# THE 5 CROWDFUNDING INVESTMENT MISTAKES THAT DESTROY RETURNS

## ▶ Don't fall victim to these common mistakes many investors make...

Jordan Gillissie
Founder & CEO

Hi, I'm Jordan Gillissie, founder and CEO of Equifund.

As a FINRA regulated crowdfunding portal, our mission is to help retail investors get access to exciting private market investment opportunities that help them reach their financial goals.

In just a moment, I'm going to tell you about how you can start investing in exciting private market deals you won't find anywhere else...

As well as the five major crowdfunding investment mistakes that destroy your potential returns!

But first, I want to ask if you've heard this pitch before...

> *"For decades, only the world's richest people could get access to the most lucrative investment opportunities...*
>
> *But thanks to this little known law...*
>
> *Everyday people – just like you – now have the chance to invest the next [insert popular company] and turn ever $100 invested into a gazillion billion dollars!"*

I know we all want to believe that it really could be that easy to "get rich"...

But I think we all know the only people making money off that hyperbolic sales pitch are...

- The Guru's selling newsletters...
- The crowdfunding platforms who make their money by charging a "listing fee" (which incentives them to put up as many deals as they can, regardless of quality) and...
- The companies receiving capital who wind up doing god knows what with it.

And shocker...

In the end, people like us get screwed – *again* – by the usual suspects.

As Peter Thiel famously lamented in his manifesto "What Happened to the Future?"...

> *"We wanted flying cars, instead we got 140 characters."*

Well, as an everyday investor who was promised the so-called "Future of Investing", I wanted the opportunity to invest in innovative startups that were solving real problems for real people...

But instead, all I got was a crappy T-shirt for some Kickstarter campaign I backed (but no equity or any ROI)...

## It's not fair...

In fact, it's never been fair. Because this game has always been rigged against us.

But you know what? It doesn't have to be.

And that's why I decided to start Equifund.

I wanted a chance to build my wealth using the same "alternative investments" the wealthy have access to. But every time I looked for quality private market deals that didn't require a 7-figure (or 8-figure) minimum...

All I found were a whole bunch of bottom-of-the-barrel deals listed for absurd valuation numbers with laughable due diligence.

So, instead of complaining about how bad these deals on other crowdfunding portals were, I decided to do something every true capitalist should do...

**COMPETE!**

With 20 years of capital markets experience, a rolodex of industry insiders who have great deal flow, and enough savings to bankroll the entire operation...

I set out to build an **"investor first" private market investing platform** that did something no other portal did:

***Give retail investors the opportunity to diversify their portfolio, increase their passive income, and grow their net worth using private market investments.***

And to accomplish this goal, it meant committing to a certain set of principles the "other guys" simply don't.

- Instead of suggesting it's easy to get lottery ticket style returns...

We provide "best-in-class" investor education that is honest about the risks (and potential rewards) of private market investing.

- Instead of aggressively pushing "can't miss stock picks"...

We provide our subscribers with our own original research and due diligence on every investment opportunity we bring to market.

- Unlike other platforms who treat their fees as a profit center...

We use a transparent pricing model that aligns our interest with both the issuers and investors on our platform.

Our fee structure is designed to cover required compliance costs, like anti-money laundering (AML) checks and know your customer (KYC) regulations.

- And unlike other portals who offer exotic investment products with ambiguous terms (like SAFEs, Coins, and Tokens)...

  ...or have predatory "lead investor" structures that rob investors of their potential gains...

  ...or deal terms that force you to give up many of your rights as a shareholder (like voting rights)...

We choose to list companies that offer common stock with voting rights, and legal documents that are clear, simple, and understandable for an average retail investor.

And perhaps most importantly...

***We don't let our customers fend for themselves!***

We prioritize customer service – and customer experience – above everything else.

Because we know this is a long term game that is all about relationships.

Even though we could have cut corners in the pursuit of revenue, there's never a good reason to do the wrong thing...

And the only way for us to become the #1 private market investment platform in North America is to have raving fans who love doing business with us.

However, most investors have been misled by the hype filled promotions from the so-called "guru" crowd about crowdfunding investment opportunities.

