

The Ariel Mutual Funds/Charles Schwab & Co., Inc.
Black Investor Survey:

Saving and Investing Among Higher Income
African-American and White Americans

June 22, 2006

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BACKGROUND AND OBJECTIVES

- ❑ Ariel Mutual Funds and Charles Schwab & Co., Inc. (member SIPC/NYSE) commissioned Argosy Research to conduct the ninth wave of a primary research study comparing and contrasting higher income (\$50,000 or more) African-American and White households in terms of their savings and investment attitudes and behaviors. Ariel and Schwab have jointly conducted previous waves of this research every year since 1998.

- ❑ The main objectives of this research are the following:
 - Identify similarities and differences between high income African-Americans and Whites with regard to saving and investing.
 - Examine the factors, particularly past influences and underlying beliefs, that may impact how African-Americans and Whites think about financial matters.
 - Determine any shifts in attitudes or behaviors over time.
 - Assess the expectations and issues that African-Americans and Whites face in their financial futures.

METHODOLOGY

- ❑ 500 African-Americans and 500 Whites were interviewed by phone between April 26 and June 4, 2006.
- ❑ All respondents were over the age of 18 and had a household income of at least \$50,000. Additionally, all identified themselves as the primary or joint decision-maker in the household in terms of investment decisions.
- ❑ The sample, national in scope, was drawn randomly from census exchanges that have a median income of \$40,000 or more. In order to bolster the African-American sample, additional interviews were conducted in census exchanges that have a median income of \$40,000 or more and that have a population that is at least 25% or above African-American.
- ❑ The survey ran for an average of 18 minutes.

Note: Throughout this report, a bolded number indicates a figure significantly higher from a statistical standpoint than the number to which it is being compared.

HIGHLIGHTS OF PREVIOUS STUDIES

January, 1998

- ❑ The 1998 study revealed a number of interesting differences between the two groups surveyed, such as how, relative to Whites, African-Americans:
 - Are underinvested in the stock market, due to several social and cultural reasons.
 - Prefer more conservative investment vehicles, including life insurance; also regard real estate as the best investment overall.
 - Have less wealth than Whites with similar incomes.

January, 1999

- ❑ The 1999 study helped identify why certain attitudes and behaviors are so divergent. The reasons for the differences were found to include:
 - African-Americans were introduced to savings and investing tools later in life.
 - African-Americans are motivated to invest in more conservative investment vehicles because of the feeling of security those investments provide.
- ❑ At the same time, this study also uncovered heightened interest in investing among African-Americans relative to Whites.
- ❑ Other areas explored included how women and men behave differently. Women are more likely than men to consider themselves beginner investors, are relatively underinvested, and are more likely to own conservative investments than men.

HIGHLIGHTS OF PREVIOUS STUDIES (CONTINUED)

April 2000

- ❑ The 2000 study found that family obligations, including children’s education, dictate African-American savings.
 - More African-Americans than Whites expect to support adult children; also, more African-Americans expect to support aging parents.
 - African-Americans are saving as much or even more for education than Whites. In addition, more African-Americans than Whites cite education as the key to financial success.
 - On the other hand, African-Americans have considerably less saved for retirement than Whites and fewer African-Americans cite “retirement” as their most important reason for saving.

June 2001

- ❑ The 2001 study found that even after controlling for demographic and behavioral variables, African-Americans are still 35% less likely to invest than Whites. In examining the key factors influencing investing patterns among African-Americans and Whites, we found:
 - African-Americans become increasingly more likely to invest as they earn more. Income is not a determinant of investing among Whites.
 - Regardless of their income, Whites begin investing at fairly young ages, while the likelihood of investing for African-Americans does not track with age.

HIGHLIGHTS OF PREVIOUS STUDIES (CONTINUED)

June 2002

- ❑ The 2002 study explored financial attitudes and behaviors in the wake of the lingering recession, a down market for much of 2001, and the September terrorist attacks:
 - Just a handful of Blacks and Whites (6% and 7% respectively) liquidated any investments as a result of the recession or acts of terrorism.
 - A sharply rising percentage of all investors agreed that, “The recent stock market volatility has shaken [their] long-term confidence in the stock market.” Blacks in agreement rose from 32% to 43% since last year; Whites went from 15% to 25%.
 - More Blacks than Whites (49% vs. 39%) felt “more anxious about [their] financial situation than [they] were a year ago,” and far fewer Blacks than Whites (46% vs. 68% respectively) thought the economy would improve within the next 12 months.

