



Angel Investors 101

By Eric Morris

For fresh graduates or for employees who want to start their own businesses, one of the hardest things to do is to get the capital that they need to do so. This is because most of the traditional sources of loans or funding are apprehensive in providing funds for start-up businesses. Given this, most of them opt to shelve their business idea until they get the money they need. Some opt to sell equity, and some of them borrow the money from relatives and friends. However, people who want to go into business for themselves need not wait until they get the money from these sources because there is a good source of capital that they can tap into. All they need is a good idea and a strong business plan. This source is an angel investor.

What are angel investors?

Angel investors are either individuals or companies who put in money into startup businesses. However, their role in the business is not limited to being an investor because angel investors take an active role in the management of the business as a means of protecting their investment, which is why angel investors are usually businessmen themselves who are astute in handling businesses. There are three ways by which an angel investor can provide funds for a business. One of these is by providing money through a promissory note or a loan, which can be converted into an equity position in the company after the launching phase of the company. Usually, the investor would take about 15 to 30 percent equity in the company, which is enough to gain a seat in the board.

The second way angel investors provide funds is through a cumulative convertible preferred stock option, wherein the investor defers the dividend payments he would receive from his stock, while he holds a seat in the board. The third way is for an investor to get an equity position right away when they put in their investment. In this set-up, they have an option to bring in one or two of his associates to help in the management of the business.

One good source of money that aspiring entrepreneurs can tap is an angel investor, which can provide them with the capital they need to launch their business. The good news is that apart from being able to get the money they need from these investors, they can also gain a number of benefits from the managerial expertise of the investor.

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