

Tutorial Notes

Class: B.Com (Hons.) Semester VI (DSE3)

Subject: New Venture Planning

Topic: Informal Risk Capital.

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### **THREE RISK-CAPITAL MARKETS**

- Informal risk-capital                      Area of risk-capital markets consisting mainly of individuals
  
- Venture capital                              One of the risk capital markets consisting of formal firms
  
- Public equity                                 One of the risk-capital markets consisting of publicly owned stocks of companies

### **INFORMAL RISK CAPITAL MARKET:**

The informal risk-capital market is the most misunderstood type of risk capital. It consists of a virtually invisible group of wealthy investors, often called business angels, who are looking for equity-type investment opportunities in a wide variety of entrepreneurial ventures. Typically investing anywhere from \$10,000 to \$500,000, these angels provide the funds needed in all stages of financing, but particularly in start-up (first-stage) financing, Firms funded from the informal risk - capital market frequently raise second - and third - round financing from professional venture - capital firms or the public - equity market.

## **INFORMAL RISK-CAPITAL MARKET**

- It consist of wealthy investors, often called “business angels”
- These angels provide the funds needed in all stages of financing, particularly in start-up (first stage financing)
- Firms funded by this frequently raised from second- and third-round financing from VC firms or public-equity market
- Informal investment market contains the largest pool of risk in the United States

## **CHARACTERISTICS OF INFORMAL INVESTORS**

Demographic Patterns and Relationships

Investment Record

Venture Preference

Risk/Reward Expectations

Reasons for Rejecting Proposals