

THE  
*Angel Insights*  
SERIES

# What Angel Investors Need to Know to Invest in Startups

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WFW WOMEN  
FUNDING  
WOMEN

In partnership with  
**Richard Rooney**

## A LETTER FROM WFW'S CO-FOUNDERS

At *Women Funding Women Inc. (WFW)*, we are driven by the belief that informed action is the key to building a more equitable and dynamic investment landscape. It's with this conviction, and the generous support of *Richard Rooney*, that we proudly present **The Angel Insights Series**.

This insightful resource guide is designed to illuminate the world of angel investing for everyone involved. As co-founders of *WFW*, we bring our diverse experiences as entrepreneurs, investors, and corporate directors to address a critical need: bridging the funding gap for women-led businesses in Canada.

By demystifying the angel investing process, we aim to inspire and equip both founders seeking capital and funders looking to make impactful investments. This series is crafted to provide angel investors with the knowledge and tools to confidently invest in high-potential women-led ventures, and to offer founders invaluable insights into navigating the funding landscape, understanding investor perspectives, and securing the capital you need to thrive.

Whether you're a trailblazing founder ready to grow your venture or an individual eager to diversify your portfolio and champion the next generation of innovators, this series is for you. We believe that by mobilizing more women to become angel investors and by providing founders with the resources to effectively raise capital, we can build an equitable funding landscape, where women's groundbreaking ideas find the support they need to flourish.

We're happy you're here, helping us to bridge the persistent funding gap for Canadian women entrepreneurs.

Warmly,

Lara, Deborah and Sherry  
Co-founders,  
Women Funding Women Inc.



# What Angel Investors Need to Know to Invest in Startups

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# What Angel Investors Need to Know to Invest in Startups

Investing in startups as an angel investor offers a unique mix of potential rewards and considerable risks. Angel investing can be an important avenue for wealth creation and should be viewed as a meaningful asset class in women's investment portfolios. It also provides the opportunity to mentor and collaborate with founders as they grow from startup to scale-up to potential unicorn.

## High Stakes, High Standards

Angel investing requires careful thought, thorough research, and a clear readiness to take on risk. To succeed in this environment, angel investors must prioritize preparedness, detailed evaluation, and strategic engagement.

## MANAGING RISK AND TIME HORIZON

Angel investing starts with acknowledging the fundamental risk profile of startups:

### Understand the Risk

Startups naturally have a high failure rate, so investors must be aware that they could lose their entire investment.

### Diversification is Key

Investing a large portion of capital in just one or a few companies could significantly increase your risk. To reduce this exposure, investors should spread their investments across multiple startups.

### Expect a Long Timeline

Angel investments usually require a long-term commitment, with an investment horizon of 5 to 10 years. Impatience and the desire for quick returns are common pitfalls that can lead to poor decisions. Liquidity can also be an issue, as investors might not

be able to sell their stake until an exit event, such as an Initial Public Offering (IPO) or an acquisition.

### Account for Follow-on Rounds

Besides the initial capital injection, investors should consider potential further funding rounds and other financial needs the startup might encounter, which could strain or drain the startup's resources. Follow-on rounds can also provide existing investors the opportunity to add more capital which will increase their ownership stake. Many investors decide on a total investment amount and then stagger that investment over a couple rounds of financing - for example - investors may invest 50% of their commitment in a pre-seed round and then 50% in a subsequent seed round of financing.

## CONDUCTING THOROUGH DUE DILIGENCE

Successful investment depends on a factual and objective assessment of the opportunity, steering clear of emotional decision-making.

### Rigorous Due Diligence

It is crucial to evaluate the startup's business plan, market opportunity, competition, financial projections, and legal structure. Failing to investigate these areas thoroughly can lead to avoidable pitfalls. Investors should also invest a considerable amount of time getting to know the founders to gain a deeper understanding of their vision and long term exit strategy.

### Evaluate the Team

A strong, resilient, and passionate founding team is essential. Look for founders with a diverse set of necessary skills and a proven track record that shows either success or resilience in facing challenges and adapting when needed. Investors should concentrate on the team's capacity and the execution plan, rather than just an innovative idea.

