SMARTER — Keeping the U.S. Competitive

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How did the U.S. decide that you have to be wealthy to be qualified to invest? Why can someone take their hard-earned money and bet it all on green on a roulette table, but can't invest a reasonable amount in a project they believe in? An eighteen-year-old that's never invested or taken the time to read a book on investing, but that inherited a trust fund on their 18th birthday is somehow more qualified to invest their windfall than someone who has done their research and earned their money but hasn't crossed an arbitrary line of wealth. Maybe it's time to fix these injustices.

In the U.S., we call those that have crossed this arbitrary wealth line, "accredited investors". Maybe they've saved the money, maybe they inherited the money, or maybe they make enough money because they live in high-cost-of-living areas so they can command higher salaries for the work they do. The dictionary defines ***accredited*** as "officially recognized or authorized", *not* "wealthy enough to absorb loss."

Why couldn't someone who has proven a level of proficiency in investing concepts and risk awareness also be accredited? This would increase access to new capital for innovative ideas and would allow the U.S. to remain competitive in the new economic reality. Other jurisdictions are creating crypto-equity friendly regulations and will likely out-pace the U.S. in innovation over the next few decades. It isn't just the funding restriction for innovation causing problems, but also the brain drain as entrepreneurs seek better locations to launch their innovations.

How can a restriction like this exist without freedom-loving patriots bringing it to light and forcing a change? It is because the regulations apply to the issuer. The issuer of equity is generally not allowed to sell to non-accredited investors except for very limited offerings. In most cases, the public doesn't know this restriction exists as the opportunities to invest simply aren't presented to them. This produces three very negative feedback loops. First, it prevents the middle-class from investing capital in high-risk, high-reward projects that could help them move up financially. Second, it creates a populace that doesn't understand the nature of capital deployment and the risk vs. reward inherent in all investments. Third, the innovation, innovators, and capital is fleeing to friendlier jurisdictions. This is where we are today.

In 2012, there was an attempt to fix the problem in the US. The Jumpstart Our Business Startups Act, or JOBS Act was passed in 2012 and was intended to ease regulations for funding of startups. But it was left to the SEC to fix it. They took three years and they botched it up. How do I know? Because I work at the intersection of the future of finance and the legacy regulations that were put in place after a horrible depression in the early 1930's. I see new technological innovations in conflict with outdated rules put in place in 1933, 1934, and 1940. I see the choices being made by companies evaluating the JOBS Act inspired Reg A+ options versus full S-1 registration and finding that there has been very little improvement. Some of the rules should stay, but most need to be updated to reflect the new economic reality before the U.S. becomes the Blockbuster Video of the financial world.

How do we fix it? The fix is easy and obvious, and yet in this polarized political environment it may take a miracle (read: bipartisanship) to get this fixed.

Let's start with the low hanging fruit and the worst of the regulations. That is section 501 of Regulation D. The easy fix is to keep the Regulation D exemption, but switch the accredited rules, thereby opening new opportunities to those willing to put in the effort while protecting those that haven't spent the time to learn about the risks in investment. The solution is education. The real goal should be smarter investing and right-sized investing. This isn't a rich vs. poor thing. This is an appropriate risk vs. reward thing.

So how do we educate a country of people that have been protected by so many regulations for so long that they've lost the ability to evaluate risk? Well, there was this

amazing invention that came along long after the SEC rules were put in place — the Internet, and it does education really, really well.

Let's create a course with a test that evaluates proficiency in investing and its risks. I'll start it and anyone, even the good folks at the SEC, can contribute until we have a course and a test that we all like. Once the online test is passed, the future investor and capital contributor should be able to evaluate the risks involved in investing their own money in unregistered securities.

Contribute to the development of the course and associated test:

https://docs.google.com/document/d/1s8q9wTgkkd9AHYNyFN3qKlt9x9eBwlBl1P-Se6Uws2g/edit?usp=sharing

The course will need to cover several topics because there are lots of ways a company can fail and investments lost even if fraud is not involved.

Here's a sampling of topics:

- Valuation
- Due Diligence
- Shares
- Dividends
- Trading
- Liquidity
- Minority shareholder rights
- Risk vs. Reward
- Diversification
- Leverage
- Accounting

- Fraud

As part of the test, the test taker and future investor would also understand and acknowledge that they bear the risk of loss for their own investment choices — absent outright fraud for which the fraudster may have criminal liability.

Once the test is passed, several things could be automated.

- An ACCREDITED token could be issued to a Ravencoin address providing an automatic verification honored by the asset platform.
- A downloadable eligibility letter could be sent to the user's e-mail address. This letter would serve as evidence of accreditation allowing an issuance or trading platform to perform manual verification.

This will expand the base of investors. Every investor that successfully completes the course will be fully aware of the risks, and the need to limit exposure to the risk through diversification across a range of asset classes.

So lets pass a law, or make an amendment to section 501 of Regulation D. In the spirit of naming legislation with names that Congress has trouble voting against, how about we name it:

SMARTER

Start **M**aking **A**merica **R**elevant in **T**oday's **E**conomic **R**eality

Help me get a representative to sponsor legislation to amend rule 501 of Regulation D and also recommend that they vote to make the U.S. SMARTER.

Once this is fixed, we only have one more small fix that currently limits the number of holders. The current arbitrary limit of 2000 holders before registration requirement makes no sense in this modern age where quill pens have given way to technology that can safely and transparently track share ownership for many holders. By implementing these two small changes we'll uncork a modern functioning system that can compete with the rest of the world and avoid BlockBuster's fate.

Update — December 19, 2019

This blog post was originally written on Nov 20th, 2019. On Dec 18th, 2019, the SEC Proposes to Update Accredited Investor Definition to Increase Access to Investments. This is great news. Thank you, SEC.

Update — December 24, 2019

On December 18, SEC Commissioner Elad L. Roisman wrote in support of the update to the accredited investor definition, and I agree with his points and agree that it could go further in opening up the opportunities for testing. Since the original proposal came out, I have spoken with individuals that have held their Series 7, and/or Series 65. The Series 7 is too high of a bar because it has sponsorship requirements, but can, of course, remain as an option. The Series 65 is a better option. The SEC proposal opens the course and testing up to accredited institutions which is fine, as there should be a minimum bar required. I would also like to see an approved test that covers the required topics (see above and improve as needed), that can be administered online by private institutions like Coursera, Kahn Academy, Udemy, and Lynda.com.

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