Kickstarter is the way to go?

I know many crowdfunding platforms, and every day a new one is born. However, Kickstarter is the one with more users by far, and it is the most successful platform– not only for many users but also for projects funded.

I will be frank. I don't like their model. I understand why they are successful, and I will explain in this post: why I prefer other platforms instead and why I personally find little value in using it from an investor point-of-view. There are values may be from a potential fundraiser it but I will need to face some ethical issue, and I don't know if I am willing to do that, but let me start from the beginning and down the line I will explain better what I mean.

The main competitor of Kickstarter is IndieGoGo

The main difference between the two is that within Kickstarter if you don't reach all the money requested the project does not get financed, so it's either all or nothing. Instead, with IndieGoGo, you get the money regardless of the amount that you collect. In this model, lies the secret of Kickstarter.

The above concept can be positive or negative. If you are an investor, you can think that you will waste your time attempting to fund a project without knowing with certainty if it gets started. But at the same time, you could also consider that it's better and safer to only finance projects that will begin if they have the money requested. Otherwise, with only a portion of the funds required, a project could not be completed. So if this "all or nothing model" is positive or negative, it might be a unique point of view.

From a fundraiser perspective, if you're sure of collecting the money and have a very creative project, then Kickstarter is excellent. However, many fundraisers are moving towards IndieGoGo, as it’s better to get something than nothing. Or maybe with the all or nothing you have a better chance to take them all?

Now, funny enough, the population of the Web likes to feel appreciated and essential. Do you remember the video about McGonigal that we viewed in the crowdsourcing lecture? It opened my mind.

Think for a moment. Let’s apply their gaming theory to the attitude of the internet-user towards financing a project. Do you remember the Epic meaning?

Yes, everybody wants to feel so valuable to contribute to a world cause, there is an Epic meaning syndrome on Internet—people get inspired by a mission that will change the course of humanity. In the all or nothing approach, your $20 will make a difference!! There is a project to develop a tool that will change the lives of poor people in Africa? Great! Your $5 will make a difference, but only $10,000 are missing! A great campaign in social media will get you the money!! The user feels that if they contribute to the idea of a project with a robust humanitarian impact, they can make a difference as every dollar counts toward the minimum amount outreach.

The Kickstarter approach plays on the Epic meaning need of the users, thanks to them:

- a project will get funded or not,
- the users have great power,
- they feel they can make a difference,
- they feel it’s their project,
- they are part of it.

It’s nice. Unfortunately, they fail to understand that they are making somebody else rich with their money, without anything back, and most of the times project does not help a good cause, and it only helps to make rich or to finance some crazy fancy ideas of lunatic investors that will never get money from serious investors.

This is the only logical explanation. I spend time on IndieGoGo every day, and projects are much nicer, well presented and interesting than Kickstarter—at least from my point of view.

It’s important to understand the Role of:

- the investor,
- the benefactor, and
- the Chicken.

Wise investors know that the investment needs to be directly proportional to the risk, most of those crowdfunding platforms are risky, for example in my research project I am analyzing few of the Real estate crowdfunding, and they are dangerous and risky. They mostly offer not virtual guarantee and mezzanine loans and type b shares they not even worth the paper they are written on.

There is a need for education, in this sense. Otherwise, a lot of people will get rich while many others will get robbed. And they risk destroying an excellent idea and concept just because of greed.

Accessing the Web needs to be a way to leverage the possibility to access more people—not to find more unaware investors to take advantage of.

My experience with IndieGoGo was quite upsetting, but I guess it’s the norm for most of the project, at least I was aware of it, and the amount of the purchase was small. I bought a little device that was supposed to automatically measure the amount of muscle and percentage of body fat with a simple scan. The amount was less than $200, so it did not really matter how risky it was (that’s part of the trick as many $200 contributions makes millions).

The desire to have this device before it appeared in stores (I guess its part of the motivation behind many funding, too) pushed me to fund the project.

The device was supposed to be ready in May, and I still have not received it. And likely I will never get it.

Somebody is working on a project, getting paid a big salary and probably will never deliver anything. There is less urgency when easy money pours from the sky to finance a project, and a company can pay you big bucks to be the boss.

If I need to put money as I do on a project, I need to consider the risk and the reward. Most of the projects on Kickstarter offer a ridiculous reward for the investment, offering a piece of the equipment or for a slightly better price.

So you pay $250 rather than $200 or $180 for something that’s not done yet, you will get the product may be in few months if the project does not fail.