### Understand the Market Landscape

Investors need to become familiar with the industry the startup operates. Understanding industry trends, potential growth opportunities, and challenges helps the Angel assess the startup's potential. Failing to consider market trends and the competitive landscape can lead to poor decisions.

### Avoid Emotional Decisions

Make investment choices based on facts, not personal biases or being influenced by a charismatic founder.

## UNDERSTANDING VALUATION, TERMS, AND EXITS

Before investing capital, investors need to understand the financial and legal aspects of the deal. When an angel doesn't have a legal background it is advisable to seek advice from friends or legal professionals who can explain the legal structure.

### Valuation and Terms

Investors must learn how to assess the valuation of a startup and if there is an opportunity to negotiate terms. These terms often involve mechanisms like preferred shares, convertible notes, or SAFE agreements.

### Legal Clarity

It is vital to have properly structured legal agreements, terms, and conditions. Overlooking legal details can lead to complications and affect your investor rights. Investors need to be aware of their rights, including liquidation preferences and voting rights.

### Exit Strategy

Angel investors need to identify potential exit strategies. This includes understanding how the startup intends to deliver a return on investment, such as through a public offering or an acquisition. Failing to plan for an exit can delay returns or decrease profitability.

### Tax Implications

Investors should be aware of any tax obligations or benefits related to startup investments in their region, such as tax incentive programs or capital gains taxes.

### Dive Deeper

The Angel Insights Series Issue 2:  
[Forms of Early-Stage Financings and Term Sheets](#)

Osler Legal Workshop On Demand:  
[Osler x Women Funding Women: Startup funding & term sheets workshop](#)

## THE INVESTOR'S ROLE AND INVOLVEMENT

Angel investing frequently entails more than simply providing capital; collaboration remains essential.

### Network and Mentorship

Investors should be willing to leverage their networks and offer mentorship to support the startup. Providing valuable advice and guidance adds value beyond just capital and can improve the likelihood of success. Collaborating and seeking mentorship from experienced angels can be very advantageous for you as you consider angel investing.

### Find the Balance

Angel investors need to maintain a balance in their level of involvement. While being available to offer advice is beneficial, avoid micromanaging, as this can hinder the founder's capacity to lead. Conversely, a completely hands-off approach (with minimal involvement) risks missing chances to support the company.

**Angel investing requires a long-term, strategic mindset, similar to a farmer planting various seeds across different fields.**

Some crops may fail due to market shifts or unexpected issues. **Careful selection** of the land (due diligence), **consistent nurturing** (mentorship), and **diversifying** the crop portfolio (spreading investments) increase the overall chances of a substantial harvest in the years to come. Sow strategic seeds with patience and precision.

## Catch up on previous issues

Issue 1

**What is an Angel Investor?**

Issue 2

**Forms of Early-Stage Financings and Term Sheets**



## ABOUT WFW

**W**omen Funding Women Inc. (WFW) is a Collective driven by a singular mission: to **address the persistent funding gap faced by Canadian women entrepreneurs.**

WFW operates as a platform and community, not a fund itself. Recognizing that access to capital is crucial for growth and success, we empower both sides of the funding equation. We're mobilizing more women to invest in women by activating more Canadian women angel investors, and connecting new and experienced women funders with high-potential, women-led ventures.

Our strategic alliances bring together organizations and resources committed to empowering women, championing gender equality, and catalyzing economic growth. By fostering informed action and building strong connections, we can create a more equitable and dynamic investment landscape.

**A COLLECTIVE ADDRESSING  
THE PERSISTENT FUNDING GAP  
FACED BY CANADIAN WOMEN  
ENTREPRENEURS.**

**WFW IS A PLATFORM, A  
COMMUNITY, A MISSION -  
IT IS NOT A FUND.**

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# Together, we're building momentum to accelerate angel investing in women-led ventures, setting sights on coast-to-coast impact.

Canadian women are empowering women entrepreneurs by providing crucial funding. You can play a vital role in bridging the funding gap for women-led ventures by joining this movement - subscribe to our newsletter and follow us on LinkedIn!

NEWSLETTER

LINKEDIN

[womenfundingwomen.ca](https://womenfundingwomen.ca)