Crowdfunding Must Get Back to Its Roots

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There have been two articles or reports that have been published since June 2014, which could spell disaster for Crowdfunding unless its leaders get Crowdfunding heading back to its community roots. The first was a June article, "For many startups there is no crowd in equity crowdfunding" by Paul Niederer, the CEO of the ASSOB (Australian Small Scale Offerings Board). The second was a report by Crowdnetic, which covered the total amount that was raised by leading Crowdfunding platforms for the first 12-month period after Regulation 506C of the JOBS Act went into effect in September of 2013.

Mr. Niederer, in his article, discussed the findings from a study that was conducted by the Australian Governments' CAMAC (Corporations and Markets Advisory Committee), which were published in its 245 page May 2014 report, "Crowd sourced equity funding." In 2000, Australia became the first country in the world to approve a form of Crowdfunding.

The CEO of the ASSOB, which is considered to be the world's oldest and most well-established Crowdfunding platform, explained in his article that there are three levels of investors, which an issuer can tap for capital. He pointed out that only 6% of issuers had been successful in obtaining capital from the third level of investors. This was why he included the phrase, "no crowd in equity crowdfunding" in the title of his article.

Level One: Friends, Family, Fans and Followers

Level Two: Friends of "Friends, Family, Fans and Followers"

Level Three: People or the crowd that have no connection to the issuer

On Oct. 8, Forbes.com published an article "Equity Crowdfunding at Year One, What's The Impact?" The article provided a breakdown of the aggregate $217.7 million of equity capital that was raised for the 12 months ended September 30, 2014 by the leading Crowdfunding portals for their issuers according to a report released by Crowdnetic. September marked the first anniversary of the enactment of Title II of the JOBS Act or the SEC's lifting of its 80-year-old advertising and non-solicitation ban.

That an aggregate amount of just over $217 million was raised by the 10 leading U.S. Crowdfunding portals was quite a shock to me. I would have guessed that the amount would have been in the billions. Only 534 of the 3,361 companies attempting to capitalize from the lifting of the ban were successful. The average amount of $407,685 being raised per company was also disappointing. Kay Koplovitz from Forbes.com, who authored the article, stated that she believed that the first 12 months after the provisioning of Title II of the JOBS Act had been a success. However, she qualified that by stating, "Perhaps this is because of my rose colored entrepreneurial glasses."

After reading Paul Niederer's June article, I had already come to the realization that the entire equity Crowdfunding initiative was heading in the wrong direction. It was especially apparent after I read the sentence penned by Paul, in his article that contained the phrase, "little or no **curation** by the platform is a tough gig." After reading the phrase and with my 37 years of experience in the capital markets, including my dealing with individual investors, it became rather obvious to me that the government-regulated funding portals would not be the catalyst to ignite Crowdfunding. The recent article by Forbes.com only confirmed what I should have never forgotten: "**Individual investors are followers and since the portals are prohibited from curating or recommending deals, they cannot lead them.**"

Barriers to Equity Crowdfunding Growth

The cold hard truth is that since the 1850s, when individuals in the U.S. first started to make investments, the majority of all non-professional investors have relied on or utilized recommendations made by someone else in order to make their own investments. Most of the speakers, including myself, at the Crowdfunding conferences that I have attended since 2012 had prognosticated that the government-regulated funding portals would be the catalyst to make Crowdfunding ubiquitous. The theory that most of the leaders are espousing to this day is, "build the portals and they (the crowd) will come (to invest)." Unfortunately, based on my reading of the two recent articles that is not how it's going to evolve.

The reason why the ASSOB has raised a total of only $140 million for companies, an average of $10 million per year since it was founded in 2005; is because it's prohibited by CAMAC from curating or recommending any of the deals that are listed on its platform. Under Title II and under the SEC's proposed rules for Title III, a US portal cannot curate or recommend the deals that are listed on it. The inability for portal to curate or make a recommendation is the reason why only $217 million has been raised under Title II of the JOBS act to date.

Ironically, the government regulations that were required for the lifting of the Crowdfunding bans have neutered the portals. The regulations have prevented the funding portals from being the catalyst that will ignite global Crowdfunding. The portals are still significant since they are needed to prevent, or at least, reduce fraud.

What needs to be understood is that for equity or finance Crowdfunding to be successful and become ubiquitous, it must revert back to its "community" roots. Whoever put together the language for the JOBS Act should have named it "Community" instead of "Crowd" funding. If Crowdfunding's leaders redirect their energy towards establishing, fostering and growing communities instead of relying on the funding portals for growth; the growth rate of Crowdfunding could begin to immediately grow exponentially. .

