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THE DIFFERENT TYPES OF INVESTORS

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Abstract: An investor is any person or other entity (such as a firm or mutual fund) who commits capital with the expectation of receiving financial returns. Investors rely on different financial instruments to earn a rate of return and accomplish important financial objectives like building retirement savings, funding a college education, or merely accumulating additional wealth over time.

Keywords: Investor, Types, Finance, Funding, Saving.

Introduction. Most startup owners depend on investors for funding in their new business. It doesn't matter if the company is introducing a new product, conducting an upgrade on equipment, or expanding operations, the investor's capital can offer tremendous support for the company.

There are four main kinds of investors for startups which include:

- *Personal Investors*
- *Angel Investors*
- *Venture Capitalist*
- *Others (Peer-to-Peer lending)*

Generally, the capital from these types of investors is utilized by the company to upgrade supplies and equipment, expand operations, or introduce a new product. Nevertheless, every situation is different, which is why companies should always take precautions before contacting an investor.

As mentioned above, there are many types of investors who have their own resources, capabilities, and motivations. And you might prefer one type of investor over another depending on the strategy**,** capital needs and the company's size. In addition to this, the company preferences would change over time, and the progress of the company would change as well. In fact, investors are one of the main players in the process of the company, where their level and quality of involvement would determine the success or failure of the company. This is why it is essential to know everything about the various types of investors so that you can understand which to choose and how to approach the right one.

PERSONAL INVESTORS

Most business owners usually depend on their close acquaintances, friends or family to help them by investing in their business, normally during the initial stages. These types of investors are called personal investors, and even though they can assist with funding, there is a limit to how much they can invest in your company. It is often easier to convince a loved one to help you out, but there is heavy documentation that is required for which they can be taxed for helping as well. So, if you are going to take a personal investor's help, ensure that you consult a lawyer to help you avoid any complications.

ANGEL INVESTORS

Angel investors are those who put their money in small startups **or** new entrepreneurs**.** This is the most famous type of investors that most people may have heard about before. An angel investor might even be close to the startup owner, like friends or family. Angel investment is normally either a one-time off funding for the business to propel, or an on-going investment to support and take the company ahead in the initial stages. Angel investors usually offer much more favorable terms as compared to the other type of investors. The reason is that angel investors invest in the entrepreneur opening a business, and not the viability of the company. In short, angel investors are always focused on helping the startups to grow in the initial stages instead of obtaining a profit from it. As a matter of fact, angel investors are also referred to as business angels, seed investors, private investors, angel funders, or information investors.

VENTURE CAPITALIST

A venture capitalist (VC) is an investor who offers capital to the startups that are believed to have long-term growth potential. Venture capitalists are normally investment banks, well-off investors, and any other financial institutions. Even though this is a risky way for investors to put in their funds, a successful payoff is worth it. A VC would put their resources into a company that they feel has the possibility to grow, and in return, they would demand equity in the company and get an overall say in the company's decisions. Since entrepreneurs get both open funding as well as the advice of an experienced and knowledgeable person, many tend to choose these type of investors. In a VC deal, large chunks of the ownership of the business are produced and sold to some investors via independent limited partnerships which have been built by venture capital firms. At times, these partnerships are made up of a pool of various similar enterprises. An essential difference between the other equity deals and the venture capital deals is that VC deals normally focus more on growing companies that are looking for an abundance of funds for the first time. So, if you want a lot of money for your startup, along with some long term experience and knowledge, this option is a good one.

OTHERS (PEER-TO-PEER LENDERS)

Peer-to-peer lenders are groups or individuals who provide capital to small business owners. But to obtain this capital from these type of investors, the owners would need to apply with companies that are experts in peer-to-peer lending, like the Lending Club or Prosper. As soon as the owner's application gets approved by the company, the lenders would then determine if the company is right for their investment or not.

INCUBATORS AND ACCELERATORS

Incubators and accelerators are a gateway to various investors. If you get accepted into any incubator and accelerator programs, you might get somewhere in the range of $10,000 to $120,000 in seed money to develop your thought and gain traction while profiting from extra information and assets. Assuming everything is working out in a good way, you will pitch to more prominent investors and will be instructed with subsidizing sources during their demo days that can assist with taking you to a higher level. Be prepared to hustle; these programs need you to grow rapidly heading to the next stage.

BANKS AND FINANCIAL INSTITUTES

These aren't accurate investors like the others on this list; however, they can be a source of capital. Conventional banks are not sources of capital for new companies and independent ventures. In any case, as you gain a foothold, they might offer business credit cards and advance loans. There are government programs that provide grants to a particular kind of project**.** That doesn't imply that acquiring this sort of capital will be any more straightforward, and loans require repayment regularly when you

genuinely need liquidity and slack as possible. They will not need to surrender value to your organization. Yet, they can affect your productivity, which might show up when you attempt to fund-raise from different investors in the future. One thing to note about government programs is that they accompany specific limitations and restrictions that might be difficult for new businesses on many occasions. Considering this, founders should survey cautiously about what those expectations are.

CORPORATE INVESTORS

When big corporations put their resources into a budding business, they have various benefits. This consists of supporting their development number, diversifying their assets, and distinguishing between talent and innovation, which can assist them with battling off industry changes and fuel significant profits. Some corporate investors have assets to put resources into outside new companies. Many of these investors are launching their accelerators and incubator programs and building environments for developing these opportunities.

Conclusion. These investors can be great partners in taking your business to a higher level. However, they can be unique to work with. Any integration or collaboration on sales channels, systems, and customer bases should be drawn nearer cautiously and with a ton of tolerance. Establishing business people and corporate investors have completely different perspectives and styles. It will be crucial to figure out how to see one another and have a few limits set up while going in, in case this will be a casual relationship.

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