ANGEL CAPITAL ASSOCIATION

In support of ACA's Data Insights initiative, once a month we will be sharing charts illustrating useful learnings form analyzing data on angel investing and portfolio returns.

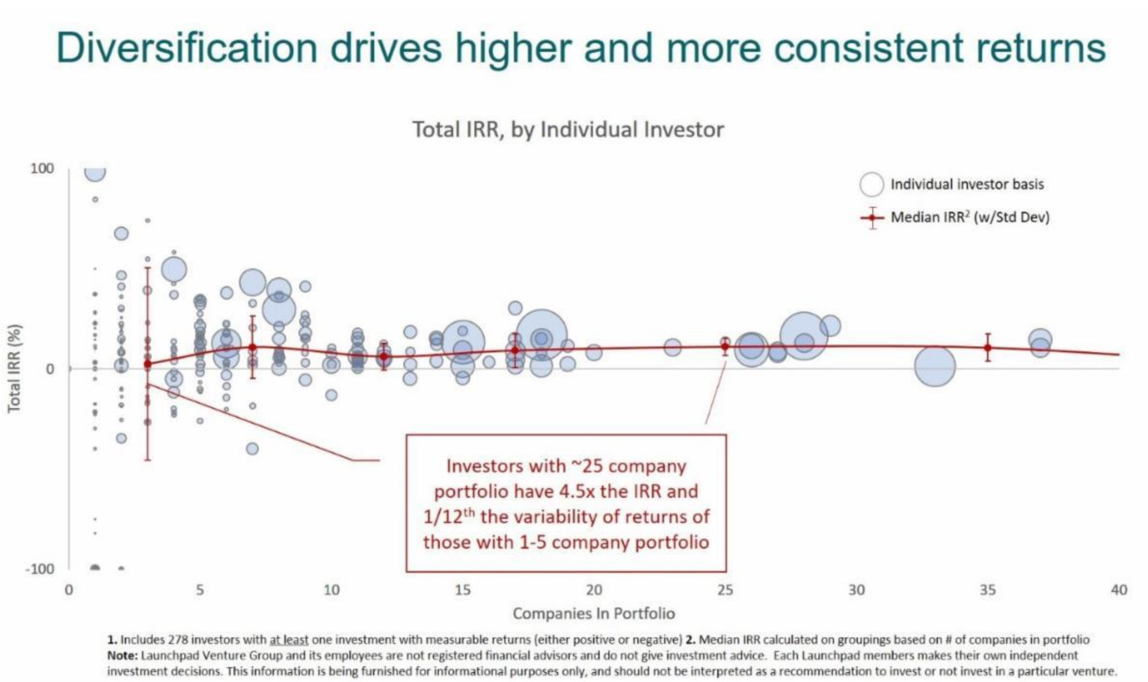
We join angel groups to help streamline deal flow, diligence, and term-sheet negotiation, but at the end of the day we typically invest as individuals so it is individual returns that matter.

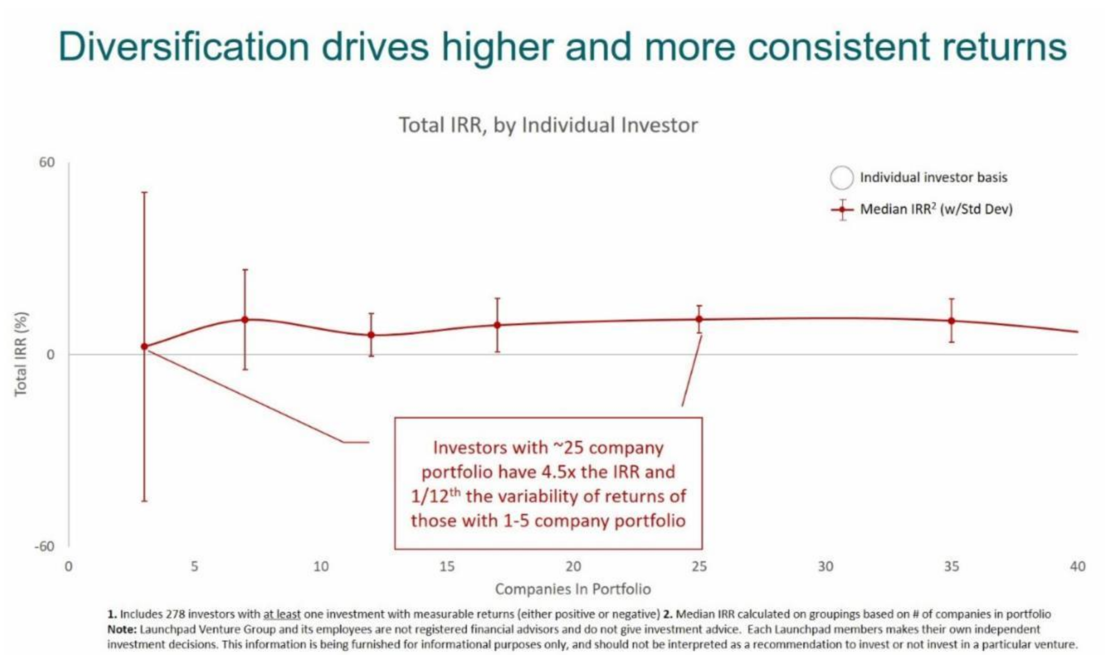
These returns are driven by individual decisions about what companies to support, how much to invest, when to invest in follow-on rounds, and how many companies to include in our portfolio. On this last point, conventional wisdom suggests one needs at least 10 companies in a portfolio to achieve diversification, but more is better.

ANALYSIS

To test that theory with actual data, Launchpad Venture Group dug deeper into median and variability of member-level returns for past and current investments. The chart below shows anonymized individual returns for 278 individual Launchpad members over the past 20 years.

The x-axis shows the number of companies in an individual's Launchpad portfolio, and the y-axis shows their current Total IRR (including both realized and unrealized returns). The size of each bubble is the total amount of money the individual has invested. We also clustered members by number of companies in their portfolio, and have overlaid median IRR and standard deviation of returns for each cluster, in red. Summary statistics are shown on their own in the second graphic to improve clarity.





THE TAKEAWAY

We take two key insights from this analysis:

1. As you might expect, **diversification is important**. Individual returns from investing in only one or two companies range from +100% to -100%. Median returns for the whole group are relatively low, and the standard deviation of returns dwarfs the median return, meaning you are about as likely to lose money as make money this way. Increasing the number of companies in your portfolio to 5-10 bumps median IRR up by a factor of 3-4x and only a few individuals suffered aggregate portfolio losses with this level of diversification.

2. **Real diversification takes more than the 10 companies of conventional wisdom**. Although median IRR and variability improve dramatically by increasing portfolio size from a handful to a dozen companies, it is only once you get beyond 15-25 companies in the portfolio that median IRR stabilizes at around 4.5x what it was with 1-4 companies, and variance shrinks dramatically to 1/12th of what it was with a 1-4 company portfolio.

We plan to continue to update this view over time to see how total returns shift as the portfolio matures, and ensure that new members continue to see the same high quality opportunities that have driven past performance.

- Alexander Brown, Launchpad Venture Group

Stay tuned for additional insights next month and sign up to participate in ACA's Data Initiative by submitting your data for future editions of the Angel Funders Report to provide angels with insights on the factors that affect the outcomes of startup investments.

Click here to participate in the ACA Data Initiative!

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