Equity Crowdfunding

Lower Minimum Investment Amounts Will Drive Socially Motivated Investing

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Crowdfunding investors will evolve to be more socially motivated than traditional, ROI-focused angel investors, especially in certain niches such as consumer products, retail companies, community-based businesses, and others. Driving this evolution is low minimum investment amounts.

In 2014 and the first two quarters of 2015, the minimum investment amounts for 506(c) offerings on equity crowdfunding platforms, although they vary considerably, were typically around $5,000, according to Crowdnetic. This minimum is much less than in traditional angel investments, which tend to be in the tens or even hundreds of thousands.

When Title III equity crowdfunding – in which unlimited numbers of non-accredited investors can participate – launched in 2016, the minimum investment level was typically much lower still, often as low as $100.

As minimum investment amounts in angel deals fall, investors can participate with less capital than in traditional angel deals. Since they are taking smaller risks, in terms of capital invested, they can focus on other considerations besides return on investment – namely social motives for investing. Not only that, but thorough due diligence often doesn't make sense when the risk is so low.

Remember that equity crowdfunding platforms have powerful social networking components, so the social aspect of investing is built into the crowdfunding experience.

Among the most socially motivated investors are the following three:

1. Locavestors are members of a community—at the neighborhood or local level—who have a shared connection to a business that they depend on and want to "own a piece of." The businesses tend to be gathering spots like restaurants, cafes, delicatessens, bodegas, groceries, microbreweries, bowling alleys, fitness centers, hair salons, and other retail businesses; or a business whose owner who has been the victim of a tragedy or perceived injustice. They may be motivated also by broad community development goals, such as job creation and neighborhood renewal. The term *locavestor* was coined by Amy Cortese, author of a book titled *Locavesting* (Wiley, 2011).

2. Demography-driven investors want to show support for businesses owned by, e.g., war veterans, college alumni, women, diaspora members, or (on a more local level) inner-city minorities, for example. In fact, some equity crowdfunding funding platforms will develop around niches like these, especially after Title III launches.

3. Brand evangelists. This category will grow with the launch of equity crowdfunding under Title III of the JOBS Act, as minimum investment amounts well under $1,000 will attract armies of new, non-accredited angel investors. Brand evangelists are enthusiastic users of a product or line of products—loyal fans—who want to help ensure the future availability of a cool new product. At an early stage of product development, they want to help get a new product to market so they can be among the first people to use it. Examples in this category include gadgets, games, hobbies, 3D printers, Apple electronic devices, fitness, cooking, recreational supplies and equipment, sports teams, clothing and fashion accessories.

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