

## AUGUST

### Crowdfunding Gets Its Day in Court

Crowdfunding has hit the mainstream and, as of last month, had its first taste of the U.S. legal system. Although it's already helped thousands of businesses and creators get their start over the past few years, the official rights of crowdfunding are just starting to be defined.

#### What is Crowdfunding?

In its most common form, "crowdfunding" is an online campaign that combines small contributions from many people to pay for a larger project. The project could be the invention of a new device, the largescale production of a product or the publishing of a music album or book; a crowdfunding campaign could also secure charitable donations for an individual or program's financial needs. Some of the most popular websites for organizing crowdfunding are [kickstarter.com](http://kickstarter.com), [gofundme.com](http://gofundme.com) and [indiegogo.com](http://indiegogo.com).

So why do people contribute? Crowdfunding campaigns usually provide funders with some of the benefits of the project, depending on how much they donate. For instance, a campaign to launch a new product might provide funders with a copy of the product months before they could buy it from a store (provided they gave enough to cover its production cost).

Crowdfunding campaigns are meant to be a mutually beneficial free-market. It gives a creator the money needed to put an idea into production, while giving funders a chance to get a niche product that wouldn't otherwise exist

#### Where Things Get Tricky...

But campaign rewards are what complicate the definition of crowdfunding. Although a crowdfunding campaign operates a bit like a donation, funders are usually promised something of real value in return for their contributions—even if there is no guarantee on the quality or time-frame of the project.

Much like any other free market, crowdfunding has always come with a "buyer beware" warning. Although crowdfunding

websites require a creator to deliver the rewards they promise, there has been minimal effort to enforce the rules. Crowdfunding has been effectively treated as a gamble, where funders retain few rights and can only hope creators make good on their promises.

#### Rules and Regulation

In June of this year, the Federal Trade Commission (FTC) filed its first ever complaint involving a crowdfunding campaign. In the complaint, the FTC charged that Erik Chevalier misused the contributions made to his campaign on Kickstarter. Chevalier received over \$122,000 in funds to complete and publish a board game called *The Doom That Came to Atlantic City*, but never delivered any rewards or refunds. Finding that Chevalier had spent the money on personal expenses and other projects, the FTC imposed a settlement of over \$111,000 on him.

The FTC's decision to go after Chevalier is a clear statement that the government views crowdfunding as a consumer transaction and that creators can be held fiscally responsible for their projects. While this protection punishes creators for misusing funds, it could open the door for messy lawsuits against creators and their products. To protect themselves, creators would need to register as an LLC (or another business entity) before they launch a campaign. The prospect of dealing with a new business could greatly reduce the number of people willing to start a project—especially small ones.

Despite the complications, it's difficult to argue that the government should be uninvolved. Crowdfunding is growing in popularity, and the funding is getting bigger. Several crowdfunding campaigns have received millions of dollars from tens of thousands of funders. With so much on the line, the law must be able to step in and enforce accountability when it is needed.

Creators and consumers need each other—both sides are equally important. To sustain the creativity and enthusiasm of the crowdfunding community, we must find a way to protect and encourage everyone involved.