And sadly, most investors have no idea about the costly mistakes they're making right now when considering investing in a crowdfunding investment opportunity.

That's why I decided to publish this short, easy-to-understand, and quick-to-read guide.

Our goal is simple…

Teach you how to properly screen early-stage investment opportunities so you don't get hoodwinked.

Sincerely,

Jordan Gillisie
*CEO, Equifund*

# MISTAKE #1: Unclear Financial Goals

There's only one good reason to invest in early-stage companies on crowdfunding platforms…

***To get rich!***

…or at least that's the message being sold to retail investors.

I mean, don't get me wrong. I want to get 100,000% returns as much as the next guy/gal does…

But every time I see other "not-to-be-named" crowdfunding platforms publish articles titled "What if you invested in AirBnB early?"…

And then in the same breath suggest you can invest in deals like that for as little as $10. well, it makes me sick. Here's why…

### ▶ #1) It set's completely unrealistic expectations about what you – *"the little guy"* – have access to...

I don't know what's more ridiculous...

The idea that you'd ever be allowed in the room getting pitched a deal like Airbnb if you didn't have an 8-figure bankroll (or own Y-Combinator)...

Or the idea that you'd be able to invest "as little as $10" and have anyone take you seriously.

### ▶ #2) It ignores the #1 thing you REALLY need to win in the private markets.

Yes, quality deal flow and a fat bankroll definitely help...

But big-time Venture Capitalists pass on companies like Airbnb all the time.

In fact, Fred Wilson – a well known VC who runs Union Square Ventures – originally passed on Airbnb.

Here's why in his own words.

> *"We made the classic mistake that all investors make. We focused too much on what they were doing at the time and not enough on what they could do, would do, and did do.*
>
> *I am proud that our portfolio is full of companies where we saw the vision before other investors did and backed a great team.*
>
> *But we don't always get it right. We missed Airbnb even though we loved the team."*

**Because here's the truth about early-stage investing:**

You can have access to the best deals in the world...

But if you can't see the vision…

If you can't imagine what the company could one day become…

And you don't believe they could go all the way…

You'll probably never get your money into the kinds of deals that could make you **Scrooge McDuck rich**.

But here's the thing most people just don't understand about investing…


## If you want to "get rich" the way rich people get rich…

Stop trying to gamble on penny stocks, hoping for a lottery ticket style winner that could make you rich overnight…

And instead, focus on building a portfolio of private companies that helps you reach your personal financial goals… not to beat some arbitrary benchmark (like "the market").

If you're like me, that means you need a portfolio that provides…

- Safety and Security – You've worked your entire life to get to where you are today. And after living through multiple "once-in-a-lifetime" market crashes, you probably want to make sure you're protected from unexpected financial danger…

- Reliable Cash Flow – You don't want to be forced to keep working just to pay your bills. That's why it's critical to create the type of reliable cash flow that covers all of your living expenses and lets you do the type of work you're passionate about.

- Moonshot Gains – Everyone knows startups can be high risk. But if you're like me, then you love learning about exciting companies that could one day change the world, have the potential to deliver massive returns, and give us bragging rights to say "I got in early on the next big thing."

- A Chance to Leave a Legacy – At the end of the day, we know we can't take our wealth with us. But we can pass our values and fortune to the generations to come.

So, before you decide to toss your money into a high-risk investment... start out by defining your "reason why" you're investing in the first place.

Maybe you're worried about the stock market, and are looking for a way to diversify your portfolio into private market deals.

Maybe you're looking to reach a passive income goal, and you're looking for better income opportunities that can help you retire sooner (or stay retired longer).

Maybe you've got your "real money" being managed by a professional, and you're just looking for something fun to do with your "play money" and maybe get lucky.

Or maybe, you're just looking to back entrepreneurs who have a mission you believe in, and you're not really worried about making a financial return at all.

There's no right or wrong answer... but once you know why you're investing, it becomes much easier to find the right types of opportunities that can help you reach your financial goals.

## MISTAKE #2: Wrong Opportunities

**Why do most investors get tricked by "get rich quick" claims, suckered into bad deals, and wind up taking big risks for small (or no) rewards?**

Or worse, wind up working with a so-called "financial advisor" who they think have their best interests at heart… but really, are thinking about their fees first and their client's goals second?

