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How to start angel investing

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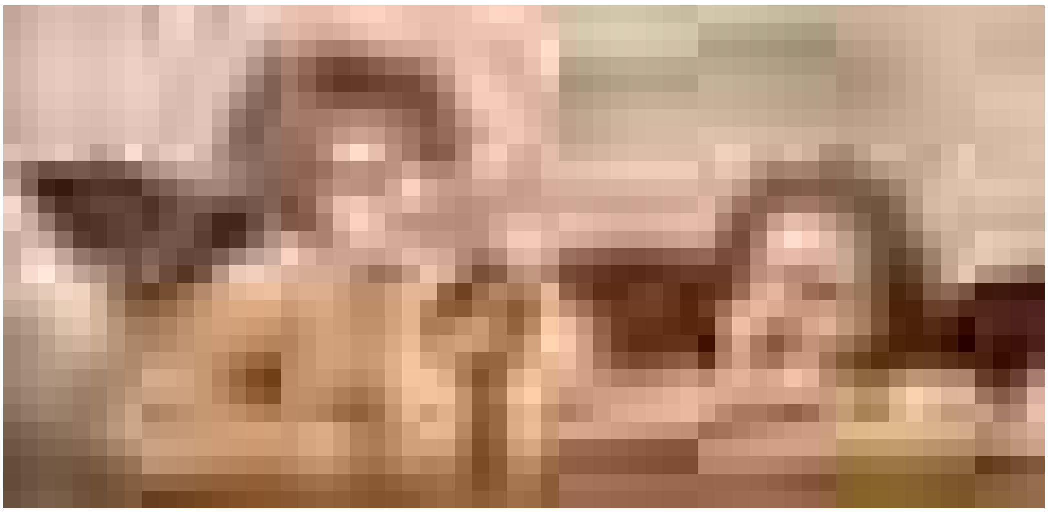
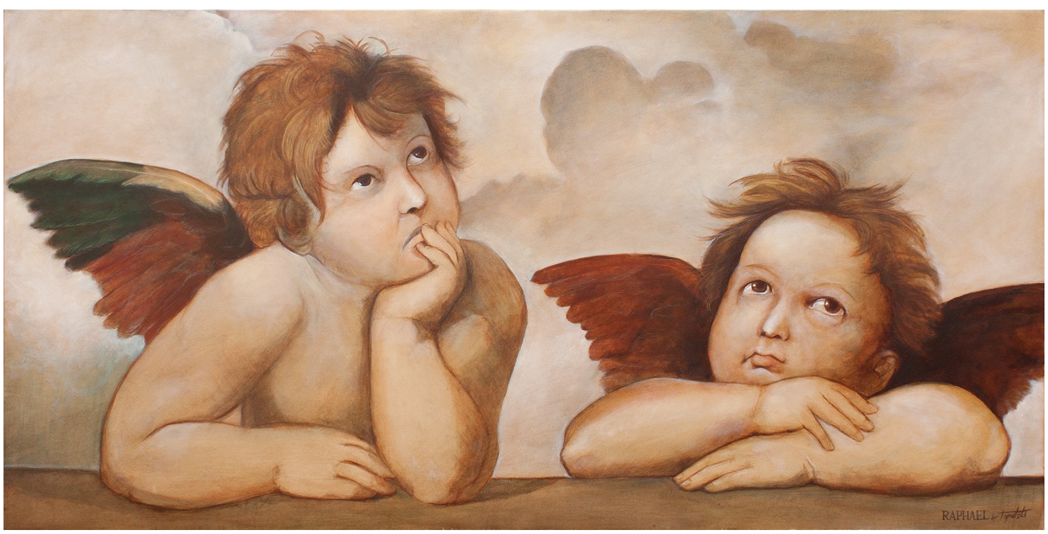
18-23 minutes





Two Cherubs by Raffaello Sanzio Raphael, 1512

I started angel investing in 2018 and have made 23 investments to date. Here's an overview of my approach to investing and what I've learned so far.

How did I start angel investing?

I didn't give investing much thought when I moved to the Bay Area 6 years ago — I was here to join a startup and build something valuable. But that changed when I became Chief of Staff to Opendoor CEO Eric Wu. Eric shared pitch decks, introduced me to other angels, and we chatted through the business models and technologies he was looking at. While discussions were theoretical at first — I wasn't asking myself “would I invest my own money in this?” — my outlook slowly started to change as I thought to myself “this is super interesting” and “I could do this too.” The timing of this aligned with a good friend starting a company, and I wrote my first check.

What’s an angel investor?

