



# THE RACIAL WEALTH GAP

A Data-Backed  
Solution  
2023

# AT A GLANCE

The concept of being an entrepreneur is as American as apple pie, but the narrative omits a sobering reality: successful entrepreneurship is highly dependent on the socio-economic conditions one is born into. The so-called Funding Epidemic is one example of racial inequity in business-building. Black founders receive ~1% of all venture capital funding, despite being ~12% of the adult U.S. population.

After extensively researching the drivers of this injustice, the largest inhibitor occurs during the least-researched and most misunderstood stage of the business-building process: **the “Friends & Family” (F&F) funding round.**

**The average F&F round raised by a founder is \$23K, which is the first opportunity for entrepreneurs to raise outside capital, and it is secured from friends, family, and one’s support network. Lack of access to the F&F round prevents thousands of Black founders from building businesses—and ultimately, wealth.**

The wealth gap between white and Black American families is 8x. However, when considering the “liquid” wealth gap, a new metric developed by Fifth Star, which excludes home equity and more accurately reflects F&F capital available for investment, there is an even more alarming **22x wealth gap in America, with median liquid Black family wealth of \$3,630.**

For a Black entrepreneur to raise the average \$23K F&F round, **they’d need to secure the entire liquid wealth of 6 Black families** (\$23K / \$3.6K). Due to the F&F injustice, there aren’t enough Black-led founders starting companies and progressing through the capital raising journey, which drives ~40x more white venture-backed founders in America.

## Venture funds can't invest in companies that don't exist.

There are over 6,000\* investment-ready Black founders in America per year whose businesses should mature into valuable enterprises but are never given the opportunity to get off the ground. For the American Dream to become a reality for all founders, **we need a new national solution to reform the F&F round.**

**We’re Fifth Star—the first F&F fund in America.** Our unique philanthropic “evergreen” model allows anyone to join the solution, and we serve as a conduit to introduce more Black founders into the venture capital ecosystem. **We’ve developed a proven solution. After two years of investing, our portfolio companies advance to the next stage of fundraising at a rate more than 10x the national average.**

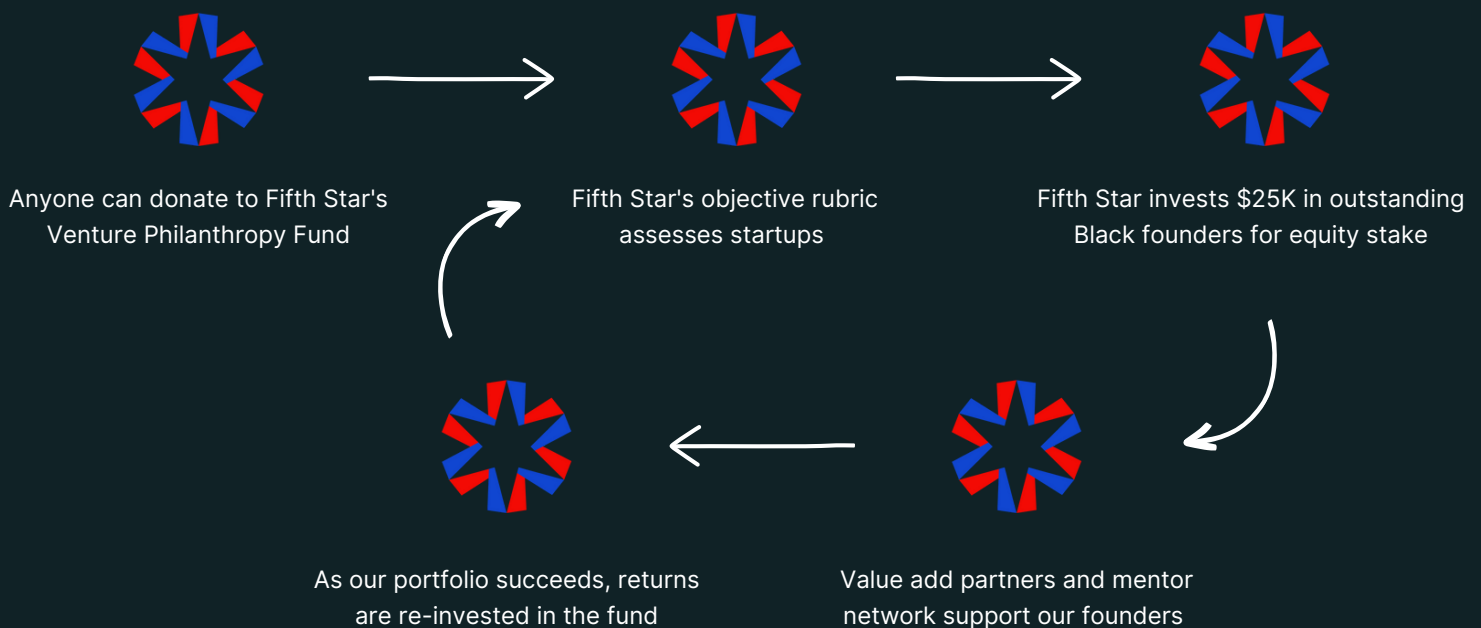
If our approach is implemented on a national scale with a \$150M annual F&F fund, we can substantially increase the number of Black-led businesses in America, **generate ~\$5B in Black wealth per year, and make a significant dent in our nation’s wealth gap.**

