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Advisers take heed: Investment crowdfunding coming soon to a client near you

Legion M offers hope for a Hollywood-level debut

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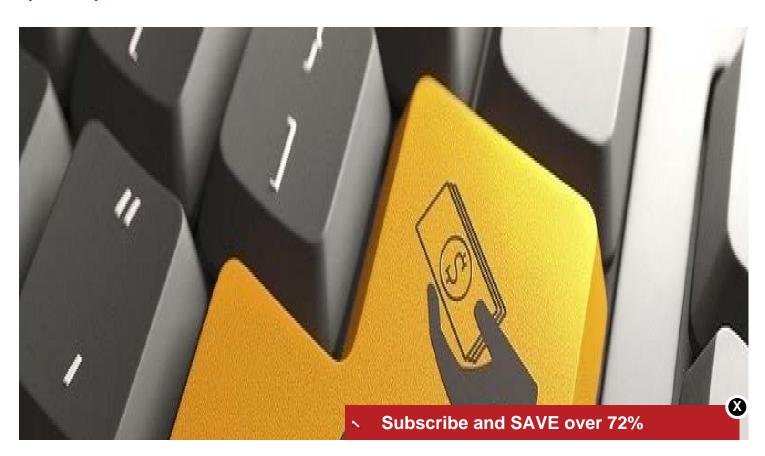


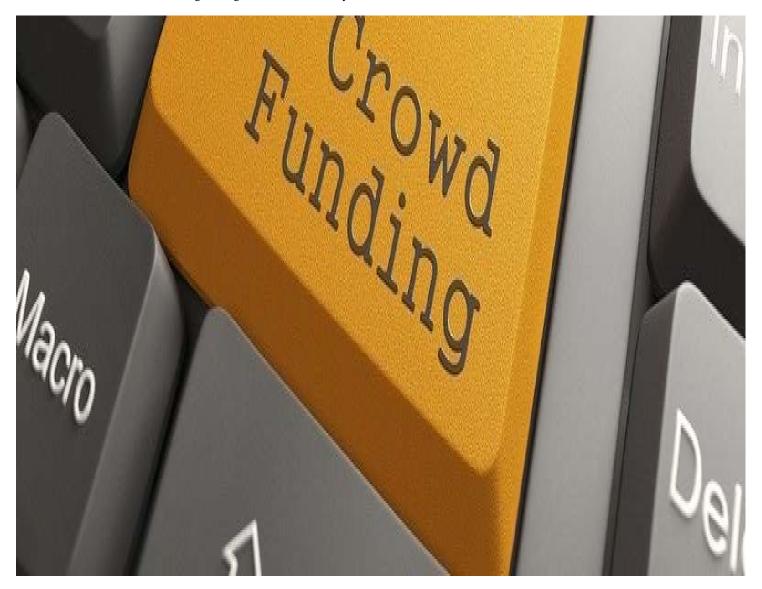












The investment crowdfunding space is virtually falling over itself in celebration of Legion M, a startup entertainment company that plans to sell private equity stakes to retail investors for a little as \$100.

Financial advisers should be paying attention, because the floodgates are opening on investment crowdfunding, and individual investors are about to be hit with sales pitches like never before.

To be clear, we're not talking about soliciting donations for an oddball campaign to make **potato salad.** Legion M and dozens of other startup ventures are seeking investors at the grass-roots level for projects and businesses that are mostly untested and in some cases, not even operating businesses yet. This is essentially early-stage venture capital investing for anybody with 100 bucks to spare.



In the case of Legion M, the pitch is **ground-floor** and behind-the-scenes access to Hollywood projects, along with all the glitz and glamour that comes with it.

"Our goal is to get fans beyond the velvet ropes to see the process unfolding," said Legion M cofounder Jeff Annison. "This is an opportunity to get fans involved, because maybe we'll have an idea that we need to share with the fans to get their feedback."

Part of the sales pitch is referring to investors as fans.

"Imagine a scenario where, over time, we get to a million fans, investing between \$100 and \$200 each, and let's say we have \$200 million to invest in projects that have a million fans already emotionally and financially invested," said cofounder Paul Scanlan.

The two executives do bring some experience with successful entertainment ventures as Emmy-winning technologists and cofounders of **MobiTV**, a multiscreen platform technology.

There is also some precedent for this kind of retail-targeted investment crowdfunding, often referred to as mini-initial public offerings because the initial capital raise is capped at \$50 million.

Last month, Elio Motors, a startup company trying mass-produce tiny three-wheeled cars, raised \$17 million from 6,600 investors. The stock, which is not yet listed on a public exchange, but trades over the counter under the ticker ELIO, launched at \$14 on Feb. 23, spiked above \$65 on March 1, and is currently trading around \$39 on very light volume.

What companies like Elio Motors and Legion M are capitalizing on is the Securities and Exchange Commission's October adoption of rules related to a **provision of the 2012**JOBS Act geared toward helping smaller companies raise money by tapping into the pocketbooks of retail-class investors. The next phase of the crowdfunding rules takes

effect in May, creating an even lower level of crowdfunding by limiting the total amount that can be raised to \$1 million.

Under that format, individual investments will be capped at \$2,000 or a percentage of the investors' net worth.

This kind of private equity investing used to be limited to institutions and accredited individual investors. But the new crowdfunding rules essentially open the universe of potential investors to anybody over the age of 18, or about 233 million Americans.

It is all moving very rapidly, as crowdfunding platforms ramp up to gather investor assets. But the most curious thing about the crowdfunding wave is the way a lot of financial advisers have opted to step back and away from the activity, at least until the initial dust settles.

"We're seeing a little bit of attention from clients on crowdfunding, but it's mostly from the entrepreneurial side, from people who want to go out and start a business," said Leon LaBrecque, chief investment officer at wealth management firm LJPR Financial Advisors.

"I've had some clients participate," he added. "But I don't usually do a full evaluation of it, because it's a smaller amount of money and lower risk."

Kashif Ahmed, president of American Private Wealth, said he generally discourages his clients from investing in crowdfunding projects or anything else that looks like "the next shiny thing."

"I've had at least one client, and several of my students, ask me about crowdfunding investments, and I've discouraged them from engaging in it," he added. "My job as a planner is to shield and protect clients from their own actions and instincts."

Whether advisers are letting clients take some risks with small investments or discouraging crowdfunding altogether, it would be a mistake to not stay on top of the developments in this space because it is only going to get bigger and louder in the coming months. And the tipping point could be a company like Legion M, which aims to make a Hollywood-level impact on crowdfunding.

"The entertainment industry was ripe for this regulation, because the entertainment industry is something that everyone wants to be a part of," said Oscar Jofre, founder and president of KoreConX Corp., which helps companies navigate the regulatory and due diligence process of listing on crowdfunding platforms.

Mr. Jofre compared the regulatory oversight to that of any other IPO, but said that doesn't take the place of serious due diligence on the actual investments.

"The companies are required to do a full prospectus and get everything approved by the SEC," he said. "But whether the company will be successful or not is a completely different issue."



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