Angel investors invest money in early stage companies, typically in exchange for equity in the company. They differ from institutional investors in that they usually invest their own money, write smaller checks, and are not investing as their full-time job. Note: former angel investors raising small funds and investing full-time as sole GPs are a growing trend, but are not what this post is about. Entrepreneurs will raise from angels for a variety of reasons, including involving friends and family early in their journey, getting targeted expertise involved, not wanting the pressure of being “on the clock” with institutional money, and/or to fill out a round led by an institutional investor.

Why angel invest?

- Your friends are starting companies and you want to support them. Ideally you think they are smart and capable and will be successful in their endeavor
- You want to help early stage companies get off the ground using your own experience and network, and want to be financially aligned with those companies
- You want to see if investing might be something you’d want to do full-time or in a more formal capacity, such as at a venture firm
- You are interested in markets, business models, consumer trends, and technology, and want to test your ability to identify the next big thing
- You are seeking financial upside and are willing to take significant risk to get it

What does it take to be a good angel investor?

An investor doesn’t know how they’re doing until years later, when they have a sense for how many of the businesses they invested in have failed, which ones are around but not growing, how many have gone on to raise subsequent rounds (which is generally a good sign, but not foolproof), and how many have gotten acquired or gone public. And while you can get some signal after a few years, Fred Wilson will tell you it takes 7 to 10 years to really see how your portfolio performs.

I won’t claim to have the answers on what it takes to be a good angel investor, but I’ve learned a few things along the way from other investors and from personal experience.

1. **Awareness of and access to the best teams before and/or during their fundraising process.** You may know this as “deal flow” (though I find this term a little “slick” for my taste — one of the reasons I didn’t think investing was “for me” initially). How do you get this? It’s a combination of network and reputation. Your network might include friends, co-workers, and/or people you’ve met on Twitter, at events, etc. Personal network is usually where people’s first angel investments come from. After that, you’ll want to get intros from your network to founders outside of your network. Reputation is the best way to make yourself someone people want to meet and get to know, so think about how to cultivate that. Do you have a stellar reputation where you work? Do you have unique insights that you blog or tweet about? Are you generous with your time with those just starting out? Have you made a few angel investments with other investors who you can now get to know?
2. **Ability to “pick”.** There are many companies getting started every day, and most will fail. Being good at “picking” means evaluating a product, team, and market and deciding whether you think it has a good chance of success. More on this in the Evaluating Companies section below.
3. **Ability to sell yourself.** There is a lot capital chasing a small number of companies, so it’s possible that despite you reaching out to or meeting with a founder and deciding you want to invest, you’re not able to get into the deal. Think about why someone should want you on their cap table. What expertise do you bring to the table? What network can you help the founder access for hiring and/or customer acquisition?

The rest of this post walks through the nuts and bolts of investing in 4 sections: getting started, pitch meetings, evaluating companies, and deciding to invest.

Capital

Investing requires you to have capital to invest. Note: there are requirements to be an accredited investor. Ideally you have enough capital to make several investments since any one company has a high probability of failure, but how much you decide to diversify is up to you. Figure out how much money you want to put aside to angel invest. Some people think about this as a % of the capital they are saving/investing each year, and then consider how many investments you want to make. If you put aside $100K to angel invest, you could choose to invest in 2 companies at $50K each, or 10 companies at $10k each. There are trade-offs between going all in on companies you truly believe in and getting more exposure across a bunch of companies. No strategy is right or wrong, but I've been leaning towards the latter so I can get more "at bats" and learn from a broader set of companies. I've heard mixed things on whether investors' best-performing investments were the ones they had most conviction on early on or not — we'll see how that ends up playing out for me.

Meet founders!

There are a few ways to do this, including cold outreach and warm intros. If you see a person, project or company on the Internet you think is interesting, reach out! Establishing a connection early is a great way to position yourself as a potential future investor. Warm intros from other investors or friends of the founder is another common way to meet founders.

While I've found that endorsements from a third party are the most valuable, you may also want to consider how you might share or demonstrate your skills and perspectives more publicly to reach people outside of your network. Twitter and blog posts can be a good way to start sharing what you're thinking about and how you think. Engaging with people in the replies and comments can be particularly fruitful both in pushing your own thinking forward, and broaden your network. And finally, let people know you are investing so they think of you when someone they know is starting or fundraising for something interesting.

Learn from others

Find people who are already angel investing and learn from them. Ask about their process — how they got started, how they meet founders, who they have invested in recently and why. Do this with multiple people to get a feel for various approaches. Let people know that you're interested in investing, and ask if they wouldn't mind looping you in when they are looking at their next company — could you grab a coffee, check out the deck with them, ask what questions they asked, and how are they evaluating the company.