*\*Calculation defined later in this paper*

# FIFTH STAR FUNDS: A DATA-BACKED SOLUTION

Fifth Star is on a mission to end the Friends & Family funding gap and make a dent in America's racial wealth gap.

## FIFTH STAR FUNDS' MODEL



Fifth Star Funds is a first-of-its-kind venture philanthropy fund founded by nine Chicago entrepreneurs seeking to address the funding epidemic and make a dent in the racial wealth gap by investing in Black, tech-enabled founders at the early-stage "Friends & Family" round.

Any individual, corporation, or foundation can contribute to our fund as a tax-deductible donation. We make a minimum equity investment of \$25K in each company. 100% of all returns from successful investments are reinvested into the fund to support future generations of underrepresented founders.

# THE PROBLEM

We've all seen the staggering statistics:

## The wealth gap between white and Black American families is 8x.

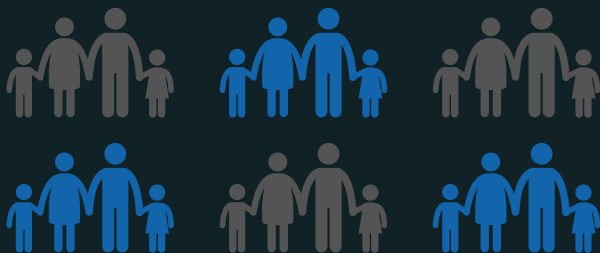
BROOKINGS INSTITUTE

However, when considering the “liquid” wealth gap, **a brand new metric developed by Fifth Star** that excludes home equity from one’s wealth, there is an even more alarming

## 21.8x Liquid Wealth Gap

in America, with Black household liquid net worth of just \$3,630 and white household net worth of \$79,010.

For a Black entrepreneur to raise the average \$23K F&F round, **they’d need to secure the entire liquid wealth of 6 Black families**



FIFTH STAR FUNDS RESEARCH,  
DERIVED FROM INDUSTRY DATA

Fifth Star has researched the F&F round by investing in founders and collaborating with prominent organizations and thought leaders.

A Kauffman Study identified non-owner equity funding secured in the first year of operations for founders, reflecting the closest proxy to the F&F round. Its findings revealed an eerily similar statistic to the liquid wealth gap:

- White founders raised \$20,682.
- Black founders raised \$976.

## 21.2x Funding Gap

**This is no coincidence.**

The F&F round is the first opportunity to raise outside capital. This round of funding is inseparable from privilege and prevents thousands of Black founders from building businesses—and ultimately, wealth.

The lack of Black founders at the top of the funnel of startup funding is why there are:

- ~25x (5.3x per capita) more white founders successfully raising an Angel round of funding (capital raise round after F&F) than Black founders
- ~40x (8x per capita) more white founders raising non-institutional capital (F&F, Angel, etc.) than Black founders.

