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crowdfunding small businesses

Soon, a new dimension to online fundraising, known as equity crowdfunding, will be available to investors, and that has regulators and consumer advocates on edge.

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Crowdfunding has come to the rescue for hundreds of thousands of startups looking for capital in a tight credit market.

Soon, a new dimension to online fundraising, known as equity crowdfunding, will be available to investors, and that has regulators and consumer advocates on edge.

Regulations to be released by the Securities and Exchange Commission (SEC) sometime this year could open the door to swindlers and expose naive investors to the complicated world of securities, said Keith Woodwell, Utah Division of Securities director.

“We’re worried about fraud,” Woodwell said. “Investing in startups is the most risky type of investment there is. The problem we fear is that there will be a lot of unscrupulous companies out there playing it up to individuals.”

Up to now, investors have been able to scroll through online fundraising pitches on crowdfunding sites such as GoFundMe.com or Kickstarter.com, and a few clicks later they’ve contributed \$1 or \$100 to a cause or small business. The return on their investment could be anything, from pastries from a bakery that needs money for a new oven to a T-shirt from a fledgling garage band hoping to go on an interstate tour.

But the JOBS (Jumpstart Our Business Startups) Act — signed into law by President Obama last April — changes this, allowing individual investors to buy equity in a

startup. The JOBS Act provides another fundraising tool for entrepreneurs and small

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Especially in Utah, we've seen our fair share of fraud and annuity fraud," Cochrane said. "We want to make sure consumers are educated about equity crowdfunding so they can make good financial decisions."

Woodwell said angel investors and venture capitalists do a lot of homework and are very aware that the majority of startups fail. Because of the high risk, he advises investors to proceed with caution when it comes to equity crowdfunding.

"Equity crowdfunding essentially democratizes early stage investing," Woodwell said. "For the most part, small investors are not going to put in the time to read the fine print and look under the hood of a startup. Be cautious. And by all means, don't take your entire IRA and sink it into a crowdfunding enterprise where there's a decent chance you can lose it all."

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Alt Heads:

Equity crowdfunding worries regulators, consumer groups Free workshop on equity crowdfunding

The seminar "Crowdfunding: Is it Right for You?" is set from 10 a.m. to noon Saturday at AAA Fair Credit Foundation, 230 W. 200 South, Suite 3104, Salt Lake City. This is a free public workshop offered by AAA and the Utah Division of Securities.

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