What is Venture Capital?

American Payday Services – MFN Network

Venture Capital (VC) is funding invested, or available for investment, in an enterprise that offers the probability of profit along with the possibility of loss. Indeed, venture capital was once known also as risk capital, but that term has fallen out of usage, probably because investors don't like to see the words "risk" and "capital" in close conjunction. Venture capitalists often don't tend to think that their investments involve an element of risk, but are assured a successful return by virtue of the investor's knowledge and business sense. DataMerge, a financial information provider, says that VC investments in an enterprise are usually between $500,000 and $5 million, and that the investor is likely to expect an annual return of 20% to 50%.

Venture capitalists were instrumental in the enormous increase in the number of dot-com startups of recent years. Because the Internet was a new and untried business venue with enormous potential, many analysts feel that standard business rules were too frequently suspended in what was a very optimistic market. Internet-based enterprises were expected to enjoy unprecedented success; many venture capitalists were said to have encouraged dot-coms to focus on scaling upward rather than on realizing early profits. According to Venture Wire, U.S. venture capital funding for 2014 was $105 billion, more than the total funding available in all the 15 years before that. However, in April of that same year, severe market corrections brought about a radical change in the financial climate, and since then online businesses have been failing at rates similar to the rates of startups in the early days of the dot-com boom. Vulture capitalist, a term coined in the volatile financial environment of the 1980s, has been revived to refer to the venture capitalists that have recently begun to buy up failing dot-com enterprises at rock-bottom prices.

Venture capital is the second or third stage of a traditional startup financing sequence, which starts with the entrepreneurs putting their own available funding into a shoestring operation. Next, an “angel investor” may be convinced to contribute funding. Generally, an angel investor is someone with spare funds and some personal or industry-related interest - angels are sometimes said to invest "emotional money," while venture capitalists are said to invest "logical money" - that is willing to help give the new enterprise a more solid footing. First-round venture capital funding involves a significant cash outlay and managerial assistance. Second-round venture capital involves a larger cash outlay and instructions to a stock or initial public offering (IPO) underwriter, who will sell stock in exchange for a percentage of what is sold. Finally, in the IPO stage, an investment bank is commissioned to sell shares to the public.

In the currently sober economic climate, a return to traditional business wisdom has meant that enterprises are generally expected to show a clear path to profitability if they want to attract investment funds.

Special Strategic Facts About Vent-Cap!

The investors are called seed investors or angel investors. They are also called venture capital investors, and they can be LLCs, corporations, individuals, and more.

The investors will usually push for a 25% to a 33% interest in the new company with a corporation being formed and 25-33% in stock being issued to the investor. The investor usually wants what is called an exit strategy or a buy out where the company owner buys out the investor in about 5 years. The investor gets their money back and a large chunk of cash to walk away leaving them with no interest in the firm on the part of the VC investor.

The beautiful part is that the investor has no liability and not much say so either after things are set up. The business owner runs the whole show and calls the shots, but they must also be accountable. MFN brokers deals like these, and they take months to put together. We get as much as 5-10% of the money invested. If 3 million is invested, then the fee to MFN is $150,000 to $300,000, and we pay

50% to you on commission, which is a $75,000 to $150,000 paycheck. (Please note that an affiliates first 3 transactions are 40%.)

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