Myths and Realities of Equity Crowdfunding

MYTH: I'm going to get rich quickly investing in startup and early stage companies.

REALITY: Investing in startups is very risky, and statistics show that roughly 50% of all small businesses will fail within the first few years. Investments in startup companies are also long term investments, which will likely show returns (if at all) within a period of years, not months.

MYTH: All companies posted on crowdfunding sites are legitimate, high quality companies that will be successful and achieve great returns for investors.

REALITY: There are no minimum requirements or standards for a business to be posted on an intermediary. Intermediaries will decide on their own which ventures they want to feature. The responsibility ultimately falls to individual investors to ensure they fully investigate all companies prior to investing. Due diligence will help position investors to best assess risks and combat potential fraud.

What Information Should Investors Know?

Before investing, you should ask questions and consider all available information, including:

- **Financial Projections:** There is no uniform standard for valuing a startup or early stage company. As such, you should closely examine the basis for all financial projections made by the issuer, along with all financial statements provided by the intermediary and issuer.
- **Product Development:** Consider the current stage of development of the product or service being offered. It is also important to understand the strategies, costs, and time associated with the different stages of product development, including manufacture and distribution.
- **Capitalization:** Projects must have access to sufficient capital in order to increase their chances for success. You should consider current, as well as future, capital needs and opportunities for any venture.
- **Management Team:** Look at the experience and background of all officers and directors of the issuer to determine whether they have the required experience and skills to successfully build and grow a business.

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What You Need to Know

Crowdfunding:

Tips on Equity Crowdfunding

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What is Crowdfunding?

Crowdfunding is a way for small businesses and start-up companies to raise money online through investments from the general public. While the concept of crowdfunding itself is not new, traditionally individuals either made a pure donation, as to a charity, or received a small reward in exchange for their contribution. In the past few years, legislative changes have opened the door for a new type of crowdfunding: equity crowdfunding. Currently, equity crowdfunding allows entrepreneurs to raise up to $1 million in any 12-month period, through the offer and sale of ownership interests in their businesses. Offers are made over the Internet via websites run by an intermediary who is either a broker-dealer or a funding portal. The websites make investment opportunities available to all investors. Investors are no longer just donating funds to crowdfunding ventures, but may instead take a financial interest in the success of the venture as partial owners.

Contact the Division at any time for more information about crowdfunding or any other securities related matters.
Phone: 800-269-5428

10 Tips for Crowdfunding Investors

1. You must not exceed the individual investment limits, which are based on your net worth or annual income.
2. You should expect to have limited voting rights and control in any new venture.
3. Do not be afraid to ask questions or request more information. Due diligence is critically important, so you must thoroughly investigate all opportunities before investing. Also, be certain to examine all financials and other documents provided by the issuer and intermediary.
4. Investor questionnaires will be issued by intermediaries and are for your protection. Answer all questions honestly and be prepared to disclose personal financial information. You will also be required to acknowledge the significant risks associated with crowdfunding.
5. Beware of overly optimistic projections, as there are no uniform standards for valuing startup or early stage companies.
6. There may be a limited, or no market for crowdfunding securities, so it may be difficult or impossible to sell your investment. Typically, shares may not be transferred within 1 year of purchase.
7. You should only invest money that you have no immediate use for, and that you can afford to lose.
8. Crowdfunding investments are long term investments and may not result in returns for a significant period of time, if at all.
9. Be aware that you may have limited rights against an intermediary or issuer in the event of a dispute.
10. Above all, take time to understand the process of crowdfunding. The Internet Crowdfunding and Offerings Watch Department (I-CROWD) of the Massachusetts Securities Division is a valuable resource and will be conducting investor education throughout the Commonwealth on equity crowdfunding.