Provide value

Think through what you can offer founders — why should they want you on the cap table? Ideally the value you can provide is differentiated (few people can do it) and relevant to the founder (they're seeking expertise in an area you have deep expertise in). If you're excellent at product marketing, help a founder write copy for their landing page. If you're a wizard in Excel, help a founder model out their business. Introductions and help in recruiting can be one of the most impactful ways to provide value, so keep tabs on your network and make connections where there could be mutual benefit.

Not everyone has a formal sit-down meeting with a founder before deciding to invest, but it's best practice to get to know the founder (if you don't already) and their business idea before investing. A good pitch meeting allows the investor to understand the company vision and business model, the founder to understand if the investor would be value-add and a good fit, and allows both parties time for questions and discussion. It shouldn't feel overly formal, but don't shy away from rigor, such as asking hard questions. I remember feeling nervous before my first pitch meeting because I wasn't really sure how they typically went, as I had never seen or been part of a pitch meeting before. But I don't think there's a "right way", you just want to make sure you are able to assess both the founder and their idea by listening and asking questions, and allow them to assess you as an angel as well.

So you have your first pitch meeting? Here's how I think about how to make sure it's a useful meeting for both parties:

1. **Prepare for the meeting:** look up the founder online — I typically check LinkedIn, Twitter and do a Google search — to get a sense for their background. Review their website and/or try out their product (if it exists yet). Do some research on the market and business model. You might want to ask yourself a few questions such as: who is the target customer? What are the customer's alternatives today? What analogous business models exist? What moats do or could exist for this

business? Do some thinking and research up front so you don't come in "cold" on their business and industry.

2. **Meet up** either in person or via video conference. I prefer in person where possible, but video conference is a decent substitute and works well paired with an in-person meeting shortly thereafter if the initial conversation goes well. Start out the meeting by getting to know each other a bit. Be prepared to introduce yourself professionally. You might include a quick summary of your angel investing to date if you have experience, e.g. what types of companies you typically invest in, and perhaps a bit about how you typically work with companies.
3. **Listen to the pitch!** Founders will often share a pitch deck or memo in advance of the meeting, which you should absolutely review if they do, but either way I like to hear the founder pitch the business live. Compelling story-telling is an important part of the CEO skillset and therefore something to evaluate. Feel free to take notes, though I like to ask before I start scribbling or typing.
4. **Ask questions and discuss.** I try to make sure ~6 core questions are addressed during my time meeting the founder, which I keep fairly standard across companies. See below in Evaluating Companies for these 6 questions.
5. **Closing.** Once you've talked about the business, talk about their fundraise. Ask the founder what they're looking for in their angels, so you can make sure you'll be a good fit. Also ask about fundraising details, including how much they're raising, on what valuation, whether with a SAFE or note or priced round, if there are any institutional investors, and if the check size you have in mind works for them. If I have other angels in mind who I think might be a good fit, I'll ask the founder if they're interested in an introduction. Finally, be clear about next steps, such as when you'll get back to them.
6. **Follow up.** I hold responsiveness in high regard, and try to always get back to the company by when I said I would, ideally within a few days. That said, feel free to ask follow-up questions or request a follow-up phone call. I frequently connect with a founder twice before investing, both because I'm often especially optimistic during first meetings, and because I inevitably have follow-up questions or topics I forgot to cover in the first meeting.

Now that you've met with the founder, you have to decide whether or not you want to invest. Evaluating companies means evaluating team, market and product (Marc Andreessen's post on this is a useful resource). I start by jotting down a set of bullets on the "pros" and "cons" of the business, which is meant to surface the most important factors for the success, or failure, of the business. Then I write down "what you have to believe" for the business to be successful, which is where I lay out "what could go right" and then think through how feasible I think these things are. Finally, I answer 6 core questions on founder-market fit, customer need, customer acquisition strategy, business model, why now, and moats/competitive dynamics. Best practice is to actually write down the answers to these questions in an investment memo. I use the same template every time and find it to be a good forcing function for rigorous thinking.