June 2003

- ❑ The 2003 survey showed that many higher income African-Americans were retreating from the stock market. After five straight years of steady increases in the percentages of Blacks who own stocks, only 61% of Blacks in 2003 had money in the market, down from 74% in 2002 and approaching the 1998 level of 57%. White stock ownership, held steady at 79%.
- ❑ Real estate and other investments were increasingly in favor with both groups.
 - With interest rates at 35-year lows, White attitudes toward real estate investing approached Black historical preferences for real estate investing.
 - When asked which is the “better investment” -- home improvements or stocks -- 76% of Blacks and 61% of Whites chose home improvements, while only 20% of Blacks and 33% of Whites chose stocks.

HIGHLIGHTS OF PREVIOUS STUDIES (CONTINUED)

June 2004

- ❑ The 2004 survey further explained the gap between African-American and White investing by uncovering a misperception by Blacks that investors need to be skilled at market timing, or buying and selling stocks at exactly the right time, in order to be successful.
 - Those Blacks citing patience or discipline as an important factor for investing success are two and a half times more likely to be investors than those believing that knowing how to time the market is the most important success factor.
- ❑ The survey included a 10-question investment quiz that a majority of both Black and White investors failed, showing that many Americans, both Black and White, misunderstand or are unfamiliar with market lingo commonly used by the media and investment companies. Furthermore, many do not know basic facts about investing and the stock market.

July 2005

- ❑ Last year's study found that for African-Americans, employer-sponsored retirement plans have the potential to be an effective entrée into the world of investing.
 - African-Americans who are saving primarily for retirement are almost twice as likely to be stock investors as those who are saving for other reasons, such as to pay for education. Whites are equally likely to be investors regardless of their goals.
 - Fewer Blacks than Whites overall, however, consider retirement their most important goal.
 - Additionally, those Blacks who are investing regularly in retirement accounts contribute significantly less per month to their accounts, and more Black plan participants than White participants have withdrawn money from their accounts prior to retirement (36% vs. 24%).
 - Blacks who have help from a financial advisor contribute more money on a monthly basis to their retirement plans than those who do it alone.

HIGHLIGHTS OF THIS YEAR'S STUDY

June 2006

- ❑ With traditional sources of retirement funding in flux, including corporate pensions and Social Security, Black and White Americans differ in their expectations and strategies about retirement. Notably, African-Americans are significantly more reliant on employer pensions than Whites.
 - Two-thirds of employed Blacks, compared to about half of employed Whites work for employers with a traditional pension plan, reflecting that far more Black than White employees surveyed (44% versus 25%) work for government, which is more likely to offer pension plans.
 - Although almost 90% of both groups consider themselves “very responsible” for preparing for their retirement, African-Americans are more likely than Whites to feel responsibility should also be shared by corporations (by a 38% to 25% margin) and by the government (by a 35% to 18% margin).
 - Large percentages of both Blacks and Whites (50% and 55%) believe that corporate pension funds will no longer exist in a decade.
 - Far more Blacks than Whites (65% versus 37%) agree that, “When corporate pensions go bankrupt, the government should be responsible for paying those people.”
 - All else being equal, African-Americans are twice as likely as Whites to believe government and corporations bear significant responsibility for ensuring Americans a comfortable retirement.

HIGHLIGHTS OF THIS YEAR'S STUDY (CONTINUED)

- ❑ Despite uncertainty in the pension world, African-Americans remain optimistic about retirement.
 - Fewer Blacks than Whites (24% versus 30%) say they are worried about their retirement.
 - More Blacks aim to retire early, with twice as many Blacks as Whites hoping to retire before the age of 60.

- ❑ However, for many African-Americans, retirement is just the beginning of a new phase of work.
 - While both groups have similar aspirations for retirement (maintain standard of living, travel more, etc.), three times the number of African-Americans versus Whites (29% versus 10%) say they plan to start a business after they retire.
 - More Blacks than Whites own real estate other than their home (42% versus 33%) and of these, more Blacks than Whites (58% versus 48%) say they expect these investments to help fund retirement.
 - Twice as many Blacks as Whites (34% versus 16%) say they are currently saving to buy real estate, start a business, or both.