# the market at a glance

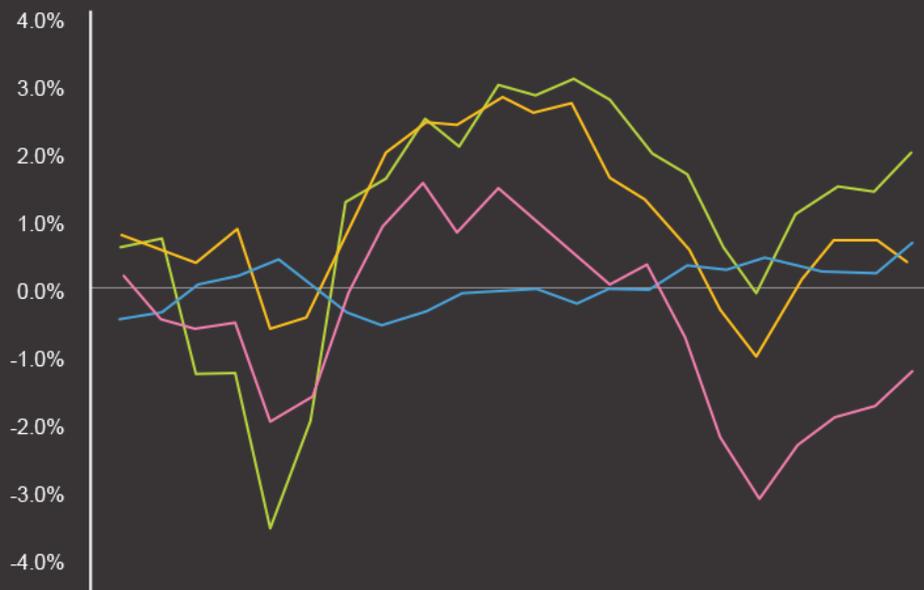
## JULY

**U.S. Large Cap**  
(Dow Jones Industrial Average)  
**17,689.86** (0.40%) ▲

**U.S. Mid/Small**  
(Russell 2000)  
**1,238.68** (-1.22%) ▼

**Foreign Large**  
(MSCI EAFE Index Fund)  
**64.78** (2.03%) ▲

**Bond Market**  
(Barclays Aggregate Bond Fund)  
**109.50** (0.66%) ▲



Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

## the market in action

- The Commerce Department reports that the U.S. economy grew at an annualized rate of 2.3 percent in Q2 2015. The department also revised its reported Q1 annualized growth up to 0.6 percent from -0.2 percent.
- Oil giant BP agrees to pay \$18.7B to the U.S. federal government and five Gulf Coast states in a settlement over the 2010 Deepwater Horizon oil spill. BP estimates its total costs from the spill will reach \$40B, including billions already paid in criminal fines.
- The Shanghai Stock Exchange Composite Index displays radical volatility, dropping around 18 percent in the first six business days of the month. Although intervention by the Chinese government allows prices to stabilize in the following weeks, the index is hit by a massive one-day decline of 8.5 percent on July 27.
- Insurance giant Anthem, Inc. reaches a deal to buy rival insurance group Cigna for \$54.6B. The buyout follows several other massive insurance mergers in 2015, including the \$37B purchase of Humana by Aetna, Inc. earlier in July.
- Volkswagen Group beats out Toyota Motor Corp. as the biggest carmaker for the first half of 2015, selling 5.04M vehicles compared to Toyota's 5.02M. Volkswagen owns many of the world's most famous auto brands, including: Audi, Bentley, Lamborghini, and Porsche.
- Hisao Tanaka, CEO of Japanese conglomerate Toshiba Corp., resigns after it is discovered that he had knowledge of an accounting scandal that falsely inflated his company's profits by \$1.2B over many years. Several other senior Toshiba executives resign along with Tanaka.
- In an effort to protect profits amid falling oil prices, major oil companies Centrica, Royal Dutch Shell and Chevron announce global job cuts of 6,000, 6,500 and 1,500, respectively.



## Saving Money on Rent

Last month, the Census Bureau released its paper Residential Vacancies and Homeownership in the Second Quarter 2015. The report showed that rental vacancies are at the lowest rate in 30 years (6.8 percent) and the homeownership rate is the lowest it's been since the mid-1960s (63.4 percent).

Not surprisingly, this growing preference for renting has impacted prices. The bureau's paper showed that the nominal median rent price has climbed about 14 percent in the last three years despite otherwise low inflation rates among other consumer prices.

While you can't control the national demand for rentals, here are a few ways for you (or any renters you know) to save money while renting:

**Get a roommate** – Although this option can be an extremely difficult adjustment and a potential source of conflict (especially if you take on someone you don't know), getting a roommate/housemate can save you hundreds of dollars a month, even if it requires you move to a bigger, more expensive apartment.

**Research and negotiate** – Like any other market, rental units are in competition with one another for tenants. An empty apartment is lost income for a landlord, so finding a part of town with a glut of units can give you the leverage you need to ask for a more competitive price from the place you want to live.

**Find the true costs** – The price of an apartment is more than just monthly rent. It's imperative that you factor in the additional costs like utilities, parking and appliances. Finding a place that pays for laundry or offers its own fitness facilities can lead to big savings in other parts of your budget.

**Shop patiently** – Rental inventory is constantly turning over, so try to spend a couple months shopping around to get a good sense of the market. This is especially true during the summer, when lots of college students/graduates are moving in and out of properties. If you're willing to deal with a difficult move, switching apartments in winter months (depending on region) can provide you with a discount—landlords know their units will probably stay empty until spring.

**Be an amazing tenant** – A good, reliable tenant is worth a fortune to a landlord. If you can build a reputation as an outstanding renter, it will be easy to keep your rent cost fixed when it comes time to renew your lease. If you've been a great tenant but your landlord hasn't offered any benefits, shop around and see how he or she feels knowing you might leave.

**Leases are leverage** – If you've found an apartment you like and know you'll be in the area for a while, request a discount for taking a longer lease. By adding an extra year to a lease, you can both push for a discount and delay the time between rate hikes. This tactic becomes extremely powerful if you've already proven yourself as a fantastic tenant. Landlords dream of good tenants that sign long leases.

**Go the distance** – Average rent prices vary greatly from city to city, even when they are in the same metro area. Moving away from a city center or popular part of town can lead to pretty significant savings. You'll have to plan carefully—different locations come with different expenses. If a downtown apartment allows you to live without owning a car, you may be saving a lot of money even though you're spending more on rent.



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