

Getting Started with Crowdfund Investing

FOR
DUMMIES®

Sherwood Neiss
Jason W. Best
Zak Cassady-Dorion

*Principals, Crowdfund Capital Advisors,
LLC Entrepreneurs*

 **in a
day**

***Getting Started with
Crowdfund Investing
In A Day***
FOR
DUMMIES®

**by Sherwood Neiss, Jason W. Best,
and Zak Cassady-Dorion**



WILEY

John Wiley & Sons, Inc.

Getting Started with Crowdfund Investing In A Day For Dummies®

Published by
John Wiley & Sons, Inc.
111 River St.
Hoboken, NJ 07030-5774
www.wiley.com

Copyright © 2013 by John Wiley & Sons, Inc., Hoboken, New Jersey

Published simultaneously in Canada

No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except as permitted under Sections 107 or 108 of the 1976 United States Copyright Act, without the prior written permission of the Publisher. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at <http://www.wiley.com/go/permissions>.

Trademarks: Wiley, the Wiley logo, For Dummies, the Dummies Man logo, A Reference for the Rest of Us!, The Dummies Way, Dummies Daily, The Fun and Easy Way, Dummies.com, Making Everything Easier, and related trade dress are trademarks or registered trademarks of John Wiley & Sons, Inc., and/or its affiliates in the United States and other countries, and may not be used without written permission. All other trademarks are the property of their respective owners. John Wiley & Sons, Inc., is not associated with any product or vendor mentioned in this book.

LIMIT OF LIABILITY/DISCLAIMER OF WARRANTY: THE PUBLISHER AND THE AUTHOR MAKE NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE CONTENTS OF THIS WORK AND SPECIFICALLY DISCLAIM ALL WARRANTIES, INCLUDING WITHOUT LIMITATION WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE. NO WARRANTY MAY BE CREATED OR EXTENDED BY SALES OR PROMOTIONAL MATERIALS. THE ADVICE AND STRATEGIES CONTAINED HEREIN MAY NOT BE SUITABLE FOR EVERY SITUATION. THIS WORK IS SOLD WITH THE UNDERSTANDING THAT THE PUBLISHER IS NOT ENGAGED IN RENDERING LEGAL, ACCOUNTING, OR OTHER PROFESSIONAL SERVICES. IF PROFESSIONAL ASSISTANCE IS REQUIRED, THE SERVICES OF A COMPETENT PROFESSIONAL PERSON SHOULD BE SOUGHT. NEITHER THE PUBLISHER NOR THE AUTHOR SHALL BE LIABLE FOR DAMAGES ARISING HEREFROM. THE FACT THAT AN ORGANIZATION OR WEBSITE IS REFERRED TO IN THIS WORK AS A CITATION AND/OR A POTENTIAL SOURCE OF FURTHER INFORMATION DOES NOT MEAN THAT THE AUTHOR OR THE PUBLISHER ENDORSES THE INFORMATION THE ORGANIZATION OR WEBSITE MAY PROVIDE OR RECOMMENDATIONS IT MAY MAKE. FURTHER, READERS SHOULD BE AWARE THAT INTERNET WEBSITES LISTED IN THIS WORK MAY HAVE CHANGED OR DISAPPEARED BETWEEN WHEN THIS WORK WAS WRITTEN AND WHEN IT IS READ.

For general information on our other products and services, please contact our Customer Care Department within the U.S. at 877-762-2974, outside the U.S. at 317-572-3993, or fax 317-572-4002.

For technical support, please visit www.wiley.com/techsupport.

Wiley publishes in a variety of print and electronic formats and by print-on-demand. Some material included with standard print versions of this book may not be included in e-books or in print-on-demand. If this book refers to media such as a CD or DVD that is not included in the version you purchased, you may download this material at <http://booksupport.wiley.com>. For more information about Wiley products, visit www.wiley.com.