When founders do not have access to the F&F round, it impacts the disparity of subsequent funding rounds. **This has led to a perpetually failing entrepreneurial ecosystem for Black founders.**

# WE CAN FIX THE SYSTEM

As we continue through the capital raising process, the data is much richer. All of our calculations can be found [in the appendix](#).

Once companies reach Series A funding and beyond (institutional funds), the funding gap still exists, but in a much different magnitude. Using VC round survival rates (i.e. if a Series A-funded company matriculated to Series B, got acquired, or IPO'd), we see a smaller discrepancy between white and Black-founded companies at later stages.

[Accenture](#) research shows the following:

<b>SURVIVAL RATE</b> (% RAISED FROM PRE-A)	<b>BLACK</b>	<b>WHITE</b>	<b>VARIANCE</b>
<b>SERIES A</b>	16.3%	25.9%	1.6x
<b>SERIES B</b>	6.9%	13.1%	1.9x
<b>SERIES C</b>	3.6%	6.4%	1.8x

**“The percentage of Black-owned startups does not notably change over time, indicating similar survival rates.”**

KAUFFMAN FOUNDATION, SURVEY

However, the root problem begins many stages prior. For Black-led companies to even be considered for institutional funding, we need to go back to the starting line.

The problem is sitting right in front of us—and the solution is clear.

Due to the ~22x liquid wealth gap, Black founders are being boxed out at the F&F round, meaning there simply aren't enough Black founders starting companies and progressing through the capital raising journey. This results in up to 40x more venture-backed white founders than Black.

**Venture funds can't invest in companies that don't exist.**

**“F&F are typically the first to support businesses with capital. Unfortunately, for many Black founders, that's not always the case—simply due to a lack of funds. Because of historical financial inequity, the traditional friends-and-family model is not a viable equalizer for Black founders. A new pre-seed stage (F&F) model is needed.”**

[ACCENTURE, BRIDGING THE BLACK FOUNDERS VENTURE CAPITAL GAP](#)



## Fifth Star Funds is not a traditional VC fund. We are the first Friends & Family fund.

Based on our assumptions (see [appendix](#)), we estimate there are approximately 6,000 Black founders per year in America with investment-ready ideas.

If founders can access the F&F round and matriculate through exit at similar rates to white companies, we believe **over \$5.2B in Black wealth can be created per cohort.**

Assuming Fifth Star's \$25K investment—originally derived from the average F&F round size of \$23K—we believe there's opportunity for a \$150M annual fund to build the dreams of those 6,000 Black founders across America ( $6,000 * \$25K = \$150M$ ).

As these companies grow, hire, generate revenue, and ultimately exit (eg. merger, acquisition, IPO, etc.), they have the potential to capture the Black founder share of \$290B of exit proceeds, representing \$5.2B in Black wealth. This leads to a 34.8x “wealth gap” return on the proposed \$150M annual fund.

The \$5.2B in Black wealth doesn't begin to scratch the surface on tangible impact including community engagement, jobs, Black B2B relationships, spending, support, and the magnitude of 6,000 Black founders paving the way in their communities for decades to come—something we could never capture with a mere statistic.

**\$25K**

CHECK SIZE

**\$150M**

FUND 6,000  
BLACK FOUNDERS

**\$5.2B**

BLACK WEALTH  
CREATED

**34.8x**

WEALTH GAP  
RETURN

# FIFTH STAR IS PROVING OUR SOLUTION



Startups subsequently raising \$100K+ after Friends & Family round of investment:

2.4%

National Average

25%

Fifth Star Portfolio

Fifth Star portfolio companies OUTPERFORM the national average by

>10x

# Fifth Star's Metrics to Validate Success

As entrepreneurs ourselves, we first wanted to prove out our thesis by providing value to entrepreneurs in our hometown of Chicago. Our success has solidified our conviction that Fifth Star's solution is ready for Black founders across the United States.

## ✓ Milestone 1 • Source & Evaluate Founders

A healthy pipeline of investment-ready Black founders exists: We've sourced and evaluated the best founders ready for F&F capital, with 20 fundings to date in Chicago.