It all has to do with this one thing every professional investor DOES have that amateur investors DO NOT.

**It's called an Investment Policy Statement.**

Think of your Investment Policy Statement as a kind of "business plan". Successful businesses *(and private market investors)* have one.

And if you're looking for a fast, easy, simple way to help you make better investment decisions…

▶ **This document is the key to helping you avoid the obviously bad deals you shouldn't be involved with in the first place. Click here to see.**

Here's why…

**The difference between an amateur investor ("dumb money") and a professional investor ("smart money)" is…**

They don't have an Investment Policy Statement that helps them identify the following four things…

- **Primary Motivation:** What is their "reason why" for investing?
- **Investment Style:** What types of investments (or trades) do they like to make?
- **Investment Process:** How do they answer the question "is this a good investment?"

- **Risk Profile:** How much risk are they willing to take?

When you look at the typical ameteur investor, there's one major thing we know to be true...

Aside from "I want to make more money" or "I'm afraid of running out of money," most people have no real idea why they're investing in the first place.

Regardless of how much money they do – or don't – have, they are very emotional when they invest. Most of their decisions are based on instinct or "gut feel"...

And for the most part, **this means their Primary Motivation is based around short term gains and speculation *(i.e. gambling)***.

They're influenced by the promises of big returns in a short period of time, persuaded by fear-based claims, and tricked by artificial scarcity.

They're constantly jumping from hot trend to new fad... and can only think in time horizons of days, weeks, and months.

As a result, their *Investment Style* is entirely reactive.

New investment opportunities show up in what can essentially be called a "random" basis; In effect, they are evaluating each investment decision on a 1:1 basis...

In practice, ameteur investors ask questions like *"Should I invest in [XYZ]?"*

Which, by itself, is an impossible question to give a simple "yes/no" answer to.

Why? Because in order to answer that question, there needs to be some sort of **Investment Process**...

A document that clearly defines what types of investments you will – and perhaps more importantly, won't – consider...

As well as a process for scoring each investment opportunity to determine if it matches what you're looking for.

And the reason why ameteur investors are considered "dumb money?"

They don't use any process at all (or they don't consistently use one).

They're overly reliant on "hot tips" or "advice" from largely unqualified sources...

And they don't do any due diligence on the recommendations of so-called "experts."

When we look at the overall ***Risk Profile*** "dumb money" is taking, it's almost always a LOT more risk than the "smart money" does.

**Because risk doesn't come from the investment itself.**

**It comes from the investor not knowing what they're doing.**

And the problem is only made worse when the investor is chasing after hot fads and shiny objects instead of narrowing their focus.

Now, to reiterate a point we've already made, only you can decide what the right opportunities are for you.

And the best way to do that is by going here and using our free Investment Policy Statement generator.

It takes less than five minutes to complete...

But once you have this simple document by your side, it will save you hours of time you'd otherwise waste analyzing opportunities that simply aren't a good fit for you.

# MISTAKE #3: Not Enough Quality Deal Flow

In the last section, we talked about how "dumb money" investors evaluate each investment opportunity on a 1:1 basis…

Meaning, they see an investment opportunity and try to decide "is this a good investment opportunity?"

**But that's not how professional investors "shop" for investments.** They look at a lot of deals so they know what's out there in the market…

Then, they can compare each opportunity to all the other opportunities in the marketplace they have access to.

Which, if you think about it, isn't any different than going to a grocery store and looking at all the options they have first… then deciding what products you're going to buy.

Or maybe you see something you might want to buy, but before you do, you go online to see what other people are saying about it.

You might not know this, but when you're shopping for "investment products," you can – and should – do the same thing.

If you want to make money as an investor…

- You need to know what type of investment products are out there…
- You need to understand how to value those products…
- You need to understand how those products are allegedly supposed to perform…

- And more important, you have to determine if those products will help you reach your own personal financial goals.

**Eventually, this means you need to have a durable process for quickly finding and analyzing deals!**

Which brings us to the big question…

Where do you find high quality deals that would be a good fit for you… without spending thousands of hours wading through crappy deals before you find the ones you like?

