



What are Angel Investors?

And How Can it Help Your Business?

Angel investors are often retired entrepreneurs or executives, who may be interested in angel investing for reasons that go beyond pure monetary return. These include wanting to keep abreast of current developments in a particular business arena, mentoring another generation of entrepreneurs, and making use of their experience and networks on a less-than-full-time basis. Thus, in addition to funds, angel investors can often provide valuable management advice and important contacts.

Angels typically invest their own funds, unlike [venture capitalists](#), who manage the pooled money of others in a professionally-managed [fund](#). Although typically reflecting the investment judgment of an individual, the actual entity that provides the funding may be a business, [limited liability company](#), [trust](#), [investment fund](#), etc. The Harvard report by William R. Kerr, Josh Lerner, and Antoinette Schoar tables evidence that angel-funded [startup companies](#) are less likely to fail than companies that rely on other forms of initial financing.

Angel capital fills the gap in start-up financing between "friends and family" who provide [seed funding](#), and venture capital. Although it is usually difficult to raise more than a few hundred thousand dollars from friends and family, most traditional venture capital funds are usually not able to consider investments under US\$1–2 million. Thus, angel investment is a common second round of financing for high-growth start-ups, and accounts in total for almost as much money invested annually as all venture capital funds combined.

Angel investments bear extremely high [risk](#) and are usually subject to [dilution](#) from future investment rounds. As such, they require a very high [return on investment](#). Because a large percentage of angel investments are lost completely when early stage companies fail, professional angel investors seek investments that have the potential to return at least 10 or more times their original investment within 5 years, through a defined [exit strategy](#), such as plans for an [initial public offering](#) or an [acquisition](#). While the investor's need for high rates of return on any given investment can thus make angel financing an expensive source of funds, cheaper sources of capital, such as [bank](#) financing, are usually not available for most early-stage ventures, which may be too small or young to qualify for traditional loans.

Because there are no public exchanges listing their securities, private companies meet angel investors in several ways, including referrals from the investors' trusted sources and other business contacts; at investor conferences and symposia; and at meetings organized by groups of angels where companies pitch directly to investor in face-to-face meetings.