Funding of Innovative Products: Exploring Early Investor Preferences

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Abstract

We build a portfolio choice model for angel investors, who maximize expected utility over monetary *and* non-monetary (psychic) income, and estimate the model parameters using angel investment decision data. Estimates indicate that risk preferences are a function of education, experience (investing and entrepreneurship) and how active angels are in interacting with venture companies. Moreover, we find empirical support for the inclusion of psychic income in an angel investor's utility function, with active investors benefiting from non-pecuniary sources. A counterfactual exercise determines the likelihood of active angels investing in new ventures without non-pecuniary sources of income would fall by 28% (from 4.28% to 3.08%).

Keywords: Risk Preferences, Angel Investors, Targeting

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