One potential answer is to sign up for a financial newsletter – or research service of some kind – that sends you recommendations.

But even still, that doesn't mean those deals are a good fit for you.

Again, that's where your Investment Policy Statement really comes in handy!

Once you've clearly defined what opportunities you would consider – *and more importantly, which ones you would not consider* – the faster you can say NO.

And the faster you can disqualify any opportunity, the more time you can spend doing due diligence on the deals that match what you're looking for.

# MISTAKE #4: Bad Deal Terms

Investors get screwed by shameless promoters for a shockingly simple reason…

**They're misled into believing they're buying something "safe" that in reality, isn't at all.**

And nowhere is this more obvious than with the grossly misleading funding vehicle known as a **Simple Agreement for Future Equity *(or SAFE for short)***.

Here's why…

Unlike more traditional investment vehicles that have pretty straightforward terms (like common stock, preferred stock, or convertible notes)…

**A SAFE is what you'd call a "derivative" or "exotic" investment.**

…which are both fancy terms for *"there are a ton of ways you, the investor, can get screwed on this deal that you're not aware of."*

But to fully appreciate why this common investment vehicle is something we here at Equifund choose NOT to offer on our platform…

Let's take a step back and do a quick rundown as to what a SAFE is, and why it's commonly used in the startup world.

The SAFE was developed by Carolynn Levy, an attorney and partner at Y-Combinator, and was first released in 2013.

Its purpose was to reduce - or entirely eliminate - a lot of the costly regulatory burdens and legal fees a cash-strapped startup would need to go through for traditional fundraising.

And it does so in a rather novel way…

Instead of trying to assign a valuation to a very early-stage startup, the investor and founder make an agreement that goes something like this…

> *"I'll give you cash today for equity tomorrow"*

In a lot of ways, SAFE is kind of like a convertible note; at some future date, the cash investment will convert into equity.

But with one critical difference…

Normally, when you "lend" a company money, there is some expectation that the money will be paid back on a specific schedule, and with interest.

But a SAFE doesn't have any of those features.

Which means it's not really a debt instrument...

And because the investor doesn't get voting rights or receive dividends, it's not really an equity investment either.

This means, in many ways, it's kinda like buying an options contract on a startup...

*You don't actually own anything until certain conditions are met.*

**And this is where big problems begin when investing in SAFEs through crowdfunding platforms.**


Because hidden inside of these grossly mis-named vehicles are all kinds of "gotchas" that create real problems for investors.

## Problem #1) "Dilution"

If you've seen the Facebook movie, "The Social Network," you might remember how one of the original founders, Eduardo Saverin, gets royally screwed by Zuckerberg.

Saverin at one point owned 34.4% of Facebook...

But after the company raised new funding and issued new shares, Eduardo winds up only owning 0.3% of Facebook!

Without going too deep into the weeds, the "deal math" works out as follows...

There's only 100% of the equity pie available, which are represented in the form of "shares."

**But what happens when new shares are issued out of thin air?**

The new equity has to come from somewhere.

Usually, that "somewhere" is from the founders, and this creates a rather tricky situation for future investors...

What happens if the founders, because of dilution, wind up owning a minority stake in their own company?

How motivated do you think they're going to be when every single round of new funding means they lose more control over their company?

Chances are, they're going to want to exit the company as quickly as possible...

Which isn't good for anyone involved in the deal, and can prevent future rounds from happening in the first place.

This brings us to...

## Problem #2) Triggering Events

Remember. SAFEs aren't equity and they're not debt. They exist somewhere in between.

But unlike a convertible note where you, the investor, have some level of protection...

Unless and until the SAFE "triggering events" are met – which is usually a future round of funding – you, the investor, don't own jack squat.

This means if the company you invested in never meets the trigger event" requirements, you don't get anything.

And even worse, if the company goes bankrupt, you don't even have the chance of recouping your losses in court.

But even if the company DOES reach its triggering event, that doesn't mean you're in the clear.

## Problem #3) Repurchase Rights

Imagine for a moment you invested in a hot startup on a crowdfunding platform...

And one day, they announce they're about to close a huge round of funding...

Or maybe even make a full-on exit.