What sort of investment is that?? This does not make sense, I would instead buy the product in the shop, and pay the extra $50 or $100. At least I know I will not lose my money.

This does not make sense, it’s more like a donation, it’s an act of humanity, or it falls in the gratification need to be part of an epic project and have a fancy device few month before others.

Now, most of those fundraisers are not poor. They are wealthy, but they are leveraging the Web because they know or learned how easy it is to fool young, inexperienced investors that like to play as if they are in a Shark Tank Series. The difference is that they fail to understand they are not the sharks, but they are the shark’s food.

Some of their incentives make me laugh. One project I particularly liked, for example, offered $5,000 incentive in which you get to have a dinner with the Project Leader and be called the primary sponsor.

Now I would happily pay $30,000 or $50,000 to have a dinner with a proper influence person that can teach me a lot: a Warren Buffett, Larry Page Sergey Brin or Gandhi (if he was alive). In substance, somebody I appreciate with a very high level of knowledge and influence. But I will not give $5,000 to a random individual trying to finance a project. This is stupid, but people do just that, and it works.

To answer the question of the assignment: I would not feel like financing most of the project in either Kickstarter or IndieGoGo, at least if the bottom line is to make an investment. Of course, if I feel compelled to contribute to an excellent cause or I need to give a donation to somebody that looks genuine, this is another matter.

Crowdfunding can quickly become a big scam if investors are not cautious to what they do. People get a kick from a project, and they only see the positive aspects of the projects and their sales pitch. Most cannot understand the challenges involved and consequently many projects fail miserably.

When I raise money for a project, I like to give a serious prospectus to my investors, and mainly a fill guaranteed and control of the companies.

I received literally millions of dollars from investors, but all had full control and full understanding of the risk and of the rewards. Raising money without giving the investors proper guaranteed is unethical, so from one side, there is an incentive from the other I feel that if I take money from people that put trust in me I need to do it right, so I don’t feel for now happy to fund a project in those terms.

I am looking at more positive way into CrowdCube that it’s a

British crowdfunding platform, it seems more serious than other however I still see much threat for serious investors.

Maybe there is a need in the market for a platform that offers to crowdfund with a proper guarantee—rather than a shallow and risky piece of paper that will be almost impossible to claim back when the project turns bad. And they usually do.

My negativity is focused not on the crowdfunding but on the negative use of it. Experienced sharks are damaging unaware and dummy investors, and this, in the long run, can affect this magic world of funding in the new age if it does not get regulated. Besides that, crowdfunding is amazing. It's changing the world, and the business models and the perspective of investors and clients, and anybody approaching business needs to seriously take a look at those options to reconsider a new model and a new way of doing trade.

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Scan Me Reputation Management

This week all our studies were concentrated on online reputation and its effect on every aspect of a career and business, but also its effect on personal lives.

I have not been very active on the Web. I am an investor, and I usually find deals around the world buying shares in companies and installing new management that can produce profits.

For me, the Web is not all that beneficial. People want to make me a permanent resident of one country or another so they can claim I owe taxes to them. I do not need to build a specific reputation to attract business or to try to be presentable for a job application.

I, therefore, do not have an active presence on the Web. There is very little published about me, and I am pleased.

I am present on social media a lot; I usually post some motivational sentences and some information that is helpful as business advice. I use social media to remain in touch with different people or groups, and I usually join business discussions in which my input is highly appreciated.

My companies are on social media, and I do make sure that all are present on the web and have a friendly interface. Since I started this course, I am continually reminding all of my CEO’s of the importance of the internet, the importance of presence and interaction with the users. It’s new territory for many of them, and everybody confirms the importance of leveraging such tools. However, few really have the tools and the capacity to implement a serious, effective strategy. This course will give all of us the opportunity to develop a significant advantage in this new age business world.

What I also noticed is that there are many people with my name around the world, from America to South America to Europe.

Usually to search for a person who is not a very famous we need to add either the name of the business or the city.

For example, in my case, I can add Miami next to my name in the search, and many more mentions come up.

Most of the results are for my blog and all my sentences on social media, from Facebook, Slide Share, Twitter, etc.

So as we learned, social media can play a significant role in driving traffic and building a reputation. Social media can be an efficient way to build a reputation and engage with clients and business networks.

People will know who you are, what you do and look into your values and interests. This will help to create an idea about a person. Right or wrong, the first impression counts.

