The Equifund "Professional Investor" Workbook

THE PURPOSE OF THIS WORKBOOK

The purpose of this workbook is to help you make higher quality investment decisions in the emerging ***"Crowdfunding Capital Markets."*** This includes any and all investment opportunities using the Reg-CF or Reg-A, as outlined within the JOBS Act of 2012, to raise capital.

In this effort, this workbook is designed as a step-by-step, "fill in the blank" form you should use before committing any capital to any investment opportunity you're considering.

WHO IS THIS WORKBOOK FOR?

It doesn't matter if you're a Wall Street Insider or you're brand new to investing, this workbook is for you.

Regardless of your prior investing experience, we'll assume you are brand new to the Crowdfunding Capital Markets.

The Crowdfunding Capital Markets operate by a different set of rules than both the Public Capital Markets and Private Capital Markets (Reg-D). With this in mind, the process you're about to learn will help you invest in alignment with the current rules and regulations set by the Securities and Exchange Commission (SEC).

As always, all investing activity carries risk. "Early Stage Companies" and "Emerging Growth Companies" should be considered high risk and speculative in nature. Please do not invest with funds you cannot afford to lose.

WHAT WILL I LEARN HOW TO DO?

This workbook is for anyone who wants to use an organized, and easy-to-use process to help...

- Create a durable "Investment Policy Statement"
- Find high quality investment opportunities
- Quickly identify "Red Flags" and "Deal Killers"
- Perform high-quality due diligence in a simple, streamlined way
- Understand your "True Cost to Participate" before committing any funds
- Feel more confident in every investment you choose to make
- And much much more!

WHAT KIND OF RESULTS SHOULD I EXPECT?

By federal law, we cannot legally promise (or otherwise guarantee) that you will make any money using this workbook. Nor can we guarantee you will avoid poorly-performing investments.

That being said, if you are not currently using a well-defined investment process like the one described in this workbook, you'll almost certainly benefit by making use of the process outlined here.

KEY TERMS, CONCEPTS, AND IDEAS

WHAT ARE CAPITAL MARKETS?

From the Federal Reserve Bank of St. Louis...

> Capital markets are financial markets that bring buyers and sellers together to trade stocks, bonds, currencies, and other financial assets.

Capital markets include the stock market and the bond market. They help people with ideas become entrepreneurs and help small businesses grow into big companies. They also give folks like you and me opportunities to save and invest for our futures.

Financial capital is money entrepreneurs and businesses use to buy resources and supplies. These are then used to make products or provide services to buyers.

Financial capital is raised through capital markets in two ways—by selling bonds, which are like loans that the business will repay at a later date with interest, or by selling stocks, which are sold in exchange for the partial ownership of the business.

Without markets for stocks and bonds, business owners would have fewer options to bring their ideas to life or to expand their businesses; they would have to save up enough cash to re-invest.

With healthy capital markets, business owners can obtain the needed financial capital to build successful companies. They can also expand existing businesses to create new jobs and strengthen the economy.

Capital markets also reduce the cost of doing business by providing the global economy with a reliable source of cash or liquidity.

– Public Capital Markets –

Access: Everyone has access to the same deals; all opportunities are listed on public exchanges.

Restrictions: Everyone can participate; shares are traded freely.

Price Discovery: Share price is based on supply and demand, determined by shareholder trading activity.

Product Sets: Equity, Debt, Funds, Funds of Funds, Real Estate Investment Trusts (REITS), Exotics (Options/Derivatives)

– Private Capital Markets (Reg-D) –

Access: Not everyone has access to the same deals. Deals don't have to be listed on an exchange.

Restrictions: Not everyone can participate. Restrictions based on income and net worth.

Price Discovery: Share price is based on what valuation a company is issuing at, or previous rounds of fundraising.

Product Sets: Common Equity, Preferred Equity, Debt, Exotics (SAFEs/Tokens), Funds, Funds of Funds, Real Estate.