ISBN 978-1-118-50224-2 (ebk); ISBN 978-1-118-50226-6 (ebk); ISBN 978-1-118-50229-7 (ebk)

Manufactured in the United States of America

10 9 8 7 6 5 4 3 2 1



WILEY

Table of Contents

Introduction 1

What You Can Do In A Day	1
Foolish Assumptions	2
Icons Used in This Book.....	2

Chapter 1: Tapping a New Source of Business Funding. . . . 3

The Origins of the JOBS Act	4
Internet + social media = easy crowd access	4
Responding to the financial collapse of 2008	5
Recognizing that investors want other options	5
Following in the footsteps of microfinance	6
Watching the rise of donation- and perks-based crowdfunding.....	7
The Startup Exemption: Advocating for Change	8
Hitting the regulatory barriers	9
Developing a new framework	9
Getting crowdfund investing into the JOBS Act.....	10
Grasping the Regulatory Revolution	11
Promoting emerging growth companies.....	11
Redefining who can invest in small ventures	11
Setting up the structure for online investment.....	12

Chapter 2: Financing a Startup or Small Business. 13

Identifying Businesses Ripe for Crowdfund Investing.....	13
Startups	14
Small businesses	15
Anyone who doesn't qualify for traditional financing.....	16
Working within the Statutory Framework	17
Limiting funding to \$1 million.....	18
Realizing why an all-or-nothing funding provision exists	18
Avoiding general solicitations	20
Using only SEC-registered websites.....	21
Putting Your Baby Online for the World to See	22
Mapping out your goals and plans.....	22
Engaging existing advocates of your brand.....	23
Promoting interest throughout the campaign	24
Rewarding your investors or paying back your debt.....	25
Sharing the wealth	25

Chapter 3: Picturing Your Crowd 27

Considering How Large and What Type of Crowd You Need.....	27
Estimating the number of investors	27
Setting the minimum investment level.....	30
Homing in on your social networks.....	31
Respecting What Crowd Investors Need from You	33
Stating a clear vision.....	33
Aiming for honesty and financial transparency.....	34

Chapter 4: Working with an Online Investing Platform 39

Understanding JOBS Act Provisions about Investment Platforms.....	40
Distinguishing funding portals from broker-dealers	40
Meeting SEC requirements for registration	42
Linking entrepreneurs and investors via social media	44
Allowing contacts to bring other possible investors into the conversation.....	45
Policing the SEC's rules.....	46
Spotting the Services a Good Platform Can Provide	46
Business plan templates	47
Incorporation assistance	47
Intellectual property support.....	48
Accounting and auditing help	48
Escrow agents.....	49
Stock transfer agents.....	49
Filing and financial reporting tools.....	50
Shopping for the Best Crowdfund Investing Platform	50
Anticipating the cost	50
Asking the right questions	51

Chapter 5: Making Your Pitch and Recruiting Investors. . . . 53

Putting Your Best Face Forward.....	54
Writing a great headline.....	54
Producing a quality video to sell your idea.....	55
Preparing your website	59
Managing Your Social Network.....	60
Building from your core social network outward.....	60
Supporting other companies for mutual benefit.....	61
Realizing What Happens When Your Idea Goes Live	62
Reading crowd comments and responding to questions	62
Watching your network grow through referrals	63
Demonstrating traction	63

Chapter 6: Where to Go from Here. 65

Taking Your First Steps.....	65
Visiting dummies.com	66

Introduction



Crowdfund investing is an exciting new business financing opportunity created by the JOBS Act that was signed into law in 2012. It taps into the power of the crowd by connecting entrepreneurs and small business owners with investors via LinkedIn, Facebook, Twitter, and other social media. And it offers small investors the chance to purchase an equity stake (or to fund debt) in small, private businesses run by people they know and trust.

Crowdfund investing occurs via online funding portals: websites that host investment campaigns and collect investor pledges. An individual can invest only a limited amount each year in these campaigns (to mitigate investor risk), and a campaign must be funded completely in order for the business to receive investor dollars. The U.S. Securities and Exchange Commission is charged with regulating the crowdfund investing industry and will announce industry regulations in early 2013.

If you've got a great concept, a solid business plan, and vibrant social networks, you may find that crowdfund investing is a great fit for you. Reading this book is your first step to figuring out if that's the case.

What You Can Do In A Day

In a day, you can get yourself up to speed on the opportunities that crowdfund investing presents and the legislative guidelines that you must follow. You can start to visualize the size and makeup of your ideal investment crowd, and you can discover how an online funding portal will support your campaign. You can even start working on your campaign pitch by drafting a headline that succinctly states your goal(s) and considering what you'd say to an investor in a video that explains who you are and what you want to accomplish.