I have a new blog on which I am working, and I post few Real estate notes. The blog is new and has not indeed been launched yet because I want to make more professional graphics.

The blog will be an excellent tool for reputation, and I can apply all the theories learned in this course from SEO optimization and tags words to Google analytics to evaluate traffic.

Honestly, my blog will be only to inspire other people to invest wisely and find the financial freedom I found at very young age. I will also add something about charity. I don't intend to raise funds, but I want to donate money to real people that have a need and leverage social media to spread the news. This may create a trend among friends to help the poorest. This helps reputation but also creates something good for society.

Google Alert will help to keep track of the progress and alert me on my name and how it is mentioned.

I found the notes I took during the Lecture particularly helpful, and I went on socialmention.com and wrote my name.

From it, I could evaluate the ratio of the positive comments, which was quite high 17 to 1, and also the positives of my name on the search engines which was measured with 95%.

The influence on the Web was apparently meager, so from those key performance indicators, I can see what was already known to me: my reputation is exceptional, but I am not really known on the web.

I will be more present on the Web as I learn how to leverage all the tools at which we are learning.

Zillow’s App: a Real Estate App

Being in the Real Estate Industry, I downloaded Zillow’s app.

Zillow is the most prominent real estate portal in America. Through the Zillow app, there many options to find useful real estate information from decorating your home to renting an apartment or finding professional help.

Once I downloaded Zillow‘s app, I let the app find my location. It will suggest via the map real estate deals that were in my area. This works for both rentals and sales.

Now I am able to filter what I am looking for so this will narrow the search. This is a beneficial tool because by identifying the requirements, I will only spend time looking at deals that are within my criteria. The map feature is user-friendly, and you scroll through and pick out the areas where you prefer to live or invest.

Another feature that makes Zillow very successful is the possibility of inserting the address of virtually any house that has ever been in the MLS (Multiple Listings Service) and to be able to know the full story of the house. So I can check the pictures, how much it was sold for in previous years, how much tax it pays per year, and all the characteristics like the year it was built, lot size, etc.

It does have a system that can predict the value of the house and of the potential rent. The information is very reliable. Indeed many investors use it to identify the approximate value of the house based on Zillow’s price.

It does have a forum within the app where you can ask questions and get help or just get an opinion from a professional realtor.

The success of this app is also due to the review of realtors. Realtors engage with the clients by asking a question, and they can sell their professionalism with the answers they give. Clients can browse the forum and select an agent that inspires more trust. The latter reflects the concept learned in our first Lecture in which we spoke about the evolution of the expert friend and the importance of the new generation to rely on a specific review to choose to buy a particular product or service.

In Zillow’s app, this is precisely what happens. Realtors engage with the customers and sell themselves, their ability, their capability, and professionalism. When they have made a positive impression, they will be chosen by potential clients. Their business model to create revenue is clear. They afford the possibility of realtors to introduce and advertise themselves so that all that interaction with the users earns potential rewards.

The revenue must be huge because they also advertise mortgages and rehabbing. So through the app, I can basically order a new kitchen or bathroom. I can choose the style and the color and have an instant quote.

I sit on my sofa while I get all this from my iPad.

The app does not have coupon or discount, so it leverages on the cognitive need of the users. Zillow provides all the information a user could wish to have instantaneously. People can use Zillow to study and evaluate and compare the rentals or the buying. Zillow’s strategy has been to invest in the data collection of all the transactions in real estate in the USA and create a way to analyze the data and provide it free and in an easy to read format for everyone.

They created their power from sharing for free all the data collected, that’s a fantastic innovation, what we learned until now proves how useful and valuable can be the analysis of data, analyzing data can help to develop a strategy for positioning for advertisement, etc.

The innovation of Zillow was to share for free those enormous amounts of data to become popular and visited and as happen eventually leverage this position to grow and start to create revenue.

I always thought that the apps or the socials or the video that are most successful are the ones that before charging try to give a proper contribution or advantage to the user. If you provide a free solution to a gap in the market and that solution has value, it’s only matter of time before users will come. Then you can produce a proper revenue late with aggregates services.

Internet population loves the word free, and they recognize value and power of proper content, and I find it so far, more than simple discount or coupon but an app with no substance.

The power of providing information and proper content will generate a real keen interest in the app. This is rather than just downloading an app with the intention of getting a discount coupon. I think the genuine keen interest in using an application that is beneficial for a business or a personal life will always be superior to the attempt to buy a client by offering a discount coupon.