– Crowdfunding Capital Markets (Reg-CF / Reg-A) –

Access: If deals are listed on regulated crowdfunding platforms, all investors have access to the same opportunities (with some exceptions).

Restrictions: Everyone over the age of 18 can participate. Some restrictions apply (based on income/net worth).

Price Discovery: Share price is based on what valuation a company is issuing at, or previous rounds of fundraising.

Product Sets: Common Equity, Preferred Equity, Debt, Exotics (SAFEs/Tokens), Funds, Funds of Funds, Real Estate.

[Note: When SEC raises Reg-CF 12 month cap from $1.07m to $5m, we expect to see a large influx of new opportunities in this Capital Market. Additionally, there would be little reason to do a "reverse merger" into an OTC shell]

■ WHAT ARE MARKET PARTICIPANTS?

Market participants are often described as either "buy-side" or "sell-side".

In Public and Private Capital Markets...

- Buy-side are mostly firms, like asset managers and Institutional Investors, who buy financial products and services...
- Sell-side are mostly firms, like broker-dealers and investment banks, who create and sell those products and services.

In Crowdfunding Capital Markets...

- Buy-side are mostly retail investors and high net worth individuals
- Sell-side are mostly Issuers (or "companies") who list their offer via a Portal or Broker-Dealer

WHAT ARE INSTITUTIONAL INVESTORS?

Introduction to Institutional Investing

> Institutional investors are organizations that pool together funds on behalf of others and invest those funds in a variety of different financial instruments and asset classes. They include investment funds like mutual funds and ETFs, insurance funds, and pension plans as well as investment banks and hedge funds.

WHAT ROLE DO THEY PLAY?

Aside from governments, Institutions are arguably the most powerful forces in the ***Public*** and ***Private Capital Markets***.

According to former SEC Commissioner Luis A. Aguilar...

> ***The proportion of U.S. public equities managed by institutions has risen steadily over the past six decades, from about 7 or 8% of market capitalization in 1950, to about 67 % in 2010.***

The shift has come as more American families participate in the capital markets through pooled-investment vehicles, such as mutual funds and exchange traded funds (ETFs).

The growth in assets managed by institutions has also affected, and been affected by, the significant changes in market structure and trading technologies over the past few decades, including the development of the national market system, the proliferation of trading venues — including both dark pools and electronic trading platforms — and the advent of algorithmic and high-speed trading.

These changes — largely driven by the trading of institutional investors — have resulted in huge increases in trading volumes. For example, in 1990, the average daily volume on the NYSE was 162 million shares. Today, just 23 years later, that average daily volume is approximately 2.6 billion shares — an increase of about 1,600%.

Simply stated, institutional investors are dominant market players, but it is difficult to fit them into any particular category. This poses a challenge for regulators, who must take into account all the many different ways institutional investors operate, and interact, with the capital markets.

Clearly, institutional investors have a great deal of power in our capital markets. And, as Franklin Delano Roosevelt wrote, on another April night in Georgia — “great power involves great responsibility.”

The responsibility of institutional investors stems, in large part, from their stewardship of assets that belong to others. The one indispensable fact to remember is that behind all institutional investors and their portfolio managers are millions of American workers, savers, policy holders, retirees, and other individual investors, who rely on those they entrust with their monies to provide for a safe and secure retirement, to help them save for a home or college education, and to participate in the American dream.

WHY SHOULD YOU CARE ABOUT ANY OF THIS?

In a world dominated by Institutional Investors, if you want to be more successful as an investor, you should treat investing like a real business.

This means having a proven, durable, and scalable process for deploying capital into sound investments, based on your personal goals.