HIGHLIGHTS OF THIS YEAR'S STUDY (CONTINUED)

- ❑ Not only do African-Americans lag Whites in terms of retirement savings, but they also tend to have family issues that compound the gap.
 - African-Americans have less money saved in retirement accounts than Whites: the median amount saved is \$59,000 for Blacks versus \$93,000 for Whites.
 - African-Americans contribute less to their retirement accounts monthly: the median monthly contribution is \$254 for Black employees compared to \$306 for White employees.
 - The median amount saved by Blacks who have retirement savings outside of retirement accounts is \$36,000, compared to \$75,000 for Whites.
 - Only 21% of Blacks compared to 35% of Whites have received an inheritance, and only 18% of Blacks versus 34% of Whites expect to receive one in the future.
 - African-Americans who are concerned about saving for their children's education or are worried about caring for elderly parents are considerably less likely to be saving even \$100 per month for retirement.
 - African-Americans who have extended family living with them are much more likely than others to be worrying about their retirement; 27% of Blacks versus 18% of Whites have an adult living in their home other than a spouse.

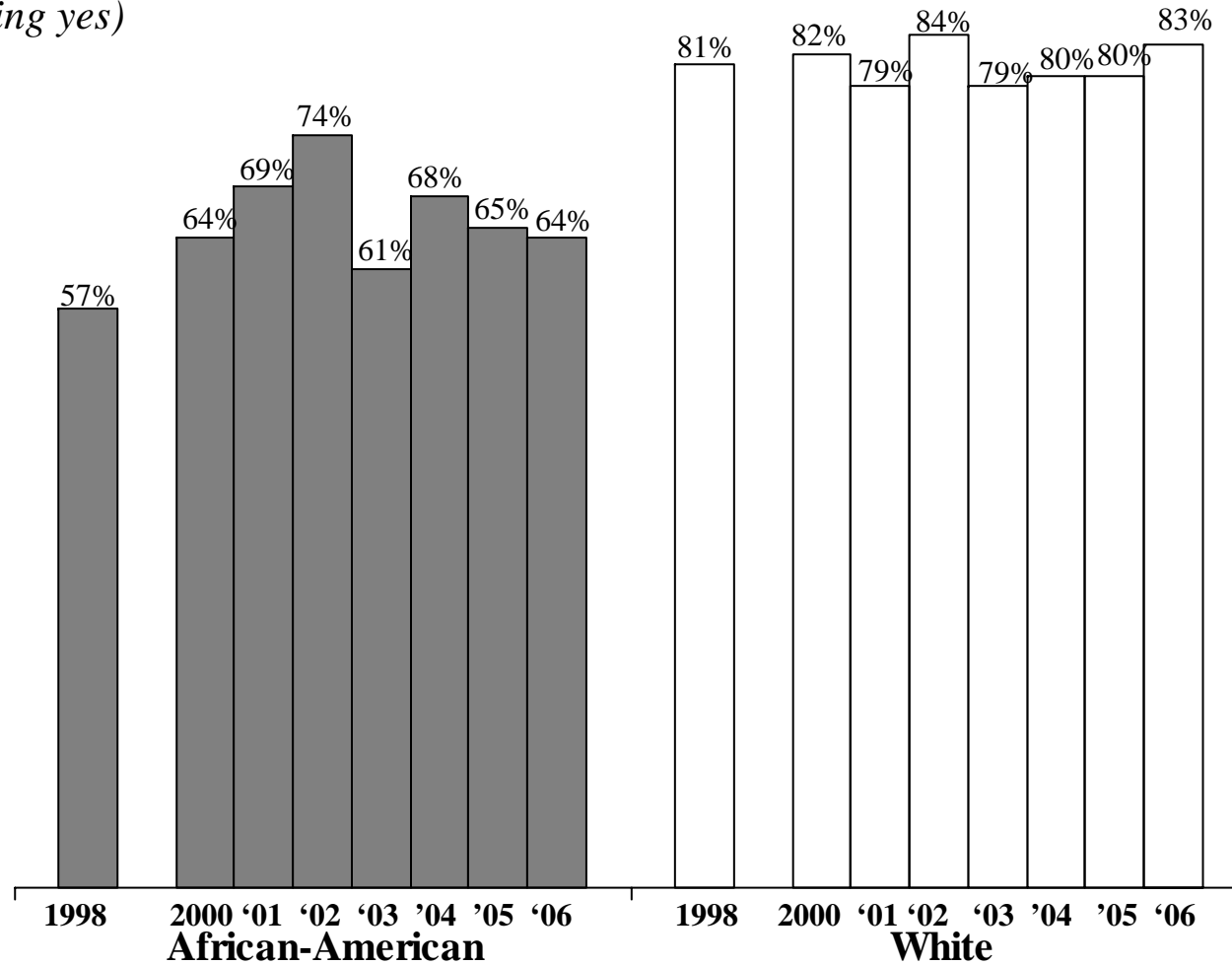
- ❑ Investing in the market continues to lag among African-Americans.
 - The percentage of higher income African-Americans with stock investments is trending downward from a high of 74% in 2002 to 64% this year.
 - The number of higher income Whites with stock investments (83%) is virtually unchanged since the first year of the poll in 1998.

