September 7, 2015

# Fintech Spotlight: Will Stock Losses Hamper Equity Crowdfunding? It Depends

Stock markets performed poorly in August and continue to experience weakness this month. How will it impact the growing crowdfunding space?

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Crowdfunding (Fin Tech)
Monday, 09/07/15 / 2:33

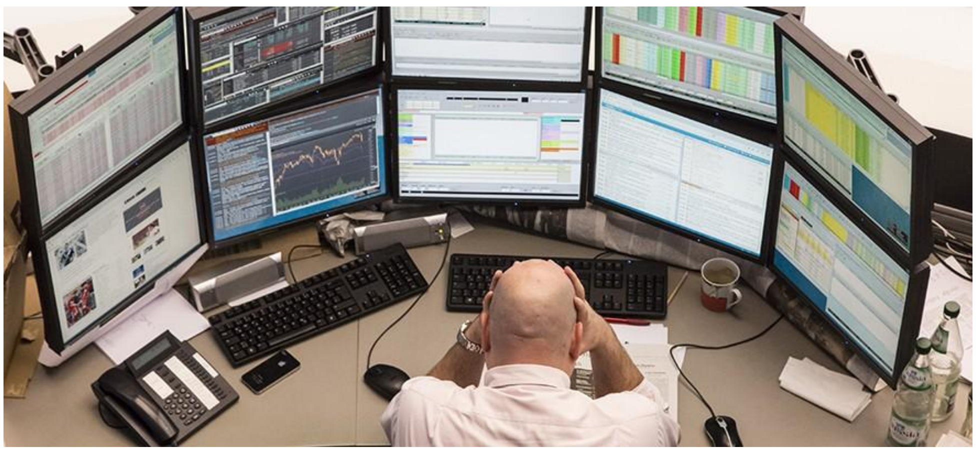

Photo:Bloomberg

It may have only lasted for a moment, but on August 24th the Dow Jones opened down and quickly fell over 1000 points, with the index touching 15,370. Whether the decline was fueled by losses in China's stock market or a weakening economy as seen in Crude Oil prices hitting multi-year lows, the losses in the Dow Jones and other loading global indexes brought the stock market and valuations to headlines around the world.

After a five year rally that saw US stocks rally from their global financial crisis lows to all-time highs, many indexes have now corrected (declined 10%) from their highs. It's not yet clear to determine whether the declines have spooked investors enough to limit inflows of new cash into equities, but the moves have at least created a cautionary environment.

In the world of alternative finance, a question emerging is how much this new industry of equity crowdfunding and marketplace lending is affected by stock market changes. The answer appears to be mixed.

**Stock Market Alternative**

Equity crowdfunding where investors purchase stakes in private companies is viewed as the most similar to that of the stock market. The major difference is the lack of liquidity to exit positions, with investments needing to be viewed as multi-year positions. According to industry insiders, this differentiator, and the ability for investors to be able to participate in a new type of asset class, is shielding crowdfunding from overall weakness in traditional stocks.

Lee Barken, Board Member of CleanTECH San Diego and CPA at Haskell & White, LLP, who assists firms in sourcing alternative financing including equity crowdfunding, explained to Finance Magnates that for investors, alternative investments can be viewed as a hedge of sorts to volatility in traditional assets. Barken described it saying, “In much the same way that gas hitting $4/gallon generates interest in hybrids and electric cars, the more volatile the stock market, the more attractive alternatives become.” Barken added, “Although offerings on equity crowdfunding platforms may have significant risk, many investors are questioning the inherent safety of traditional investing options.”

So far, funding numbers continue to support the thesis that investors are sticking with equity crowdfunding platforms. An example was last week’s revelation from CrowdCube that it has grown its total funding on its platform above £100 million, as deals remained fluid during the summer. According to Ryan Weeks, Editor at AltFi, whose firm tracks UK crowdfunding deals, he stated, "We haven't seen a slowdown in equity crowdfunding volumes in the UK in the wake of weakening stock markets."

