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Money Fix: Crowdfunding for investors

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by SHERYL NANCE-NASH. Special to Newsday

Photo credit: iStock | Will you get a chance to invest in the next household name through crowdfunding? Maybe. But experts advise individual investors to do their homework.

Up 'til now, crowdfunding sites have essentially allowed participants to make donations to projects or companies they want to support. Next year it gets more interesting. When the SEC adopts final rules, for the first time equity-based crowdfunding will be available.

Will you get a chance to invest in the next household name? Maybe. "It is always possible your investment will be the next Twitter," says Spencer Feldman, a partner with New York law firm Olshan Frome Wolosky.

These start-ups represent a new asset class for individual investors, allowing them to diversify and participate in a potentially lucrative sector of the market, says Bruce Bachenheimer, director of the Entrepreneurship Lab and professor at Pace University in New York.

However, Andrew Stoltmann, a Chicago lawyer specializing in investment fraud, is skeptical: "There is a one in 100 million chance you will invest early in the next Twitter or Google."

Inevitably, there will be a major fraud event involving a crowdfunded company, predicts T. Hale Boggs, a partner in Los Angeles with the law firm Manatt, Phelps & Phillips.

"First-time entrepreneurs are typically managing your money. Because they lack experience, they are less likely to succeed," says Philip Reicherz, CEO of CrowdHut, a New York crowdfunding consulting company.

"You could lose your entire investment quickly," warns Bachenheimer.

Do your research. Look for audited financial statements by a reputable accounting firm. And invest a minimal amount.

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