You'd probably feel pretty freaking excited knowing your highly speculative investment paid off...

But how would you feel the company you invested in could repurchase your shares at whatever price you bought them for...

*And screw you out of 100% of your potential gains?*

That's exactly what repurchasing rights do.

And if you haven't read the "fine print" on what you're investing in...

**A provision like this can essentially force crowdfunding investors to take all of the risk while getting none of the reward.**

Now, to be clear, I'm not suggesting that SAFEs are a bad idea for all people.

When you're running a program like Y-combinator and you're getting direct access to the founders you invest in...

It can make a ton of sense to make this sort of agreement.

But if you're investing in SAFEs via a crowdfunding platform, make sure you dig into the details and understand what you're buying.

# **MISTAKE #5:** Not Reading the Form-C

As professional inventors, we all want to get into the very best deals at the earliest stage possible.

But we also want to do everything we can to avoid getting sucked into over-hyped deals (or outright scams).

What's the secret to maximizing your returns and minimizing risks in private market deals?

The answer might surprise you...

**The #1 way to protect yourself from getting hoodwinked is to understand your rights you have as a shareholder (IF ANY).**

More simply put, you need to know the details of what investment product you're buying and how to read the "fine print" in a document called the Form C.

Let's dive in...

## The Truth About Share Classes

Most people don't realize that investment products - *just like any other product* - come in all sorts of different shapes and sizes.

And even though the marketing material might look slick (or some newsletter writer has told you it could turn every $100 into a gazillion dollars), the reality is...

**Early stage companies can issue multiple different types – and classes – of shares, each with their own specific nuances.**

For investors, this is where it can get tricky. If you don't know exactly what you're investing in, you could end up missing out on potential rewards if the company makes an exit.

But here's the interesting thing most people don't know...

Every company who wants to list their deal on an equity crowdfunding platform has to file a document called the "Form C" with the Securities and Exchange Commission.

The purpose of this form is to provide information, required by law, for someone to make a decision before investing.

And no matter how fancy the marketing material is, the legally binding "Truth" is in this document.

Now, there's tons of useful information in the Form C, like...

- Information about the specific business of the company.
- Information about the founders and the management team.
- The target offering amount and the deadline to reach the target.
- The use of proceeds in case the minimum target amount and maximum target amount are reached.

- The financial condition of the issuer and its financial statements.
- Risks associated with investing in the company.

But with regards to today's lesson...

The most important thing you can do is find the section known as the **"Term Sheet."**

This is where the issuer has to spell out exactly what it is you're buying...

And what kinds of rights you're entitled to or not.

Here are some common things you'll see in the Term Sheet...

- **Authorize Capitalization** – This is where you'll see what share classes have been issued, how many shares have been issued, the "par value" of each share issued, and the total number of common shares issued and outstanding. *This is important for understanding valuation!*

- **Dividends** – When you own common stock, you are typically entitled to dividend payments if issued. However, most high growth startups aren't going to issue dividends, so don't expect to get any in your Reg-CF deals.

- **Voting and Control** – This section tells you how many votes per share you get, as well as what voting agreements are currently in place (if any).

- **Anti-Dilution** – One of the least-understood concepts in investing is "dilution." Basically, when more money is raised in future rounds, because more shares are issues, your shares will be worth less. In some instances, shares will not be subject to dilution, but that will almost never happen in Reg-CF deals, so don't be surprised to find out these aren't included in your deal.

But most issuers know a sad truth about retail investors...

Most people won't invest the tiny amount of time it takes to read the Form C and know exactly what they're getting.

But if you want to become what's known as a "sophisticated investor" and up your chances of success...

Be sure to read through the Form C - every time - before you invest.

**There you have it.**

The five crowdfunding investment mistakes that destroy returns.

Equipped with this knowledge, you're now in a position to greatly increase the likelihood of your investing success.

The next steps are for you to source the right deals for your investing style.

Start by visiting https://equifund.com/ and looking at the current offerings there.

We are an investor-first platform and deeply vet every company before accepting it to be listed.  In fact, less than 1% of companies make it through our stringent due diligence process.

▶ **For more information on private investing and select opportunities, please visit: https://equifund.com/**