Similar sentiment is also being echoed in the US, of which the implementation of Regulation A+ in June has helped create a new industry of equity crowdfunding for non-accredited investors. According to Tammy Straus, Partner at Grassi & Co., whose firm provides assistance to startups raising funds through crowdfunding, she cited Regulation A+ to Finance Magnates as helping to increase investor awareness of the new asset class.

Straus explained that in the US, "We have not noticed any dip in investment in the StartEngine or OneVest platforms." She added, "In fact, due to the timing of the June 19 effective date of Regulation A+ which now allows companies to launch what is being called "mini-IPOs" to non-accredited investors, the equity crowdfunding market has gotten a bit of a boost." Like Barken, Straus believed that the stock market weakness could help crowdfunding as "some investors will look to a new vehicle in which to invest."

## Potential Slowdown

While current trends have not revealed a slowdown in equity crowdfunding of private companies taking place, Weeks did caution, "It may take a while for the impact of weakening public markets to reveal itself." He added that as investors are losing funds in the stock market, it could lead them to be more cautious overall with "their hard-earned cash, which isn't a good sign for any equity-based investment product."

David Bakke, Analyst at Money Crashers, shared similar views that there is a correlation between stock moves and investor interest in equity crowdfunding. He explained to Finance Magnates, "Folks may be less likely to risk their money on startups advertised through these crowdfunding websites just from a psychological standpoint, or at the very least people will be likely to curtail the amount they invest in order to hedge their bets a bit more."

Overall, the consensus within the industry is that equity crowdfunding is becoming its own asset class and over a matter of time could become an alternative to traditional stock market investing. Currently though, there remains a connection between investor appetite in equity crowdfunding and stock market sentiment. But, alternative investments such as equity crowdfunding have yet to be impacted by the current weakness in stocks.

As an example, Todd Crossland, CEO and Founder of SeedEquity, cited to Finance Magnates that on his company's platform, investor demand remains strong. He explained that among Seed Equity's participants are institutions and private investors that have made previous allocations to invest in private companies. As such, those commitments remain in the market, irrespective of current changes in stock market sentiment.

**Real Estate and P2P L**

**ending**

One area though that appears to already be emerging as a hedge to stock market volatility are crowdfunding marketplaces for real estate and lending. In regards to lending, as has been cited often in the past by Finance Magnates, the industry is benefitting from the low interest rate environment around the globe. The result is that investors such pension and hedge funds that are sitting with available cash and are already seeking alternatives to equity exposure, are sourcing better yields by investing on marketplace lending platforms than traditional fixed income securities.

Elsewhere, operators of real estate funding platforms also believe their businesses could expect to benefit from stock market volatility as investors seek alternatives to equities. Dan Kelly, Head of Marketing at Chicagobased PeerRealty, explained that weakness in stocks could lead to a demand for other asset classes including real estate. Kelly stated, "Obviously it's too early to say for sure, but we think there's a decent chance that the stock market drop will encourage people to invest in real estate, including on real estate crowdfunding platforms."

Ethan Jones, Product Manager at MassVentures, a Texas-based real estate crowdfunding platform, expressed that stock market volatility could trigger a demand for both investing and issuing of real estate deals. In regards to funding new deals, Jones explained, "On the project issuer side, stock market fluctuations can restrict or make more expensive their access to capital and equity crowdfunding avoids this problem."

He also believed that as the market for both for real estate and as a private startup crowdfunding matures, it would become an alternative for stocks during volatile markets as Jones stated, "Real estate and retail, once established, are significantly less volatile investments and our users, particularly on the unaccredited side, are really excited to not have to rely on the turbulence of the stock market due to the arrival of equity crowdfunding."

*Fintech Spotlight is a new column on Finance Magnates devoted to reviewing innovative financial technology companies and sector trends.*