**Raising Capital Sources**

1. **Self-Funding**
2. **Family or Friends**
3. **Bank Loans (SBA)**
4. **Strategic Investors**
5. **Crowdfunding**
6. **Angel Investor** - Angel investors invest in small [startups](http://www.investopedia.com/terms/s/startup.asp) or [entrepreneurs](http://www.investopedia.com/terms/e/entrepreneur.asp). Often, angel investors are among an entrepreneur's family and friends. The capital angel investors provide may be a one-time investment to help the business propel or an ongoing injection of money to support and carry the company through its difficult early stages. Angel investors provide more favorable terms compared to other [lenders](http://www.investopedia.com/terms/l/lender.asp), since they usually invest in the entrepreneur starting the business rather than the viability of the business. Angel investors are focused on helping startups take their first steps, rather than the possible profit they may get from the business. Essentially, angel investors are the opposite of [venture capitalists](http://www.investopedia.com/terms/v/venturecapitalist.asp). Angel investors are also called informal investors, angel funders, private investors, seed investors or business angels. These are affluent individuals who inject capital for startups in exchange for ownership [equity](http://www.investopedia.com/terms/e/equity.asp) or convertible debt. Some angel investors invest through [crowdfunding](http://www.investopedia.com/terms/c/crowdfunding.asp) platforms online or build angel investor networks to pool in capital.  
     
   *Origins of Angel Investors*  
   The term "angel" came from the Broadway theater, when wealthy individuals gave money to propel theatrical productions. The term "angel investor" was first used by the University of New Hampshire’s William Wetzel, founder of the Center for Venture Research. Wetzel completed a study on how entrepreneurs gathered capital.  
     
   *Who Can Be Angel Investors?*  
   Angel investors must meet the Securities Exchange Commission's (SEC) standards for [accredited investors](http://www.investopedia.com/terms/a/accreditedinvestor.asp). To become an angel investor, one must have a minimum [net worth](http://www.investopedia.com/terms/n/networth.asp) of $1 million and an annual income of $200,000.  
     
   *Source of Funding*  
   Angel investors typically use their own money, unlike venture capitalists who take care of pooled money from many other investors and place them in a strategically managed fund. Though angel investors usually represent individuals, the entity that actually provides the fund may be a [limited liability company](http://www.investopedia.com/terms/l/llc.asp), a business, a trust or an [investment fund](http://www.investopedia.com/terms/i/investment-fund.asp), among many other kinds of vehicles.  
     
   *Investment Profile*  
   Angel investors who seed startups that fail during their early stages lose their investments completely. This is why professional angel investors look for opportunities for a defined [exit strategy](http://www.investopedia.com/terms/e/exitstrategy.asp), acquisitions or [initial public offerings (IPOs).](http://www.investopedia.com/terms/i/ipo.asp)  
     
   The effective [internal rate of returns](http://www.investopedia.com/terms/i/irr.asp) for a successful portfolio for angel investors ranges from 20 to 30%. Though this may look good for investors and seem too expensive for entrepreneurs with early-stage businesses, cheaper sources of financing such as banks are not usually available for such business ventures. This makes angel investments perfect for entrepreneurs who are still financially struggling during the startup phase of their business.
7. **Venture Capital -** Venture capital is a form of private equity and a type of financing that investors provide to [startup](https://www.investopedia.com/terms/s/startup.asp) companies and small businesses that are believed to have [long-term growth](https://www.investopedia.com/terms/l/longtermgrowth.asp) potential. [Venture capital](https://www.investopedia.com/ask/answers/062315/what-type-funding-options-are-available-private-company.asp) generally comes from well-off investors, investment banks and any other financial institutions. However, it does not always take a monetary form; it can also be provided in the form of technical or managerial expertise. Venture capital is typically allocated to small companies with exceptional growth potential, or to companies that have grown quickly and appear poised to continue to expand.

Though it can be risky for investors who put up funds, the potential for above-average returns is an attractive payoff. For new companies or ventures that have a limited operating history (under two years), venture capital funding is increasingly becoming a popular – even essential – source for raising capital, especially if they lack access to [capital markets](https://www.investopedia.com/terms/c/capitalmarkets.asp), bank loans or other debt instruments. The main downside is that the investors usually get [equity](https://www.investopedia.com/terms/e/equity.asp) in the company, and, thus, a say in company decisions.

In a venture capital deal, large ownership chunks of a company are created and sold to a few investors through independent [limited partnerships](https://www.investopedia.com/terms/l/limitedpartnership.asp) that are established by venture capital firms. Sometimes these partnerships consist of a pool of several similar enterprises. One important difference between venture capital and other [private equity](https://www.investopedia.com/terms/p/privateequity.asp) deals, however, is that venture capital tends to focus on emerging companies seeking substantial funds for the first time, while [private equity](https://www.investopedia.com/ask/answers/020415/what-difference-between-private-equity-and-venture-capital.asp) tends to fund larger, more established companies that are seeking an equity infusion or a chance for company founders to transfer some of their ownership stakes.