DETAILED FINDINGS

TRENDS IN MARKET PARTICIPATION

Do you personally, or with a spouse, have any money invested in the stock market right now, either in individual stocks or in a stock mutual fund?

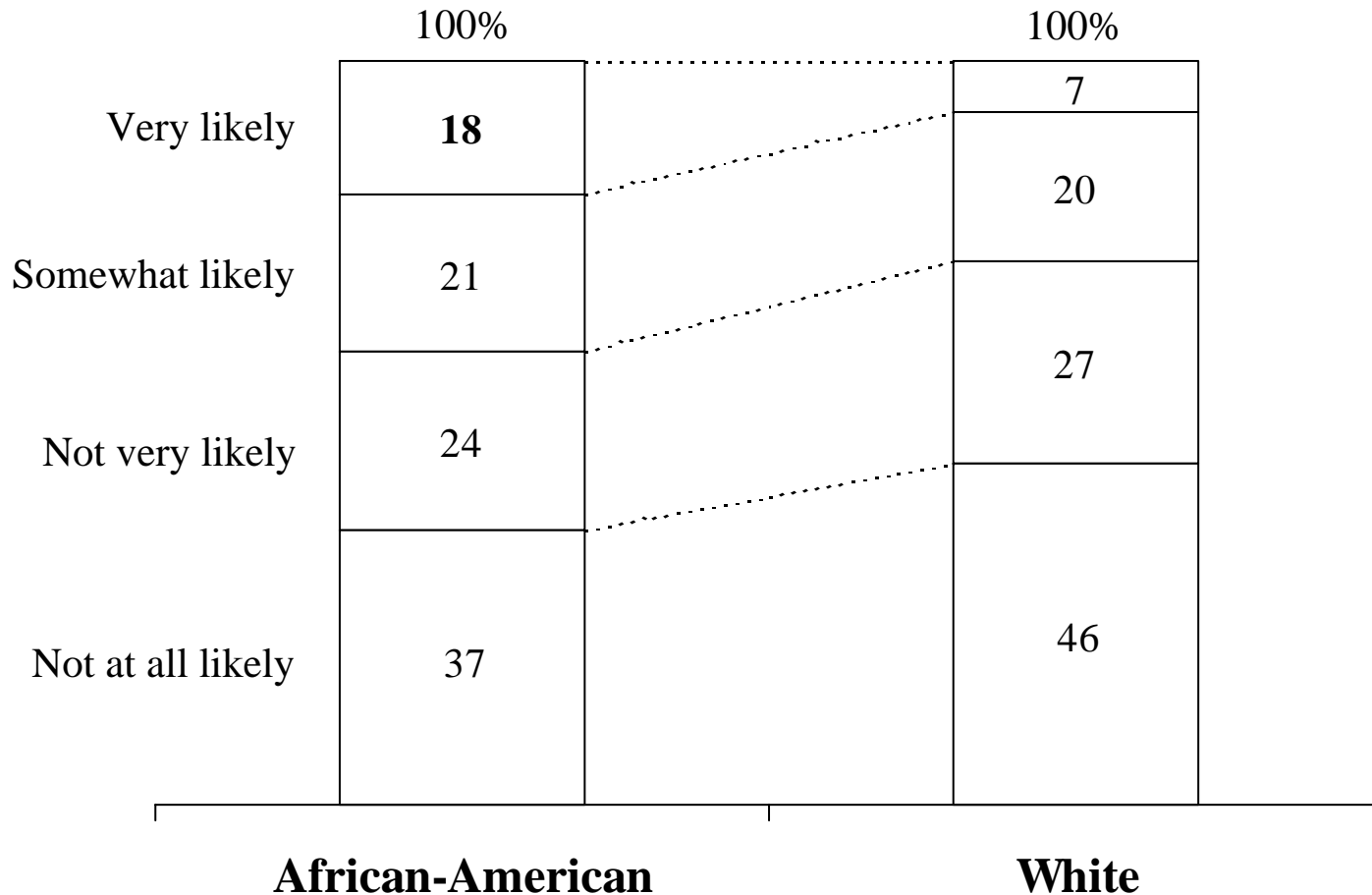
(% answering yes)



