

## Investing Locally: What Financial Advisors Need to Know

Whether you are in your first or twentieth year, giving your clients advice that is tailored to *their* best interests is undoubtedly your top priority. As investors' needs and interests evolve and our economic conditions change and transform, we know that gathering information and continuing your educational attainment is critical to providing that great advice for which you are known. That fiduciary priority is what led fellow advisors to create this *Advisor Resource Kit* to help you, our colleagues who are interested in this growing field.

Not only will learning more help you serve your clients better, but stepping up your knowledge about the growing community (local) investment asset class will also help you retain your interested clients. Evolving with your clients is especially true of Next Gen investors, who tend to be more socially and environmentally inclined. Surveys in recent years have revealed that a whopping [86% of these investors have expressed interest](#) in

sustainable investing, of which local investment is often considered a subset. Additionally, learning about this new asset class will also allow you to lend a more informed voice to economic justice and impact investing conversations within your community.

We understand that to best serve your clients, you must also help your firm manage its risk. To help you do that, we have included a handout in your *Advisor Resource Kit* specifically for your Compliance Department (or for yourself, if you are self-managing). Even if you and your firm choose not to incorporate this asset class into your investment management work at this time, picking up some soft CE to begin addressing your knowledge gap certainly cannot hurt. So, let us get to it!

### Who among your clientele might be interested?

Much like all the guidance you provide your clients, this asset class is not a one-size-fits-all solution. *Accredited* clients always had the freedom to invest in privately-owned businesses with few barriers to entry. What is notably different about today's environment is that *nonaccredited* investors now have access to opportunities as well, due to federal and state legislative changes that began rolling out in 2012 with the passing of the [JOBS Act](#).

While all investors now have access, there are some common characteristics among early adopters that draw them toward this asset class. They can include:

- An interest in local economic resilience and connection

#### Sustainable Investing

According to Morgan Stanley, millennials are putting their money in sustainable investments at a rate that is **2x higher** than average.

With a **\$30 trillion wealth transfer** coming to millennials in coming decades – this is not likely to stop anytime soon.



**86%**  
are "very interested"  
or "interested" in  
sustainable investing



**61%**  
have made at least one  
sustainable investment  
action in the last year



**75%**  
think their investments  
can influence  
climate change



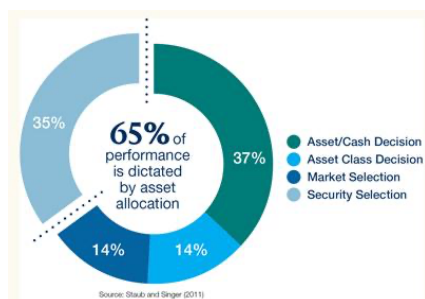
**84%**  
think their  
investments can  
help fight poverty

- A willingness to invest time in learning and evaluating investment opportunities
- A moderate to high tolerance for risk
- The financial capacity within their portfolio *OR* available free cash flow

Not all clients who are interested in investing locally will have each of these characteristics. Sometimes, a client may be interested only in local economic resilience, yet have very little room in their portfolio to take on this kind of risk in any significant way. In those cases, the client might start with a small \$50 investment as a way of getting familiar with the asset class, gaining experience, and building social capital. No matter the client's situation and reasons for being interested, the important thing is that they came to you (or you mentioned the topic to them), and a thoughtful conversation ensued. As with all advisor-client discussions, investing locally can be another topic that continues to help build your client relationships and promote learning.

### How do you manage risk?

Like all investment opportunities, advisors must manage two dimensions of risk simultaneously: risk to the clients and risk to the firm. It can be helpful to think of local investing as evolutions of asset classes you may already be familiar with, such as private equity, venture funds, or unlisted intermediary notes from institutions like Community Development Finance Institutions ([CDFI](#)). The commonalities can be found in the risk profile (like private equity), the microcap nature of the investment (like venture funds), and the mission-based returns that some companies offer (like unlisted intermediary notes). Where local investments differ is that they are hyper-local (often within 100 miles of the investor), hyper micro (company revenues are often < \$5 million), and often direct (one-on-one relationships with the companies).



Ultimately, we know that [asset allocation is the most significant determinant](#) of portfolio performance over time, accounting for 65% of investor success. The most critical risk management tool available to financial advisors is the [Investment Policy Statement \(IPS\)](#), which is the road map guiding an investor's portfolio management. It can include risk assessments, time horizons, liquidity needs, return requirements, along with a plethora of other crucial information that will guide asset allocation. It is through this

comprehensive risk assessment and a commitment to diversification that local investments can be appropriately included in a portfolio.

As the local investment market continues to mature, new opportunities may also help you manage risk with your clients. For example, there is a growing number of local investment funds that provide diversification and intermediation, which may be a more appropriate initial step for you and your clients. To learn more about community investment funds, check out this

[Community Investment Fund Handbook](#) published by the National Coalition for Community Capital ([NC3](#)).

## How do you identify and analyze the investments?

Local investments can be found both online, via portals, and offline, via word of mouth. Companies using Title III Regulation Crowdfunding from the JOBS Act type of registration (called *Reg CF*, for short) are required to use an online funding portal to engage investors. Some state-based registrations do not require the raise to be done online, in which case you or your clients may find out about the raise through the company's marketing efforts, community networks, family members, or by attending a local pitch event.

Whatever strategy the company is using to raise capital, other aspects of the process do not change. Namely, the company must file all information with regulators that is required by the registration type they choose to use, and they must provide a robust investor package conveying all pertinent information to potential investors. The investor package typically includes an executive summary, financial statements and projections, risk disclosures, details about the investment structure and return expectations, information about the business' functions, management team, and how they plan to use the capital they are raising.