According to a Bloomberg article titled Everything's Too Expensive and Nothing Can Be Done:

> Investors face two serious and linked problems: Nothing is cheap, and government bonds no longer work as a diversifier.
>
> Albert Edwards' infamous "Ice Age" thesis — that yields are steadily declining as world economies lapse into deflation. "In a world of low nominal interest rates, people become very risk averse," he says. "If you have an opportunity of earning 5% in the bank, then you can take some risk — you can afford to lose 10%, because you have the option to go back into bonds or cash. Without a risk-free rate, it reduces your capacity to make more losses."
>
> With rates so low, there is a further problem: It is hard to generate any kind of income in excess of inflation, even when price changes are so muted. Stocks are expensive, meaning that their yields are also low, and so the yields on global balanced portfolios are also depressed— and very vulnerable to a return to inflation:
>
> With stocks and bonds both expensive, making money might involve the esoterica of paired trades, betting on one asset to outperform, or diving into private markets. Other than that, there's nothing to buy.

If you aren't planning on actively trading in the public markets and instead, this article suggests private markets are your best option.

WHY CROWDFUNDING CAPITAL MARKETS?

We believe 2020 is going to be the year everything changes for the *Crowdfunding Capital Markets.*

As you may already know, the JOBS Act of 2012 gives everyday investors access to early stage opportunities...

But here's what most people don't know about this landmark piece of legislation: The SEC wants to "raise the offering limit in Regulation Crowdfunding (Reg-CF) from $1.07 million to $5 million"

> "Emerging companies—from early-stage start-ups seeking seed capital to companies that are on a path to become a public reporting company—use the exempt offering rules to access critical capital needed to create jobs and scale their businesses," said Chairman Jay Clayton.
>
> "The complexity of the current framework is confusing for many involved in the process, particularly for those smaller companies whose limited resources spent on navigating our overly complex rules are diverted from direct investments in the companies' growth. These proposals are intended to create a more rational framework that better allows entrepreneurs to access capital while preserving and enhancing important investor protections."

This one single change could be the "tipping point" that brings more quality deal flow into the crowdfunding space.

Why? It all comes down to the cost of raising capital.

If a company wants to get access to the Public Capital Markets, there is a substantial cost to both qualify for listing, and maintain good standing.

According to Upcounsel...

> The 1934 Securities Act states that any private company with over 500 public shareholders is a public (reporting) company.
>
> **For an operating company, the average cost of doing an IPO is around $750,000. It takes 18 months.** Over half the private compa-

nies that decide to go public with an IPO abandon the process before they become a public company.

For a deeper look at IPO related costs, PriceWaterhouseCoopers has an excellent resource here.

If a company wants to get access to the Private Capital Markets (using Reg-D), there's also costs associated with preparing to file forms.

According to an article on Medium published by Pro Business Plans...

- Filing Form D to comply with the SEC requirements costs between $200 and $400, depending on the state.
- The legal fees associated with a Regulation D offering may range from $10,000 to $25,000 depending on the complexity of the case. For this reason, many entrepreneurs use Regulation D to raise millions of dollars, as these expenses can be diluted in a large offering.
- There are also some fees associated with certify or qualify accredited investors and companies usually hire financial advisors to help them draft business plans, pitch decks and, financial projections. Establishing a business valuation is key to raise capital.

If a company wants to get access to the ***Crowdfunding Capital Markets (using Reg-CF or Reg-A)***, they can get access to any person over the age of 18, and at a reasonable cost.

In order for a company to launch a Reg-CF campaign, all they need to do is prepare and file a Form C on the SEC's EDGAR site.

According to Bevilacqua PLLC...

- In most cases, a company will be able to launch an equity crowdfunding campaign for as little as $15,000 to $25,000 with the balance of the fees deferred until capital is raised at the closing.

With low cost filing fees and the ability to freely advertise their offering, it seems probable to assume more entrepreneurs will come to the Crowdfunding Capital Markets in search of financial capital.

WHY IS THIS IMPORTANT?

The Importance of Reliable Information — How the JOBS Act Affects Institutional Investors

Commissioner Luis A. Aguilar

U.S. Securities and Exchange Commission

Supporters of the JOBS Act hoped that the legislation would encourage so-called "emerging growth companies" to raise capital through initial public offerings (IPOs), enabling them to expand and — hopefully — create jobs. To achieve that goal, the legislation tries to reduce the cost of going public for these companies. This is an extremely broad swath of the market.

