Much has been said about Crowdfund Investing (CFI) from the entrepreneurs’ point of view—but where do investors currently stand? How can CFI which is scheduled to “go live” when the SEC posts its regulations in early 2013 maximize the potential for positive impact from the JOBS Act for local communities? Community interest and the participation of casual investors is beneficial, but CFI needs the support and the dollars of the full investment community to truly succeed.

Here’s where investors come in: My newest company, Grow America, and Crowdfund Capital Advisors have come together to sponsor a roundtable event to discuss CFI issues in Chicago last week. Grow America is a national (and international) organization to uplift and support entrepreneurs. Crowdfund Capital Advisors is headed by Jason Best and Sherwood Neiss who have led the U.S. fight to legalize debt and equity-based crowdfunding. Forbes Contributor Chance Barnett recently named Jason and Sherwood to the list of Top 10 Most Influential People in Business Crowdfunding.

We met at the Chicago offices of Polsenilli Shugart for an invitation-only event that included select angel investors, VCs, community leaders, security law experts, representatives from the Kellogg and Booth Schools of Business, and entrepreneurial leaders.

The discussion was private, but reports from Richard Swart, Grow America
America EVP, provided the following points of discussion from the event:

*Should the U.S. Consider the creation of Special Purpose Vehicles (SPVs) to represent the hundreds or thousands of investors in a deal as a single unit?*

Proponents noted the benefit of an SPV to investors as the ability to speak with a unified voice. The general consensus of the group was that an SPV might be good for some companies (hyper-growth companies with many individual crowdfund investors), but not for others (Main Street businesses with no clear exit strategy). While the group didn’t reach a full conclusion in this recommendation, as a consensus, they suggest that SPV’s be part of Series B capital raising, meaning that if follow-on money wants to invest, Crowdfund investors must agree to move into a SPV.

*Investors are concerned that red tape from regulators could decrease the ability of CFI to truly help the entrepreneurial community.* Investors at the Chicago event noted that they are very interested in the potential for quality deal flow, but they continue to have doubts about the end-process so far.

“Resourceful Kellogg School student-entrepreneurs believe they can be successful fundraising with crowdfund investors, however, the wait for regulations has been frustrating,” said Scott Whittaker, Associate Director of Entrepreneurship at the Kellogg School of Management. “I can see several instances for our 50,000+ business school alumni community (over 150,000 including Northwestern University alumni) to interact together through these rigorous, efficient and productive social and investment portals. This makes it important that both the SEC and FINRA establish the rules quickly.”

Other concerns included worries about the promotional and investor registration process inhibiting or halting the viability of Crowdfund Investing.

“VC’s have become more conservative in their investments, making it really hard for an entrepreneur with a good idea to find true seed capital to build their initial product, especially when the angel investors who make these types of investment prefer to remain anonymous and hard to find,” said, George Deeb, Managing Partner at Red Rocket Ventures, who has provided startup consulting or fund raising advice to over 300 startups in the last two years.

Finally, Chicago participants expressed concern about how the CFI industry will appropriately address the potential for fraud. In this discussion, attendees agreed on the need for substantive criminal background checks, which the JOBS Act currently mandates. In addition, investors recommended additional safeguards such as verifying the number of years individuals have lived at a certain residence.

In summary, while questions continue, participants also expressed a great deal of excitement. The group noted that without crowdfunding, 50 percent of American
businesses fail within their first five years (Ironically, many of them due to lack of capital). Appropriate crowd fund investing could do much to improve these low odds.

Crowdfund Capital Advisors will be taking feedback a summary of the roundtable, event to the SEC.

“This event has provided us with valuable feedback from the investor and entrepreneur communities,” said Neiss. “Jason and I worked very hard to draft Startup Exemption’s crowdfunding framework, and we’re proud of what we accomplished toward getting crowdfunding legalized within the JOBS Act.”

As the next step, Neiss will participate in breakout sessions related to crowdfunding at the SEC Government-Business Forum on Small Business Capital Formation in Washington, D.C on November 15, 2012. On behalf of Grow America, we wish him success.

Do you have further questions and input about CFI and other forms of early stage funding? My coming ebook will provide further information. But in the meantime, you can address your questions to me through this column, at @AskAlanEHall, or via my personal website, www.AlanEHall.com. Thanks for reading.

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