
BLACKTECHSTARTUP EDUCATION

Private Tech Investing: Read the Deal Before the Story Sells You

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Private investing removes some of the guardrails

Private technology investments can expose investors to companies with limited operating history, limited liquidity and less public information than exchange-listed firms. Investor.gov repeatedly warns that private and pre-IPO investments can be speculative and that investors should understand the terms, risks and potential for fraud. Do not treat access as evidence of quality. A deal shared in a trusted community still needs independent diligence. Your first question is not 'how big could this be?' It is 'what exactly am I buying and what rights come with it?'

Identify the security before valuing the story

Common stock, preferred stock, convertible notes and SAFEs can create very different outcomes. A SAFE may convert later based on a valuation cap, discount or other terms; it is not the same as owning a fixed percentage today. Preferred stock may have liquidation preferences or protective rights that common holders do not. Read the actual instrument and financing documents, not a slide summarizing them. If you cannot explain when the security converts, what can sit ahead of it and how ownership changes in the next round, get qualified legal or financial help before investing.

Rebuild the cap table after the next financing

Ask for the current capitalization and the financing plan. Model a realistic next round, option-pool expansion and conversion of outstanding notes or SAFEs. Your percentage can shrink even when the company becomes more valuable. Dilution is not automatically bad if new capital creates disproportionate value, but it should not be invisible. Ask how much runway the new money buys, what milestone should be reached before the next raise and what happens if the company misses it. A company perpetually six months from the next round is a financing risk, not merely a growth story.

Verify customers, economics and founder claims

For an early company, focus on evidence appropriate to its stage: customer contracts or pilots, retention, usage, gross margin, pipeline quality, intellectual-property ownership, regulatory path and founder commitment. Distinguish booked revenue from pipeline and paid pilots from letters of intent. Verify material claims where possible. Search regulatory filings for crowdfunding offerings. Ask whether founders or insiders are selling shares. A great demo can coexist with weak economics, unclear ownership or a customer who can cancel next month.

Understand how you could ever get liquidity

Private securities may be difficult or impossible to sell for years. An IPO is not a business plan. Acquisition, secondary sale, redemption or distributions may be possible depending on the company and security, but none is guaranteed. Ask about transfer restrictions and information rights. Do not invest money you may need on a schedule the company cannot meet. Investor.gov's pre-IPO guidance is especially relevant when marketing implies a public offering is near; claims about imminent listings deserve verification rather than excitement.

The deal memo before the wire

Write one page with: security type; price or conversion mechanics; fully diluted ownership estimate; liquidation preference if any; current cash and monthly burn; runway after the raise; next milestone; customer evidence; IP ownership; material regulatory risk; next financing assumption; plausible liquidity paths; and three reasons the investment could go to zero. If a question cannot be answered, mark it unresolved. This is educational information, not individualized investment advice. The discipline is to make the deal survive a written examination before emotion and scarcity pressure touch your money.

Read the financing terms as a waterfall

Sketch what happens in three exit scenarios: failure or low-value sale, moderate acquisition and large exit. Put debt and preferred liquidation rights ahead of common equity where the documents require. Add outstanding SAFEs or notes according to their conversion terms, then estimate what reaches your security. The purpose is not to create a perfect legal cap-table model; it is to discover whether the economics you imagine are even compatible with the terms. Ask whether preferred investors have a 1x liquidation preference, participation rights, seniority or other protections. Ask whether your crowdfunding security has voting or information limitations. If the investment uses a SAFE, read the exact conversion mechanics and post-money or pre-money definitions rather than assuming a headline valuation cap equals today's company valuation. Then stress-test another financing round at a lower valuation. What happens to ownership and preference stack? A startup can become a successful operating company while a late or structurally weak investment produces a disappointing return. If the waterfall is too complex to model confidently, that is a reason to obtain professional advice or pass—not a reason to rely on the founder's verbal summary. Sophisticated investing begins with understanding the contract that determines who gets paid.

SOURCE DESK

Research behind this guide

Use the primary sources below to verify current rules, eligibility and program details before acting. Program terms can change.

Investor.gov — Regulation Crowdfunding investor bulletin



Investor.gov — SAFEs and risks for investors



Investor.gov — Pre-IPO investment scams and risks



Investor.gov — Private placements and private-company investing



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