ASSET ALLOCATION AND ANGEL INVESTING

US Trust

Research has shown that an investor's investment returns are largely related to their selected asset allocation. Asset allocation is the key decision of every investor. But how does Angel Investing fit into an individual's asset allocation? The following chart shows U.S. Trust's asset allocation guidelines for most investors. [We have excluded all bond and all equity portfolios. This chart shows our projected 10-year return for the asset class and the range of asset allocations for three primary risk levels. Broad asset classes like stocks can be segmented into large capitalization, small capitalization, international, growth, value, etc. Alternative investments include real estate, Absolute Return (market neutral hedge funds), and directional hedge funds.]

ASSET ALLOCATIONS

	Target 10-Year Return	Balanced	Balanced Appreciation	Appreciation
Stocks	9%	40-70%	60-90%	75-100%
Bonds	6%	20-50%	10-40%	0-20%
Alternative Investments	12-18%	0-15%	0-20%	0-25%
Private Equity (20-60%)				
Absolute Return (20-60%)				
Real Estate (20-60%)				
Hedge Fund (20-60%)				

Angel Investing would be included in the Private Equity Allocation of Alternative Investments. We would recommend a Private Equity allocation from 2-15% depending on an individual's risk profile. Private Equity includes both Private Equity funds and individual Angel investments. Since Angel Investing is high-risk (and hopefully, high-return), we would recommend only a portion of the Private Equity allocation be in Angel investing - probably 50% of Private Equity or 0-7.5% of an investor's total investment portfolio.

In addition to the classical view of asset allocation, we must also discuss a pragmatic view of asset allocation. Angel Investing can have rewards beyond its investment return. If an individual loves Angel Investing and if they have determined that they have sufficient assets for current obligations, retirement, charitable desires, and future generations, then any surplus investment dollars could be allocated to Angel Investing. This approach assumes the individual could lose all of their Angel investments and not impact their lifestyle. This approach would allow a higher percentage allocation than previously recommended. Such an asset allocation should be considered only after thorough financial and estate planning.

Once an individual establishes their percentage allocation for Angel Investing, they can calculate their total dollars to invest. Achieving appropriate diversification will require a minimum of five to ten separate investments. Most Angel investments have a minimum investment of $25,000 to $50,000. If an individual's allocation to Angel Investing is not at least $250,000-$500,000, they should consider a Private Equity Fund rather than direct investment for better diversification. Since identifying desirable Angel investments can be difficult and time consuming, the process to get fully invested can take one to five years. Liquidity events from Angel investments or growth in an investor's overall portfolio will provide additional funds for future Angel investments.