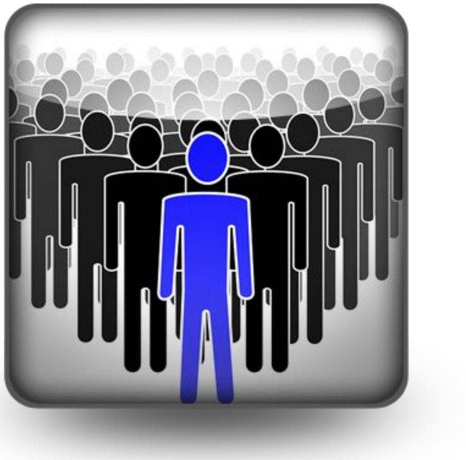
Crowdfunding

What You Need to Know Before Investing in Crowdfunded Securities



Presented by: [INSERT AGENCY]

What is Crowdfunding?

- Crowdfunding is an **online money-raising strategy** that began as a way for the public to donate small amounts of money, often through social networking websites, to help artists, musicians, filmmakers and other creative people finance their projects.

What is Crowdfunding?

- The concept has recently been promoted as a way of assisting small businesses and start-ups looking for investment capital to help get their business ventures off the ground.

- Congress recently passed **the JOBS Act**, which directs the Securities and Exchange Commission (SEC) to create rules exempting crowdfunding from the securities registration laws.

What is Crowdfunding?

- Traditionally, investment opportunities are offered by professionals, such as broker-dealer firms and investment advisers, who must recommend investments that are based on their clients' investment objectives and levels of sophistication.

What is Crowdfunding?

- Through crowdfunding, individuals are able to invest in entrepreneurial start-ups through an intermediary, such as a broker-dealer or a "funding portal."

- By law, "**funding portals**" are not allowed to provide investment advice.

What is a Funding Portal?

- A funding portal is a website, also called a “platform,” that advertises the investment opportunities and facilitates the payment from the investor to the issuer.

- Some portals advertise a variety of investment opportunities on one website, allowing the investor to select one or more projects in which to invest.

How Crowdfunding Works

Today . . .

- Mary's **small business sells goat cheese** made from her special pygmy goats.

- To keep her business afloat or to help it grow, Mary can **turn to the Internet to seek online donations from the public** who contribute small amounts of money and expect nothing in return.

- Mary usually sends a sample of her **cheese as a thank you for the donation**; large donors might even get a cheese named in their honor.

How Crowdfunding Works

Coming Soon . . .

- New legislation has directed the SEC to write rules that will change how Mary can raise money online.

- Once the rules are written, Mary will be able to **use the Internet to raise up to $1 million each year by selling investments** in her company to thousands of investors.

- Because Mary will be issuing shares in her company in exchange for investment capital, her **supporters are no longer donors; they become investors** and will expect a financial return for their investment.

Why Investors Should be Cautious About Crowdfunding

- Crowdfunding investments cannot be offered legally until the SEC adopts rules to permit them.

- Beware of crowdfunding offerings that seek investments immediately.

- All investments have risk, but small business investments have even greater risk than normal. About 50 percent of all small businesses fail within the first five years.

Why Investors Should be Cautious About Crowdfunding

- Issuers using funding portals to raise money may be inexperienced. Their track records maybe unproven, unsubstantiated or outright fraudulent.
- The information about the investment is limited to what is provided through the funding portal. Investors may need to rely on their own research to determine the issuer’s track record.

Why Investors Should be Cautious About Crowdfunding

- Because state regulators are not allowed to review crowdfunding issuers or their offerings, full and complete disclosure may not be available to investors.

Why Investors Should be Cautious About Crowdfunding

- Investors may have limited legal ability to take action against the issuer should the investment not perform as represented.

- Due to limited regulatory oversight over these offerings, investors may be left on their own to pursue costly private lawsuits when things go wrong.

Why Investors Should be Cautious About Crowdfunding

- Crowdfunding investments are mostly illiquid and investors must be prepared to hold their investments indefinitely.

- It also may be difficult or impossible to resell these securities due to the lack of a secondary market.

Why Investors Should be Cautious About Crowdfunding

- Funding portals must be registered with the Securities and Exchange Commission (SEC), belong to a self-regulating organization (SRO), and comply with other rules the SEC may issue.

Why Investors Should be Cautious About Crowdfunding

- Crowdfunding portals claiming an accreditation or “seal of approval” from a standards program or board may not be legitimate.

Bottom Line for Investors

- It **pays to be skeptical** of investment opportunities you learn about through the Internet.
- When you see an offering on the Internet — whether it is on a funding portal, in an online newsletter, on a message board or in a chat room — you should **be cautious** until you have done your homework and proven that it isn't a scam.

Bottom Line for Investors

- For more information about crowdfunding, contact:

  [INSERT AGENCY CONTACT INFO]