LIKELIHOOD TO INVEST IN THE NEXT YEAR

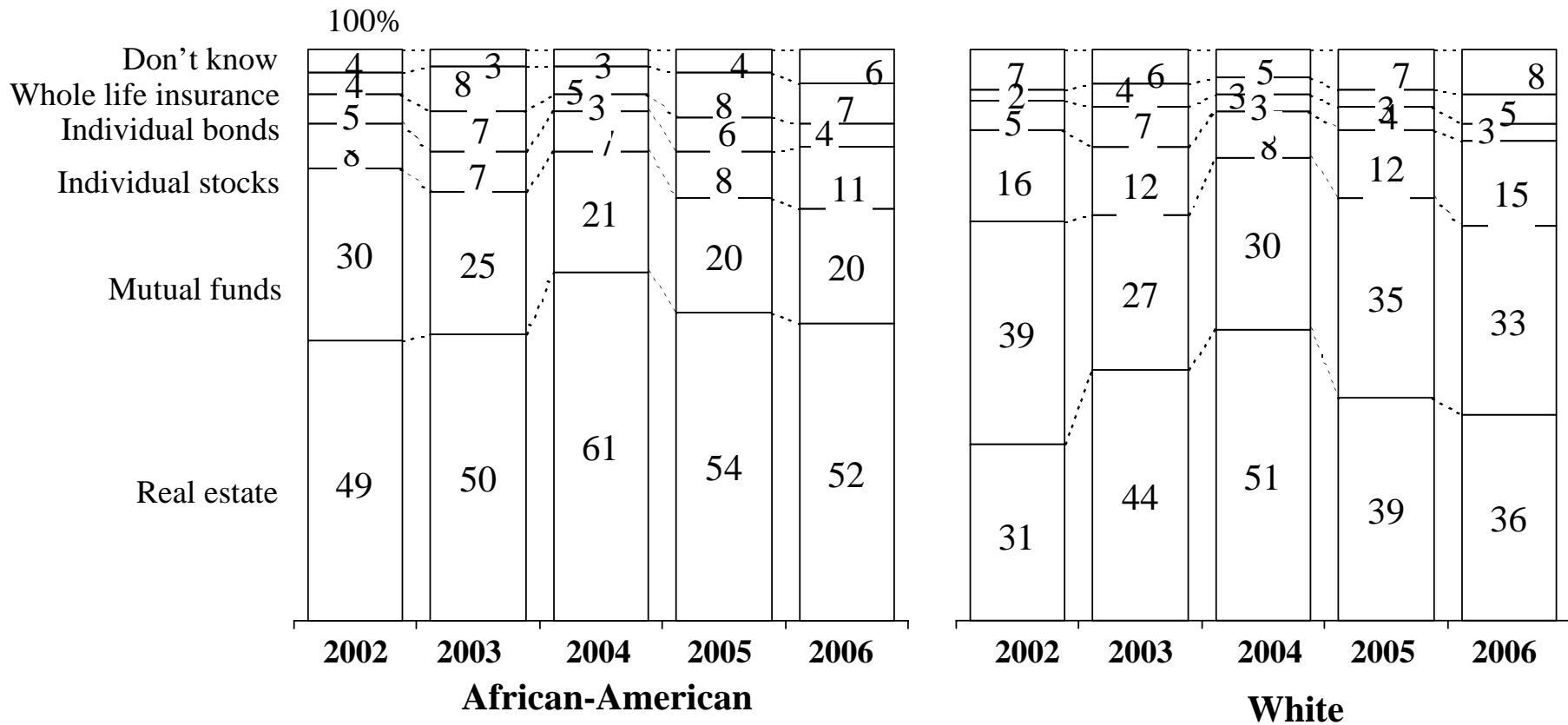
Excluding employer sponsored retirement plans, how likely are you to begin investing in stocks or mutual funds during the next year?

