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"A COMPARATIVE STUDY OF ANGEL INVESTMENT AND VENTURE CAPITAL"

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Meaning:

Angel investments are typically the earliest equity investments made in startup companies. Angel investors are almost always wealthy individuals and commonly together in investor networks. Often these networks are based on regional, industry, or academic affiliation.

Angel investors are often former entrepreneurs themselves, and typically enjoy working with companies at the earliest stages of business formation. For this reason, sometimes angel investors fund startups before the company has significant number of employees, and before there is a completion of a proof of concept of the idea that they intend to commercialise.

Angel investors are typically former entrepreneurs who have experienced success in their ventures, and wish to continue working with startups in a particular industry (or geographical region) even though they have exited the entrepreneurial ventures that made them wealthy.

Angel investors invest in small startups or entrepreneurs. Often, angel investors are among an entrepreneur's family and friends. The capital angel investors provide may be a one-time investment to help the business propel or an ongoing injection of money to support and carry the company through its difficult early stages.

Source of Funding

Angel investors typically use their own money, unlike venture capitalists who take care of pooled money from many other investors and place them in a strategically managed fund.

Though angel investors usually represent individuals, the entity that actually provides the fund may be a limited liability company (LLC), a business, a trust or an investment fund, among many other kinds of vehicles.

Investment Profile

Angel investors who seed startups that fail during their early stages lose their investments completely. This is why professional angel investors look for opportunities for a defined exit strategy, acquisitions or initial public offerings (IPOs).

The effective internal rate of returns for a successful portfolio for angel investors ranges from 20% to 30%. Though this may look good for investors and seem too expensive for entrepreneurs with early-stage businesses, cheaper sources of financing such as banks are not usually available for such business ventures. This makes angel investments perfect for entrepreneurs who are still financially struggling during the startup phase of their business.

Venture capital

Venture capital is financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. Venture capital generally comes from well-off investors, investment banks and any other financial institutions. However, it does not always take just a monetary form; it can be provided in the form of technical or managerial expertise.

An **angel investor** is a person who invests in a business venture, providing capital for start-up or expansion. Angel investors are typically individuals who have spare cash available and are looking for a higher rate of return than would be given by more traditional investments. Typically an angel looks for a return of 25 percent or more.

An angel investment is a form of equity financing–the investor supplies funding in exchange for taking an equity position in the company.

Equity financing is normally used by non-established businesses that do not have sufficient cash flow or collateral with which to secure business loans from financial institutions.

Angel investors fill in the gap between the small-scale financing provided by family and friends and venture capitalists. Attracting Angel Investors is not always easy, but there are things you can do. First, you need to consider if angel investing is truly for you.

Advantages and Disadvantages of Angel Investors for Business Owners

The big advantage is that financing from angel investments is much less risky than debt financing. Unlike a loan, invested capital does not have to be paid back in the event of business failure. And, most angel investors understand business and take a long-term view. Also, an angel investor is often looking for a personal opportunity as well as an investment.

The primary disadvantage of using angel investors is the loss of complete control as a part owner.

Your angel investor will have a say in how the business is run and will also receive a portion of the profits when the business is sold. With debt financing, the lending institution has no control over the operations of your company and takes no share of the profits.

Sources of Angel Investors

Angel investments normally come from:

Family and friends – this is by far the most common source of funding for business startups that are interested in Finding Business Start Up Money and is the only option for many. Given the high rate of failure with new businesses, it is also risky in terms of the possible impact on family/friend relationships if the business is not successful. It is important to be upfront about the risk of failure.

Wealthy individuals – another good source are successful business people, doctors, lawyers, and others that have a high net worth and are willing to invest up to (typically) $500,000 in return for equity. Often this is done by word of mouththrough business associates or associations such as the local Chamber of Commerce.

Groups – angels are increasingly operating as part of an angel syndicate (a group of angel investors), which raises their potential investment level accordingly. Investors contribute funds to the syndicate and a professional syndicate management team chooses the investments. How to Find an Angel Investor, gives some examples of active Canadian angel groups.

Crowdfunding – a form of an online investing group, crowdfunding involves raising funding by having large groups of individuals invest amounts as small as $1,000. If this route interests you, you can Read about the current state of crowdfunding in Canada to get a sense of today's crowdfunding landscape.

It's important for any business person thinking about accepting an angel investment to be very clear about what the investor is bringing to the deal besides money, and to develop an understanding of what the angel investor would be like to work with.

It's also important to have a comprehensive business plan in place. As a small business, you'll need that in order to secure financing from lenders or investors.

Conclusion:

In angel investment, there is less fear of debt and they usually include family members, friends and wealthy individuals, but the business entrepreneur will not have complete control over the business, where as ain venture capital the investors are wealthy individuals , and deal in private equity, with intention of earning profits in the long run.

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