1. **Why is this the team to build a winning company in this space?** I value clear thinkers, grit, and the ability to storytell, recruit and sell. I look for people who are obsessed with what they're working on and have spent time navigating the idea maze of their company and industry, but also have a strong sense of prioritization and 80/20 thinking. I ask myself "would I work for this person?" and "do they have a growth mindset?". Finally, I consider "founder-market fit" with the problem space. This might be a passion that arose from personal experience, or a network or past experience in industry that could give the founder an advantage in building the product or reaching customers.
2. **How deep and specific is the customer pain / need?** I want to make sure the founder deeply understands their target customer and what their needs are. The more specific and acute the problem is, the easier it will be to provide significant value and get customers to become users, pay for the product, and/or switch from a competitor. I am also looking to make sure the founder is customer-centric, which I believe leads to building a superior product and experience, and that they aren't building a solution in search of a problem.
3. **How will this company acquire customers?** You'll likely be talking to companies who are very early in their trajectories, so they may not have many customers beyond their personal network, and that's ok. However, they should have a thoughtful perspective on how they plan to go to market, what tests they want to run to validate their hypotheses here, and some ideas on clever, differentiated hacks or secrets they can uniquely take advantage of.
4. **What's the business model, and what are the advantages and risks of that model?** How will the company make money? What might the unit economics look like? What are the key levers to the business? This one is a good one for understanding how closely the founder has thought through the dynamics of their business and industry.
5. **Why now?** What trends, changes in the market, consumer behavior and/or technology make now the right time for this business? Why have other companies tried and failed at this in the

past? If the founder has no perspective on why now, they may struggle to break out from the rest of the competition or status quo.

6. **What do you have to believe for this grow into a huge business?** I often ask founders about their differentiation from competitors and what kind of moats they'll be able to establish to get a sense for how this business could grow, scale, and be defensible over time. Similar to the question on acquiring customers, I'm not looking for this to be figured out, but I am looking to see that the founder has thought through the "idea maze" and can think strategically. And finally, I ask founders what they hope to prove with the seed capital they are raising, and what milestones they believe they need to hit to raise a series A.

After memo writing, I add the company to my spreadsheet tracker of all of the companies I've talked to and/or invested in. I note my conviction level and my estimate on the expected value of the business in 5 years.

Finally, I will sometimes compare notes with other angels who have met the team. There are around 3–5 people I frequently share and discuss deals with, and about 7–10 additional angels that I do this with on a less frequent basis.

Deciding to invest isn't easy — by definition it's highly risky and early on there often isn't much data or product-market fit proof to lean on. There is a lot of art and little science in early stage investing. It comes down to judgment which incorporates everything from team, market, product, go-to-market. Does this feel like something worth taking a bet on? They say judgment improves with experience, so take the time to write down your rationale for investing, and any other circumstances that impacted your decision, so you can look back and learn from these in the future.

A few other things to consider:

Check size

Only invest an amount that wouldn't be too painful to lose. Decide how much of your net worth you'd like to use to angel invest (consider 10% as a starting point, but that's personal preference). $10–25k checks are a good starting point. Ideally you only start angel investing if you're able to make at least 5–10 investments of at least $5–10k, otherwise you have a lot riding on one or two investments.

Timing

Deal timelines can vary widely, but a hot deal can move quickly, so be explicit about how much you want to invest as early as you can, and ideally get a commitment in writing for how much you want to invest.

Valuation

As the saying goes, "the market is the market", so whatever founders are able to command is what the valuation can be. Should valuation impact whether or not you invest? That's a personal preference. My take is that investing in the best companies is the most important thing, regardless of valuation. It means that you'll make money (though yes, you'll be more diluted than you otherwise would be, but the valuation wasn't really in your control anyway), and you'll gain reputationally by being an investor in a successful company.

Paperwork

You'll likely find that many early stage companies you'll invest in are using SAFEs, typically capped at a certain valuation (learn more on YC's website). However, you may also come across convertible notes or priced rounds. Make sure to read up on how these different structures work (and/or read the full documents directly), but no need to get too hung up on the paperwork.

Scout programs

While most angel investors operate on their own and invest their own capital, being a scout is a great way to get access to capital when angel investing would otherwise be financially out of reach. It's also a way to get connected with a firm you respect, and to learn from the partners and other scouts. While there isn't a single path to becoming a scout, typically building a reputation for doing good work, having a strong network, and being a strong thinker as it relates to investing will help lead to introductions that may turn into becoming a scout. First Round's Angel Track program is also a great resource for learning more about how to angel invest, which you can apply to directly.

Finally, as you get started angel investing, it's helpful to read what other VCs are thinking about. A few of my favorite newsletters and podcasts that relate to venture capital include:

- Stratechery newsletter
- Fred Wilson's AVC blog
- Semil Shah's Haystack blog
- Alex Taussig's Drinking from the Firehouse newsletter
- Strictly VC newsletter
- Venture Stories podcast
- 20 Minute VC podcast

Ok that's all for now! Thanks for reading, and feedback always welcome. I typically invest at the pre-seed and seed stage across consumer and enterprise.

You can find me and view a subset of my portfolio on Angelist and reach me on Twitter @juliadewahl.