Base: Non-investors



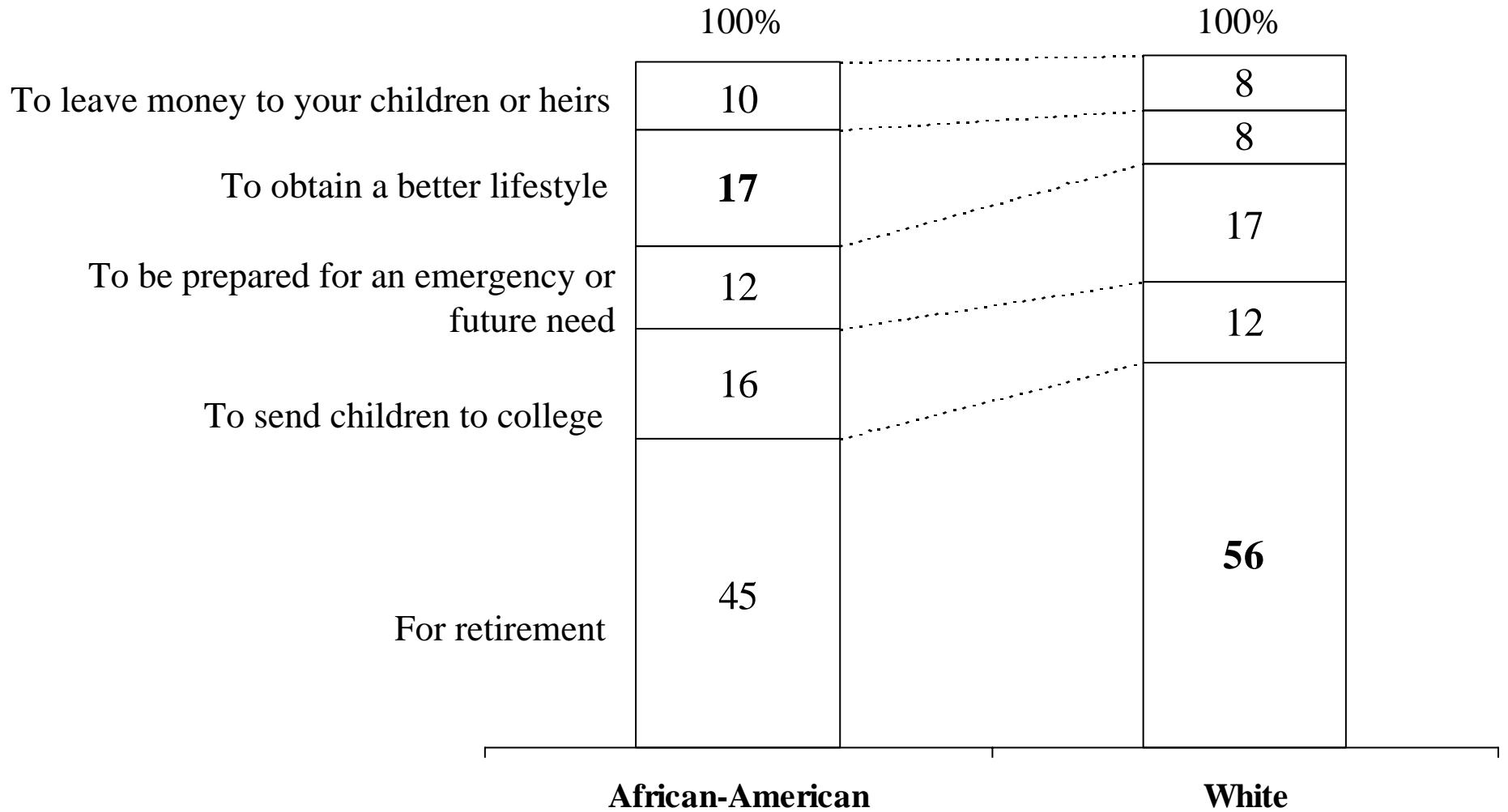
PERCEPTIONS OF BEST INVESTMENTS OVERALL

Which of the following do you think is the best investment overall?



