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SharesPost Index tracks blue chip pre-IPO stocks

By Paul Boutin

Facebook. Linden Lab. LinkedIn. Serious Materials. Tesla Motors. Twitter. Zynga. These are the Dow Jones Industrial Index of venture-backed, pre-IPO companies according to SharesPost, which lets accredited investors buy and sell shares in companies that haven't yet begun trading on the Nasdaq.

"Everyone recognizes that the industry needs to move toward greater transparency," NeXt Up Research founder Michael Moe said in a press release for SharesPost. "The SharesPost Index is a key milestone in creating that transparency and enabling liquidity in the private equity market."

The reason these companies are worth tracking is that they've run up their valuations into the billions, in some cases, yet still seem to be growing more value rapidly. Shares in Facebook or Zynga bought today and sold next year could quite possibly return fivefold profit. At the same time, startup employees not unwilling to wait for an IPO that could take several years — or not happen at all — want a way to cash out some of the value they've built right now. SharesPost makes it easier.

SharesPost, to be clear, is neither a registered securities exchange nor a broker-dealer. The company's role is to facilitate transactions by providing market research from NeXt Up and other firms, by enabling digital signatures to eliminate paper from the process, and by simplifying the escrow process through a partnership with US Bank.

CEO Greg Brogger gave VentureBeat an interview earlier this week in which he explained how SharesPost works and why the company was creating its own stock index. "You used to have to know the right people" to get in on deals like the mass sell-off of Facebook employee shares last year, he told me. "We provide information to support price negotiations, make introductions between buyers and sellers, and run a clearing mechanism that avoids thousands of dollars in lawyer fees."

Starting with only seven companies, Brogger said he planned to add more one by one until he has a full-sized stock index. SharesPost members will get to look up four important metrics on these companies:

- * Transactions Input — The price of the last trade of their shares
- * Post Input — The gap between the highest buy and the lowest sell
- * Research Input — A valuation created by SharesPost's research partners

* Financing Input — How much funding the company has received.

There's only one catch: To buy shares in pre-IPO firms, you need to be an accredited investor with the U.S. Securities and Exchange Commission. The SEC requires individual investors to prove a net worth beyond \$1 million, or a stable income of \$200,000 to \$300,000 minimum. Accredited investors are forbidden from doing aggregate trades for the non-accredited. That locks most of us out of the game.