The very first Crowdfundings, or the very first time that US investors transferred their money from their banks to make investments, was in the 1850s. What motivated the pioneers to take the leap was the invention of the steam engine locomotive and the railroad. Merchants and residents of every community back then had no choice but to invest in railroad bonds. The amount of capital needed to build the railroads was enormous. The banks, at the time, refused to loan capital to the railroads. For a community, having a railroad was crucial to its very survival. The laying of railroad track in every community during the 1850s is analogous to the advent of the Internet and everyone gaining access to the web and email in the late 1990s. The railroad transformed the US from an agrarian to an industrial economy. The Internet and the railroad are unquestionably the two single biggest economic developments that occurred in the US during each of the last two centuries.

Crowdfunding Investors Need Leadership

The U.S.'s early pioneers did not become investors by osmosis. They only invested after they learned about the opportunity from trusted leaders in their communities and because of that trust, followed. There were three brothers who were among the early leaders to emerge in the 1850s. The brothers, whose last name was Lehman, immigrated from Germany to Montgomery Alabama and had become successful merchants. After they started a cotton exchange they came up with the idea to create and sell bonds to finance railroads in communities throughout the south. By 1900, Lehman Brothers was recognized as the premier venture financier for many companies, which emerged to lead the US economy between the late 1800s and the early 1900s.

The online Social Investing Community (SIC) is the vehicle that has evolved to take Crowdfunding back to its roots. There are several SICs, which have emerged; OurCrowd, which is one of them, has raised more capital for its issuer members than any of the top Crowdfunding portals. The $70 million that OurCrowd has raised since February of 2013 is equivalent to half of the $140 million raised by the ASSOB over 10 years.

The SICs and those individuals who lead them are the keys to the acceleration of Crowdfundings' growth rate and the standardization of this new form of investing. The SICs are to Crowdfunding what the launches of the web portals (including **Yahoo's ($YHOO)** in 1996) were to the web's growth rate, taking off and becoming ubiquitous, by the end of 2000. An SIC can significantly increase the probability that an issuer will be successful in obtaining its desired funding from a regulated portal. This is especially true if the SIC and an issuer share an affinity.

Since an SIC does not handle any funds, it is not required to become a government regulated portal or an intermediary. Thus, it can curate and make recommendations to its members to invest in the deals or listings that are available on all of the portals. As SICs emerge and grow, they will become the ideal and the very desirable strategic partners of the government regulated funding portals.

Even though the concept of the SIC and their importance to the success of Crowdfunding was a rather novel idea that I came up with in June 2014, there are three additional SICs other than OurCrowd that I have been able to identify. Below is the summary information covering all four of the SICs which are, or will be, operational in November 2014:

- Equities.com is an SIC which is a producer and publisher of content covering public companies within its proprietary social media platform. It also advertises offerings for issuers and portals.
- OurCrowd is a proprietary **research** SIC that specializes in identifying and recommending start-ups to their members. They have relationships with the management of the issuers that they recommend. OurCrowd provides their expertise and contacts to assist the issuers which they recommend for the purpose of growing the issuers' businesses.
- Thierry's Crowd is a proprietary **research** SIC that specializes in identifying and recommending start-ups to their members. I believe that this SIC is a prototype for the thousands of global analysts, traders and savvy investors who I predict will eventually form their own SICs.
- Dynasty Wealth is a proprietary **research** SIC currently under development that will launch in November. It specializes in identifying companies that are already operational and have the scalable IP to support exponential growth. I am the Director of Research for this SIC.

The first four SICs that have been identified emerged without much effort and with little fanfare. They are now growing (or are in the position to grow) exponentially. Their emergence is the next stage of the organic evolution of the web. After the web went from obscurity in 1995 to ubiquity in 2000, it provided the critical mass that was required for social media began to evolve and become ubiquitous along with social media infrastructure providers such as **Facebook ($FB)**, **Linkedin ($LNKD)** and **Twitter ($TWTR)**, etc. With the SEC's lifting of the first Crowdfunding ban and its intention to lift the second ban, the time has come for the SICs to emerge and play their key role in the evolution of Crowdfunding and online investing.

The principals of all four of the SICs that I have identified are scheduled to be in attendance at the 3rd Annual Crowdfunding Convention and Bootcamp, which is being held in Las Vegas from Thursday October 23rd to Saturday October 25th. I will also be attending. My focus will be to inform and educate as many attendees and leaders as possible about the SICs and why they are the catalysts that will ignite Crowdfunding.

Finally, while at the convention I will explain how the SICs can be leveraged by everyone who participates in Crowdfunding including the members of the crowd and the millions who wish to utilize Crowdfunding to start a business. Information about attending the convention, an agenda and a list of the speakers are available at http://GCCBmag.com

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