed of a vision to bring more investors into the room, and clear the pathway to great wealth for potential investors at every level, I had two challenges to overcome -

1. **Create a movement to reveal the secret.** I call it the *Compassionate Capitalist Movement*TM, for a bunch of reasons you will come to know why, if you don’t already. A movement needs a voice, so the logical next steps were to write a book, a primer for ‘would ya, should ya’ invest in private companies. I relaunched my podcast to amplify the message and whisper into the ears of potential future investors. The book, of course, is my bestseller, *Inside Secrets to Angel Investing*. The podcast is *The Compassionate Capitalist Show*TM, a weekly show ranked in top 10% globally for business shows.
2. **Develop education and systems for new investors to invest with confidence.** It wasn’t enough for new venture investors to know ‘what’ angel investing was, they needed to know ‘how’ to be an angel investor. There was no education system to help those savvy investors, that already invested in real estate or stocks, to learn how to become an angel investor. I created that too. It is the *Wealth Mastery System*. You’ll learn more about that in due time.

Right now, you need to get on with **The 12 Secrets of Innovation & Wealth**. This is a taste of the beautiful smorgasbord of knowledge and opportunity that is in store for you on your journey to become a Compassionate Capitalist.

These twelve nuggets of wisdom are part of the 44 secrets shared *Inside Secrets to Angel Investing – Step-by-Step Strategies to Leverage Private Equity Investment for Passive Wealth Creation*.

This ‘how-to’ book is a primer for those investors that see the value of owning a piece of multiple businesses and want to develop confidence and best practices for becoming an Angel Investor. Many entrepreneurs who are raising capital have also benefited from the book as well to better understand the process of raising capital and how successful angel investors think when making a ‘buying’ decision. Pick up your copy at Amazon or your favorite bookstore with the ISBN no. Those purchase details, book excerpts and sneak peek at the valuable resources available



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12 Secrets of Innovation and Wealth

#1 Inside Secret: Manage Risk

Most Angel Investors who are in the business of investing, anticipate some of their investments will fail. They mitigate risk through garnering information about the company and the market. They make a commitment to invest in multiple companies over time and to build a diverse portfolio, yet they also only invest what they can afford to lose.

#2 Inside Secret: Stay Out of Jail

Compliance under the various regulatory laws is an area that I have seen abused or disregarded many times in my 15+ years of working with entrepreneurs and investors. Investors, not familiar themselves with the securities laws, naively assume the company has dotted its I's and crossed its T's. Experienced investors have the discipline to ensure that the company is currently (and in prior endeavors) in regulatory compliance.

#3 Inside Secret: The Friend & Family Test

Ironically, entrepreneurs will often bypass their friends and family when raising early capital and go straight to applying to present to angel groups or pitch events because they don't believe their family has the funding, or they don't want to feel obligated to the friend or family if they lose their money. Experienced Angel Investors will use this as a litmus test. If the company has received NO money from a friend or family member (or someone connected to that friend or family) it is usually a sign of one of two things:

1. Friend or Family knows something of the character or worth ethic of that entrepreneur that makes them not want to invest or help the company with introductions to potential investors.
2. The entrepreneur lacks true commitment and belief in their project to risk a family or friends' money, but is willing to risk a stranger's money because they see it as no strings attached. If they truly believed they would be successful, why wouldn't they want their friends and family to benefit?

#4 Inside Secret: Coachable Quotient

If a company you are considering for investment has taken the time to engage the free resources available from the SBA, whether that be the Small Business Development Centers (SBDC) or SCORE, hired a business coach, or engaged strategic consulting firm, then that shows they are open to coaching and have received the instructions on the fundamentals of building a business.

#5 Inside Secret: Not all Portals are Equal

Not all portals or platforms are created equal. It is critical to not simply assume that a company has been screened or evaluated at any level, just because they are found on a portal. You should find out what their application process is to get listed.

#6 Inside Secret: Is the Ask Enough

Ideally the executive team has developed and documented a funding strategy that is linked to their operational growth plan, so that with funding at specific levels, they can hire key personnel and complete other items related to delivering product to the market and creating revenue. Bottom line, if you don't want to invest \$50,000 only to find out that they really needed \$500,000 to get to the next milestone.

#7 Inside Secret: Be a Right Quadrant Investor

Being an investor that ‘owns pieces of other businesses’ is the best blend of the right side of the CashFlow Quadrant. Whether those investments are as Angel Investors owning stock or as a private lender for a lifestyle company that is growing but not yet eligible for traditional financing.

#8 Inside Secret: Value is Relative

The “value” of a private company is an inexact science before they receive their first round of financing. Value may increase with subsequent rounds based on the amount of capital put in, not necessarily because the company is actually worth that amount, or can achieve the estimated value, when the time comes to go public or get acquired.

#9 Inside Secret: Investing Without Cash

There are many ways an investor can provide financing to a worthy company without directly investing cash. You can use assets such as your stock portfolio to secure a Line of Credit for a company. They can invest through a self-directed IRA, such as a Roth IRA, much as they might do to buy investment real estate. They can pay for certain services or development through their company that would benefit their company as well and gain equity and licensing revenues.

#10 Inside Secret: REG A+ > Best of Both Worlds

Shrewd investors with a strong financial IQ, familiar with evaluating and purchasing stocks for public companies through online stock portals, may be able to find the best of both worlds with Reg A+ offerings: Established private companies bringing innovation to market that can accelerate their growth and market value.

#11 Inside Secret: Balance Debt & Equity

Every business grows with some combination of debt and capital infusion. Even Lifestyle Market Participants will have owner equity for the capital used to start a business. It is important for you to understand what types of debt are available to finance different aspects of a business as it grows, so that when appropriate, a company can qualify for the appropriate debt that fits a specific need without having to take the time to seek investor capital and further dilute the shareholders.

#12 Inside Secret: Costly Crowdfunding Mistakes

Before the rules for Reg CF were released, many companies would say they were raising capital through Crowdfunding, not really understanding what they could or could not legally do – to advertise, to register, or receive funds. It is in your interest to ask that additional question of a company... “Did you use Crowdfunding to raise capital?” If the answer is yes, then find out under what conditions. It may be a disqualifier, or you may be willing to work with them to clean up the legal mess, not unlike a company that raised their Friends and Family round without adequate documentation.

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Got more questions than answers? Set up a call with Karen at <http://bit.ly/callwithkaren>
Make sure karenrands.co and kugarandholdings.com are whitelisted in your email system so you don't miss any of the Compassionate Capitalist emails coming your way with more valuable tips for entrepreneurs and investors. Get