Traditional pattern-matching doesn't work: Our objective rubric accounts for the unique circumstances of Black founders and allows our organization to find the most qualified founders.

## ✓ Milestone 2 • Validate Public Interest

We've formed a recognizable brand that has garnered awards and national attention from media outlets such as TechCrunch, Axios, and WGN.

Our community fund has raised 7-figures in donations from local business leaders, VC firms, family offices, foundations, and corporations such as Salesforce, Goldman Sachs, and The Allstate Foundation.

## ✓ Milestone 3 • Prove Solution

Fifth Star works 1:1 with each of our portfolio companies. Every portfolio company receives access to our dedicated network that provides feedback, guidance, and introductions.

We've proven our methodology through our portfolio, outperforming national standard matriculation rates by over 10x. Our founders have gone on to raise millions of dollars since our initial \$25K investment. Our model effectively introduces more Black founders into the venture ecosystem.

## Milestone 4 • Scale Nationally

**The solution is here.  
The time is now.**

**Join us.**



**“If nothing is done at the ground level, the racial wealth gap will continue to grow unabated.”**

PROFESSOR PANTIN,  
COLUMBIA UNIVERSITY

Are you in?

In Pursuit,  
Fifth Star Team

 **Fifth Star Funds**

As no organization has previously studied the F&F round in great detail, this analysis continues to be a work in progress.

While this disparity in funding and research exists across other underrepresented demographics, Fifth Star currently is focused on Black founders, where the issue is most pronounced.

We welcome any and all feedback.

Get  
Involved:



[Donate today.](#)

Our innovative model allows anyone to be part of the solution.



[Share this paper.](#)

Forward it to anyone fighting to solve the wealth gap. This data needs to be seen.



[Reach out.](#)

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# Appendix - Data Defined

## Liquid Wealth Gap

Average F&F round: \$23,000 ([source](#))

Median Black household liquid wealth: \$3,630 ([source](#))

Median white household liquid wealth: \$79,010 ([source](#))

**21.8x Multiple**

**\$23,000 round / \$3,630 household wealth = ~6 families**

## Number of Startups

Black founders have raised just 1% of all VC funds ([source](#))

Of the **6,780,000 companies** founded each year ([source](#)), ~38% of them raise funds from friends and family ([source](#)).

Unfortunately, the data doesn't break it out F&F by race.

~0.9% of all companies raise angel investment, the funding round after F&F ([source](#)). Luckily, we have the data by race:

- White-led companies represent 84% of angel-funded companies (51,981 out of 61,698)
- **Black-led companies represent 3%** of angel-funded companies (1,832 out of 61,698)

There are 813,600 Black-led companies launched per year.

Assuming Black-led companies are funded similarly to white-led companies, a rate of 38%, at the F&F (which we know they're not) and then become companies ready for angel-investment, it implies there are over **300,000 Black-led companies** ( $813,600 * 38\%$ ) that should receive some level of F&F funding.

25% of startups are high-growth tech companies ([source](#)), meaning there are **75K Black-led** high growth companies ( $300,000 * 25\%$ ).

Fifth star invests in the top decile of companies—as our companies move to the next round at a rate 10x the national average - leaving **7.5K Black-led** companies ( $75,000 * 10\%$ ).

Since white founders receive 5.3x more angel investments, we can take the inverse to imply that 81% of Black-led companies aren't funded ( $7,500 * 81\%$ ), leaving **~6,000 Black-led**, top-decile, high-growth tech companies who need Fifth Star Funds.

## Economic Impact

Fifth Star check size: \$25,000 (derived from the average F&F round size of \$23K)

Fifth Star fund size: \$150M ( $\$25,000 * 6,000$  founders)

Median founder ownership at exit: 15% ([source](#))

Total US startup exit proceeds per year, 2020: \$290B ([source](#))

**Black wealth creation potential per year (12% of US Population \* 15% founder ownership \* \$290B startup exit proceeds): \$5.2B**

**Annual wealth gap return (\$5.2B / \$150M): 34.8x**