

# Let's have an honest talk about shady startup investment

“Is this investor for real?” I get that question a lot. Definitely more than I should. Because my answer is always the same and it's always some form of “I don't know.”

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Everybody wants the dream to happen to them. And every entrepreneur — I don't care who you are or how long you've been at it — longs for that day when unsolicited investor interest comes knocking and suddenly a game-changing idea becomes a funded reality.

Sure. It happens in real life. VERY Rarely. But it *seems* like it happens *a lot*. All it takes is a quick read through one day of TechCrunch's twitter feed to make it feel like anyone can attract a little Sand Hill Road interest and parlay that into a quick few million dollars of runway.

But what happens more often is just a mirage. Shady *investment opportunities* can come in all shapes and sizes, and they can strike any kind of venture at any time.

Lately, they're getting more sophisticated. So much so that sometimes even I can't tell the wild goose chases from the honest-to-goodness opportunities.

But you can. Here's how.

# Proper investor research isn't always enough

Look. You don't have time to chase investment. Even real, accredited-investor-backed opportunities take tons of time and mental energy to drag across the finish line. That's time and energy not spent building a *better product*, forging a broader market, or maintaining the head start on your inevitable competition.

In a recent issue of *Teaching Startup* (#85), I answered a broad question about investor research and the right way to get started with a fundraiser, covering everything from tracking tools to cap tables to relationship advice.

In the answer, I told a quick anecdote about just having received an inbound investment opportunity for Teaching Startup itself (and since I wrote that answer, another completely different opportunity showed up in my inbox). And I couldn't tell, even after 15 (wasted) minutes, whether these meeting requests were the real thing or not.

I know what scams look like. I know what programs-posing-as-VC-that-aren't-quite-scams look like. But I also know smart entrepreneurs who have fallen for scams and others who have wasted months chasing investors who ended up not having the resources they claimed to have.

The trend I'm seeing recently — marked by all the emails that have come across my radar over the last few months — is kinda new.

What I'm seeing now makes me think there's an outbound marketing machine being built up to lure in all these *new post-pandemic startups* springing up over the last year. I'm fighting as hard as I can to get real information out there to newcomers, but it isn't easy. Honesty takes time. Scams take a couple clicks.

## Some warning signs

One of the common signs I'm seeing is an emphasis on the word "partnership." Now, I've heard the term "partnership" used by reputable investors to describe how they want to paint the investment relationship, but it reaches overkill in this messaging. It makes me think what's being pitched is more about the journey to get the funding than the funding.

The folks sending the emails are not general partners or associates, they're vice presidents, development executives, analysts, or some other vague title that *seems* like it might come with check-writing authority, but in a court of law that could probably be denied.

There's almost always some implication (usually not direct talk) of a program. It could be something to do with incubation, connections, networking, introductions, coaching, whatever — just something to eventually get into my wallet. But like I said, it's hinted, not direct.

## Here's your single best defence

Like 98% of time, I believe inbound investment interest is bad news, but what about that other 2%, right? How do you protect yourself without throwing the proverbial investment baby out with the scammy dirty bathwater?

Start asking questions. In fact, you can probably reach maximum efficiency by asking this question first and foremost:

Why me?

What exactly is it about my company that made it seem so attractive to them and their team?

And that's it. If you send them that question and a quick thank you, a couple things might happen:

1. You'll never get a response back because it's a volume game and they'll just move on to the next sucker — er, entrepreneur.
2. They'll tell you something that's completely out of phase with what your positioning and messaging tells the world, meaning they have no idea what you do.
3. You'll get some feedback about your startup.

All of those are good things. They save you time and might even offer you a window into your business that you weren't already looking through.

If you're still having trouble trying to figure out how legit they are. Ask these two questions next:

What's your timeframe for investment?

What was your most recent investment?

You're looking for clues about their process and their recent track record. This should help smoke out the pseudo-incubators and that weird gaggle of folks who like to play angel but don't write checks.

Look, there's a reason they call that show *Shark Tank* (and please, don't take any business advice from *Shark Tank*). Startup investing is a cutthroat business not prone to unearthing hidden gems.

But every scam takes two parties to pull off: The person spinning the lies and the person who wants those lies to be true.

Make sure you get to the truth before you take the meeting.

*This article was originally published on Medium by Joe Procopio*

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