Performing due diligence on any company, public or private, can be a complicated and time-consuming activity, which is why most advisors outsource that work to fund managers or contracted research institutions. The local investing sector, however, is not yet mature enough to benefit from these economies of scale, leaving due diligence responsibilities to advisors, investors, and the community at large. To help, we have included a **Due Diligence Questionnaire** in the *Advisor Resource Kit* to help kickstart your journey.

However you decide to approach the work and the process, keep in mind the two biggest reasons businesses fail: not finding a market that wants what they have to offer and/or not managing their cash well enough. Having a solid understanding of these key indicators, along with other supporting information outlined in the questionnaire template, you and your clients may find that you can make just as prudent decisions as you would elsewhere in the portfolio.

## How could this look in practice?

The level of services your firm decides to provide clients will determine the required service rhythm. Visit the *Welcome* video on the Local Investing Resource Center Advisor page for an overview of how advisors might approach this new asset class with their clients, using the metaphor of a rainforest. To illustrate an initial entry-level type of approach (the "Forest Floor"), let us look at a case study.

*Claudia is an independent solo fiduciary who serves both accredited and nonaccredited middle-market investors. She has had several clients ask about investing for local impact but has no*

*direct experience or knowledge with the topic. Claudia decides to start with one client who would like to commit a \$1,000 allocation out of a \$100,000 portfolio to investments in her local community. Since Claudia and the client are new to local investments, they decide to work together to identify and learn about companies. After spending some time evaluating available educational materials, they feel ready to look at their first offering – a nonprofit that manages an art center in their town.*

*The organization has decided to raise a \$100,000 3-year loan at 4% simple interest from local investors to upgrade its facilities to include a commercial kitchen. The minimum investment amount for this offering is \$250. Claudia and her client read through the investor package and attend an online webinar with the nonprofit's Executive Director and Board President to hear community members ask questions about the organization and the investment offering. Claudia's client leverages her marketing knowledge to ask thorough questions and finds someone in her network to consult who knows the organization well.*

*Once the client feels satisfied with the answers, she decides to invest \$250. They both agree that her financial goals will not be compromised at this level if the organization were to be unable to pay back the loan. From this point forward, the client receives reports from the nonprofit and tracks the investment, updating Claudia when they meet. They decide to continue working together to learn about local opportunities. The client adds herself to the email lists for the two platforms she found so she can get alerts when new investment offerings go live in her area. Claudia's client ends up investing in five companies with the \$1,000 over the course of the following months. Claudia and her client have built new relationships, and they now feel even more attuned to the local community, deepening their connection with each other and those around them.*

## What do you do next?

Fortunately, there are dozens of advisors across the U.S. who are experimenting with working with their clients to place capital locally for impact. Here are some suggestions from those pioneers about how you could get started in this field:

- ☐ **Check out** the other materials that came with the *Advisor Resource Kit* and the information on the Resource site to learn more about the topic.
- ☐ **[Contact your regulator](#)** to learn about your state's intrastate laws and get a list of registered platforms.
- ☐ **Consult** your legal counsel to better understand the risks to your firm and your clients by providing various levels of services.
- ☐ **Meet with clients** to talk about the topic and do the *Ideal Deal* worksheet together, if they are interested.

- ☐ **Document** the process you and your clients will follow for including this asset type in their portfolio.
- ☐ **Connect** with local institutional impact investors and others in your community who may also be investing locally, to expand your learning community.

### Where can I learn more about this topic?

- **Regulatory insights**
  - [SEC Investor Bulletin: 10 Red Flags That an Unregistered Offering May Be a Scam](#)
  - [SEC Investor Bulletin: Crowdfunding for Investors](#)
  - [SEC Investor Bulletin: Be Cautious of SAFEs in Crowdfunding](#)
  - [FINRA e-Learning course catalog](#)
    - *Private Placements: Conducting Reasonable Investigations for Regulation D Offerings EL-ELC186*
    - *Private Securities Transactions EL-ELC241*
- **Continuing Education opportunities**
  - [College for Financial Planning: Chartered SRI Counselor Designation](#)
    - *Module 3, Chapter 3: Community Investing*
  - [Essential Knowledge For Transition Online Course](#)
    - *Towards Aware and No-Harm Investing*
    - [Grubstake YouTube channel](#): investor education videos
- **Books**
  - [Put Your Money Where Your Life Is](#), Shuman, 2020
  - [Moving Mountains: The Power of Main Street Americans to Change Our Economy](#), Shade, 2020
  - [The Resilient Investor](#), Brill, Kramer, Peck, 2015
  - [Local Dollars, Local Sense](#), Shuman, 2012
  - [Owning Our Future: The Emerging Ownership Revolution](#), Kelly, 2012
- **Updates, news, and community connection**
  - [Locavesting website](#): tools, sector news, regulatory updates
  - [CrowdfundInsider website](#): tools, sector news, trends tracking
  - [National Coalition for Community Capital \(NC3\)](#): peer learning and advocacy
  - [The Next Egg](#): online community for those using self-directed IRAs to invest
  - [Angels of Main Street](#): online community for peer-to-peer investor connection
  - [DisclosureQuest](#): database of registered offering disclosure documents
  - [So.Capital](#): online platform to discover capital opportunities

*The Local Investing Resource Center gratefully acknowledges the significant contributions of [Revalue LLC](#) to the creation of this document and other materials on our website. Revalue LLC*

*is a values-based investment advisory, a Certified B Corporation, and a Chartered Sustainable Responsible Impact Investing Counselor, based in Ypsilanti, MI. This work was funded by a grant from the Investor Protection Trust, [www.investorprotection.org](http://www.investorprotection.org).*