Investors' appetite for startups fed by stock market gains

February 4 2015, byJoyce M. Rosenberg

In this Wednesday, Jan. 28, 2015 photo, iFunding CEO William Skelley, left, and investor Alicia Syrett, CEO of Pantegrion Capital, pose for a photograph in New York. Syrett, who focuses on young companies, says stocks factored into her decision to buy a stake in iFunding. (AP Photo/Frank Franklin II)

Some Entrepreneurs looking for startup funding got a wad of money near the end of last year, but there are concerns the boom may not last.

Startup iFunding is a beneficiary of the surge. The website focused on real estate investing raised nearly $2 million in just a month. Typically, it would take at least six months to raise that kind of cash, says William Skelley, the New York company's CEO.

"It's gone much faster than I thought," said Skelley, who has a background in venture capital investing.

Investors whose portfolios swelled as the Standard & Poor's 500 index rose more than 11 percent last year had more money for alternative investments like small businesses and felt more confident about taking risks on young companies.

But there are concerns about how long the good times will last. The market has been more erratic since the beginning of the year and the S&P 500 dropped 3 percent in January. Some pros also worry that investors may get spooked if high-profile companies that have gotten windfalls—like ride-hailing app Uber—fail.

THE WEALTH FACTOR

One of Skelley's investors, Alicia Syrett, says the stock market factored into her decision to buy a stake in iFunding. Syrett is an angel investor, who focuses on young companies.

"When you see the stock market is up, there's that general feeling of wealth and so you feel comfortable spending more," says Syrett, CEO of Pantegrion Capital, an investment company in New York. She also recently invested in NoMad, a San Francisco company that makes cables for charging smartphones.

In this Wednesday, Jan. 28, 2015 photo, iFunding CEO William Skelley, left, and investor Alicia Syrett, CEO of Pantegrion Capital, pose for a photograph in New York. Syrett, who focuses on young companies, says stocks factored into her decision to buy a stake in iFunding. (AP Photo/Frank Franklin II)

The rallying stock market encouraged Zack Schuler to take a chance on a startup.

"If my portfolio is up and it's doing really well and I feel really solid about my long-term financial stability, then I'm willing to gamble on other things," says Schuler, who's based in Los Angeles.

In December, Schuler invested in Buddytruk, a smartphone app that helps people quickly find trucks to help them move or make pickups or deliveries.

Buddytruk CEO Brian Foley found it easy to raise the money at the end of last year. He was seeking $500,000 but got $570,000 in two weeks.

"December is notorious for being the worst month of the year to raise money," said Foley, whose year-old company is based in Santa Monica, California. The company's first round of funding, which began in January 2014 raise $175,000 in near six months. Foley wasn't prepared for the second round's speed.

"I was shocked," he says.

HOW LONG WILL IT LAST?

With the economy still growing and the stock market near historic highs, startups may keep finding people willing to back them.

"Investors are excited by the potential of the companies that are being formed now and are raising money," says Steve Harrick, a partner in the venture capital firm Institutional Venture Partners in Menlo Park, California.

Still, there are concerns of a bubble. Uber's $40 billion valuation has more people looking for a windfall, says Schuler, the Buddytruk investor. But investors could become wary if high-profile startups that are valued at over $1 billion fail, Harrick says.

For now, the pent-up demand for investing after the recession is likely to keep the money flowing, says Tyler Newton, research director with Catalyst Investors, a private equity firm in New York.

"We're maybe in the sixth inning of the long investment cycle," he says.