The JOBS Act defines emerging growth company to include businesses with up to $1 billion in annual gross revenue, for up to five years after their IPO. This definition would encompass more than three-quarters of all active filers today — and it has been estimated that 98% of all IPOs since 1970 would have fit into that category.

Unfortunately, the JOBS Act tries to cut the cost of capital raising by limiting the financial and other information that these companies are required to provide to their investors. This reduced disclosure can make it harder for investors to evaluate companies by obscuring the company's track record and material business and financial trends. The result could be an adverse impact on capital formation.

Regrettably, there continues to be efforts to lobby for limiting disclosure requirements, on the claim that reducing the amount of required disclosures will lower the cost of capital raising. In my view, that would be penny-wise and pound-foolish, as money raised for inefficient uses does not in the long-term create jobs or help the economy grow. **The goal should be capital formation, not just cap-**

ital raising.

> Proponents of less disclosure lose sight of the fact that capital raising is not the same as capital formation. By itself, selling a bond or a share of stock doesn't add a thing to the real economy, no matter how quickly or cheaply you do it.
>
> True capital formation requires that the capital raised be invested in productive assets — like a factory, store, or new technology — or otherwise used to make a business more productive.
>
> The more productive those assets are, the greater the capital formation from the investment — and, importantly, the more jobs created.

Now, more than ever, we need jobs. More specifically, "good jobs."

According to Gallup's CEO, Jim Clifton, in his 2011 book [The Coming Jobs War]...

> As of 2008, the war for good jobs has trumped all other leadership activities because it's been the cause and the effect of everything else that countries have experienced.
>
> If countries fail at creating jobs, their societies will fall apart.
>
> If you were to ask me, from all the world polling Gallup has done for more than 75 years, what would fix the world – what would suddenly create worldwide peace, global wellbeing, and the next extraordinary advancements in human development – I would say the immediate appearance of 1.8 billion jobs – [good] jobs.

In the post COVID world, the creation of good jobs could be the single most important problem that needs to be solved.

Thanks to the Crowdfunding Capital Markets, you now have the ability to directly invest in Emerging Growth Companies that we need to rebuild our economy.

■ WILL YOU ANSWER THE "CALL TO ADVENTURE"?

By signing up for the ***Equifund "Professional Investor" Workshop***, you've taken an important step in your wealth building journey.

But perhaps more importantly, you have the opportunity to do more than chase after speculative gains. You can become a certain type of investor who is helping build a better tomorrow.

I call people like us a **"Noble Capitalist"** – **someone who believes the best way to build wealth is to create value for others**.

Yes, I'm sure you wouldn't mind having all the fast cars, big houses, and luxurious vacations...

But eventually, we all realize we are happiest when we're actively working towards the accomplishment of a meaningful goal.

As an investor, the choices you make can have a real – and lasting – impact on the way the world exists not just today, but for decades to come.

Thanks to the Crowdfunding Capital Markets, there's never been a better opportunity to invest in companies – and people – who are creating jobs, building communities, and defining the society we get to live in.

Sadly though, there's far too many ***"Evil Capitalists"*** in the marketplace who have no problem "getting rich" by extracting value – value they didn't earn – from others.

That's why it's so important for people like us to "get in the game" and participate in the market.

And for individual investors, the Crowdfunding Capital Markets offer what could be considered the most level playing field there's ever been.

Everyone invests into each opportunity under the same terms.

Everyone’s money is locked up under the same conditions.

Everyone has to perform their own due diligence in search of their “edge” (instead of using technology for high frequency trading).

If you’re willing to put in the effort, you could be one of the people who builds real, lasting wealth thanks, in part, to investments made in the Crowdfunding Capital Markets.

Thanks again for signing up for this workshop.

Sincerely,

Jake Hoffberg
Publisher, Equifund