MV Capital Management Weekly Market Flash

Send In The Crowds

May 9, 2014

Today's Gen Y-ers are intuitively proficient at tapping into the cloud to glean wisdom from multiple sources. Friends, circles, people you have never met and never will meet, all can contribute to a steady drip-feed of insights about anything from where to get your hair done to the best place for Belgian mussels to how to brew India Pale Ale. So perhaps it is no surprise that one of the fastest growing trends in the investment world is a phenomenon known as *crowdfunding*. There is a growing movement bringing together entrepreneurs, intermediaries like angel investor networks, and the investing public. The SEC has weighed in with a proposed regulatory framework for crowdfunding, in response to legislation passed by Congress in 2012. For better or worse crowdfunding is part of the financial landscape now, and needs to be analyzed and understood.

The Wisdom of Crowds

Some years ago James Surowiecki, a social sciences author and commentator, published a book called *The Wisdom of Crowds* containing much of the philosophical view that informs crowdsourcing. One of the interesting cases in the book tells of studies conducted at county fairs in Britain some time ago. Fairgoers were invited to guess the weight of a particular livestock animal on display, such as a pig or cow. They would write down their guess on a piece of paper and put it in a jar with all the other guesses.

All the guesses by the passers-by were tallied up and averaged. The crowd's average was then compared to the individual estimates of three livestock experts familiar with the physical characteristics of the animal on display. Almost invariably, the crowd's average estimate was closer to the animal's actual weight. As Surowiecki goes on to show in his book, this dynamic plays out in a variety of settings and subject matters. "Common wisdom" seems to be a real thing, not an oxymoron. Does common wisdom apply in the evaluation of investment opportunities?

Pied PIPRs

Late last year the SEC released a proposed regulatory framework for crowdsourcing, including disclosure requirements, caps on issue amounts, marketing and communications guidelines for intermediaries, and anti-fraud protections. This has given rise to a new Wall Street acronym: PIPR (Private Issuer Publicly Raising). PIPRs are limited to a maximum issue size of $1 million for publicly crowdfunded deals. Separately, though, the SEC issued Rule 506(c) removing any marketing limitations at all for PIPRs if the target audience comprises accredited buyers only ($200,000+ in annual income and/or $1 million or more in investable net worth).

Much about crowdfunding remains to be studied and evaluated. There are clearly risks to be considered, and the opportunity certainly is not for everyone. But in an environment where traditional financial channels – bank loans and the like – are increasingly difficult for young enterprises to come by, the appeal of crowdfunding is obvious. And for investors interested in playing a role in the next generation of business growth stories, a sound regulatory and capital markets infrastructure for the dealflow may help to facilitate their involvement.

Masood Vojdani
President & CEO

Katrina Lamb, CFA
Head of Investment Strategy & Research

Investment Advisory Services offered through MV Capital Management, Inc., a Registered Investment Advisor. MV Financial Group, Inc. and MV Capital Management, Inc. are independently owned and operated.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by MV Capital Management, Inc.), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from MV Capital Management, Inc. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. MV Capital Management, Inc. is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the MV Capital Management, Inc.'s current written disclosure statement discussing our advisory services and fees is available for review upon request.