

## Angels, VC race will go to the swift

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Chris Helgren/Reuters

Brad Cherniak says angel investors are a segment of the capital market that could trigger a renaissance for small business

In many ways, with a few isolated exceptions, the venture capital community in Canada is acting like a boxer who has knocked himself out.

Dwindling investment volumes are beyond daunting, with no clear solutions in sight, and industry leaders have been reduced to pleading for a "national tech strategy," or for blue chip panels to be convened by the government to discuss the plight of innovation in Canada and to seek solutions. Frankly, these ideas make my blood run cold.

The U.S. venture capital industry provides a good case for why pushing the trajectory of the VC galaxy too close to the government supernova is a dangerous thing. There is increasing chatter about the industry in that country coming under full regulation of the Securities and Exchange Commission, for unapparent reasons.

The value-add of doing so is even more unapparent, and could threaten the unbridled spirit of the industry. Apparently, few remember the VC industry came into being as an

organic response to the failure of government and traditional financial institutions to stimulate business development during the Depression and the New Deal.

To a small business owner, this must sound like a step back into the Dark Ages for early-stage capital. But hang on, there is another segment of the capital market that could trigger a renaissance even before the Dark Ages take root -- angels.

Historically, this has been a large but amorphous collection of individuals that defied aggregation and generalization, tethering the industry to the fringes of the capital markets. Angels were like Yetis, everyone knew of one, but wouldn't share their names or how to get in touch with them. Commonly angels are considered to be a retired business executive or entrepreneur who have upward of \$1-million to invest in fledgling companies or struggling entrepreneurs and their crazy ideas, as a hobby or even to give something back for their own business successes. This notion is quaint, and largely irrelevant.

Investing is about creating returns, plain and simple. Anything else is not investing; it is either charity or entertainment -- both of which are valid, but separate and distinct concepts.

The dividing line between angels and venture capitalists is blurring to the point of non-distinction -- the critical distinction for small businesses is angels have cash and possibly the will to spend it.

The aggregate pool of so-called angel capital is far larger than that of institutional venture capital in both Canada and the United States, although definitive statistics on the subject don't appear to be available. In recent years, individual angels increasingly are clustering into informal, not-for-profit organizations that offer central administrative, deal sourcing and structuring, and even political advocacy services, while retaining their individual rights to decide whether or not to make a particular investment. These organizations are developing and facilitating investment assessment and valuation processes and methodologies that will rival that of the VCs.

I propose renaming the angel sector "Independent Venture Capital", and collapsing the wall between the two. Whichever side were to end up with the power would be fair game -- the race, as always, should be to the swift. Benefits would be broad and multifaceted:

- The IVCs would invigorate the VC world with new ideas, energy and cash.

-VC firms could gain access to the collective insight and experience in the angel market.

-Angels could gain higher profile, better access to deal flow and more resources -- political and otherwise -- to represent and benefit its investors.

-Both groups can begin to see themselves as partners pursuing good returns on investment in early stage companies. Another effect might be the sorely needed improvement of the image of VCs in the eyes of entrepreneurs.

-And for those rugged individualists who refuse to be a part of any larger movement, they can remain as they are, outside the purview of the defined industry--individual investors, or even angels.

In any event, the angel sector will continue to be a vibrant, active and important segment of the North American risk capital markets for small businesses. I hope it becomes more and more efficient and accessible and I will look for signs of this at the National Angel Capital Organization's annual summit in Toronto Oct 14 to 15.

Equally, I hope the venture capital community somehow can regain its mojo without direct government intervention, or even its helpful hand.

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