The Dreadful Word: VACANCY

The concept of vacancy, which I touched on in the last post, is one of the most important factors when investing in real estate for cash flow/income purposes.

People lose money or make bad investments primarily because they do not understand how to calculate it correctly.

Obviously, calculating vacancy is terribly difficult. What most investors seem to do is simply discount 10%, sometimes even only 5% from the gross value of the rent that they are supposed to get…and then they just hope that it works.

It’s pretty evident that such an approach is very shallow, although it probably does help to limit damages…sometimes. A lot of investors forget to even calculate it, so when someone actually considers some extra costs in the list of expenses, it’s to limit possible damages, but it is probably not enough if you want to be professional.

Vacancy is a powerful tool to use to be able to understand the potential of an investment

What is a vacancy?

A vacancy is merely the money that you need to consider and take off from the gross rent because the unit is not rented. It is also a powerful indicator of how good an investment really is and what growth potential it may have. A vacancy is inversely proportional to the expected growth of a property.

I am not able to calculate the numbers precisely, but I am able to at least identify the relationship. The more the vacancy, the more you can expect the growth potential to diminish.

Why is this?

Well, let’s think about it…

Neighborhoods that are really good usually have higher deposit requests to even get in the house. As a landlord, what that means is that you can get 2 months deposit, in some cases even 6 months deposit, which means that the prospective tenant will rent longer and always pay on time because they have more money and don’t want to risk ruining their credit. Also, the higher the deposit, the less risk that you, the landlord, will have to take on which will limit your damages and reduce the risk of vacancy.

Of course, we would all love to get 6 months deposit upfront or even 3 months for that matter, but it is usually not the case. People don’t always have this kind of money laying around, and you also need to compete with other property owners that are offering a more straightforward payment solution.

So this makes the relationship a little more clear. If you are in the right area, then you can get more money up front and limit the value of vacancy. The areas with the low vacancy will most likely be those with both high rental demand and income, as well as where there is a lot of competition.

For example, you can compare the vacancy rate in a Class D neighborhood in Miami-Dade county, let’s say, for instance, Liberty City, which is close to 40% vacancy, compared to another area like Miami Beach which can be calculated at 10% vacancy.

Can we derive a formula or an equation to predict a vacancy rate?

No. But we can have some fun and maybe try to work something out that will bring us as close as possible to a “formula” or market prediction.

What other values are there that can affect vacancy?

Well, it’s not only the neighborhood but what I noticed is that vacancy is directly proportional to the price of rent. The higher the rent, the fewer chances of the landlord being compromised by evictions and legal matters.

For example, regardless of the location of the house, a house that rents for $700 will have a much higher vacancy rate than that of one that rents for $1400 in the same exact neighborhood.

I don’t have a lot of data available, but according to my database, even top class locations (income neighborhood of $125K+) where small studios or small 1 bedrooms rent for $800-900 experience 15-18% vacancy. Other data shows that a lot of people struggle to pay 3 months deposit up front.

In the same neighborhood, or even in one with a much lower income ($75-85K), I can basically say that according to my database, I am comfortable to estimate a vacancy of around 10% or less for homes that rent for $1400 or more. 10% vacancy means that there are very rarely evictions and that most of the vacancy depends on the changeover at the end of the contract. Also, the time that it takes to rent it out again is factored in as well.

Then I checked the low-income neighborhood below $50k, and I noticed the same relationship. The vacancy is low on properties that rent at $1400 or above. The $50k mark seems to make a big difference in the vacancy in Miami and Broward counties.

Actually, I noticed that the neighborhood does not make such a difference…what makes the most difference is one thing, the price of the rent! Property that is below $1000 per month in great areas will have a higher level of vacancy than that of properties in a Class C neighborhood, especially if the latter is a beautiful big house with a pool and the rent is above $1400.

I have owned about 100 properties in Broward and Miami-Dade County, so my data comes from plotting those results. And what I have found is that property with a higher rent value tends to have a much lower rate of vacancy.

So…hypothetically let’s say there is $150,000 available to invest in a Miami property for income purposes. Two options exist: 1) a studio in a desirable neighborhood that rents for $1000 per month, versus 2) a 4-bedroom house with a pool that rents for $1500 in a Class C neighborhood. Faced with these two options, I would definitely have to choose the second. The income would be better and more consistent on the second option.

I would also bet that appreciation is more likely with option 2…but that is for another post!

Talk Soon!

Antonio