GOAL FOR SAVINGS AND INVESTING

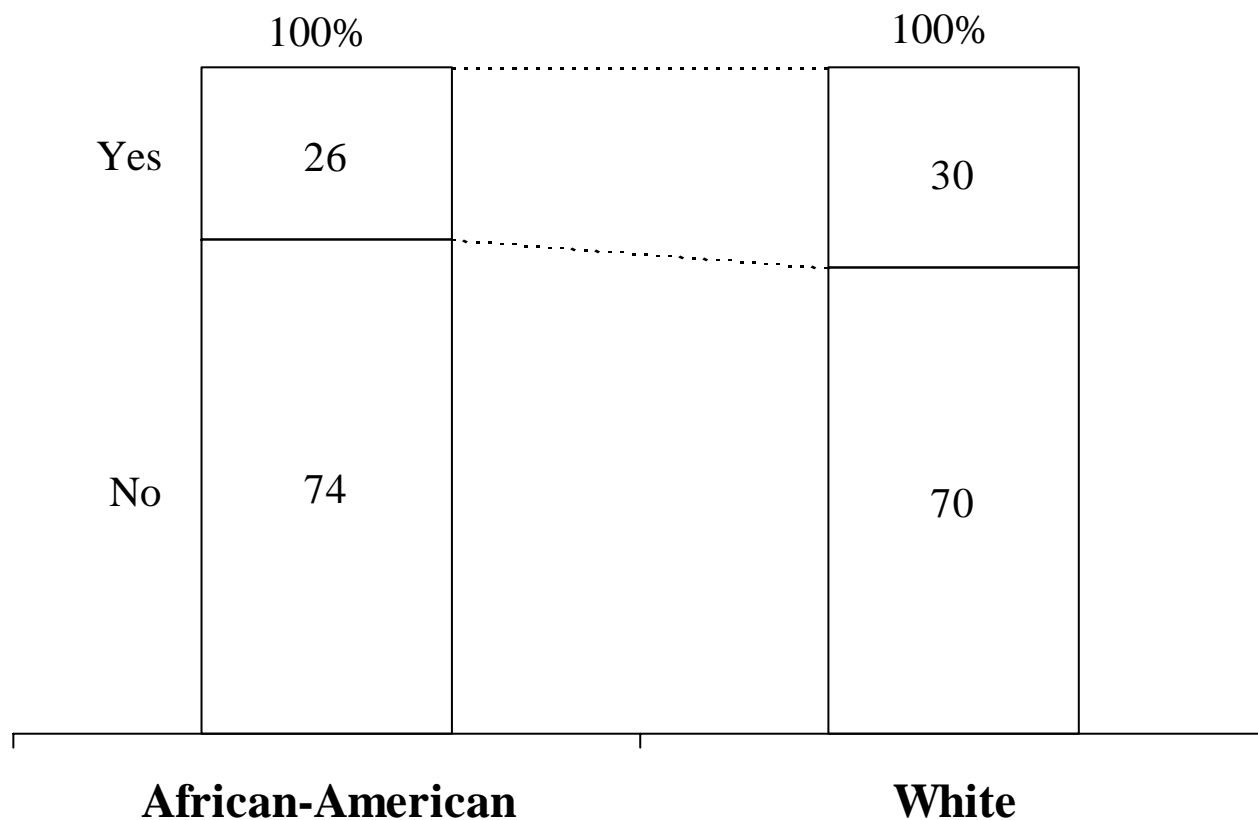
Of the following, which would you say is your most important goal in saving or investing money?



RETIREMENT WORRIES

Are you worried about your retirement?

Base: Not retired

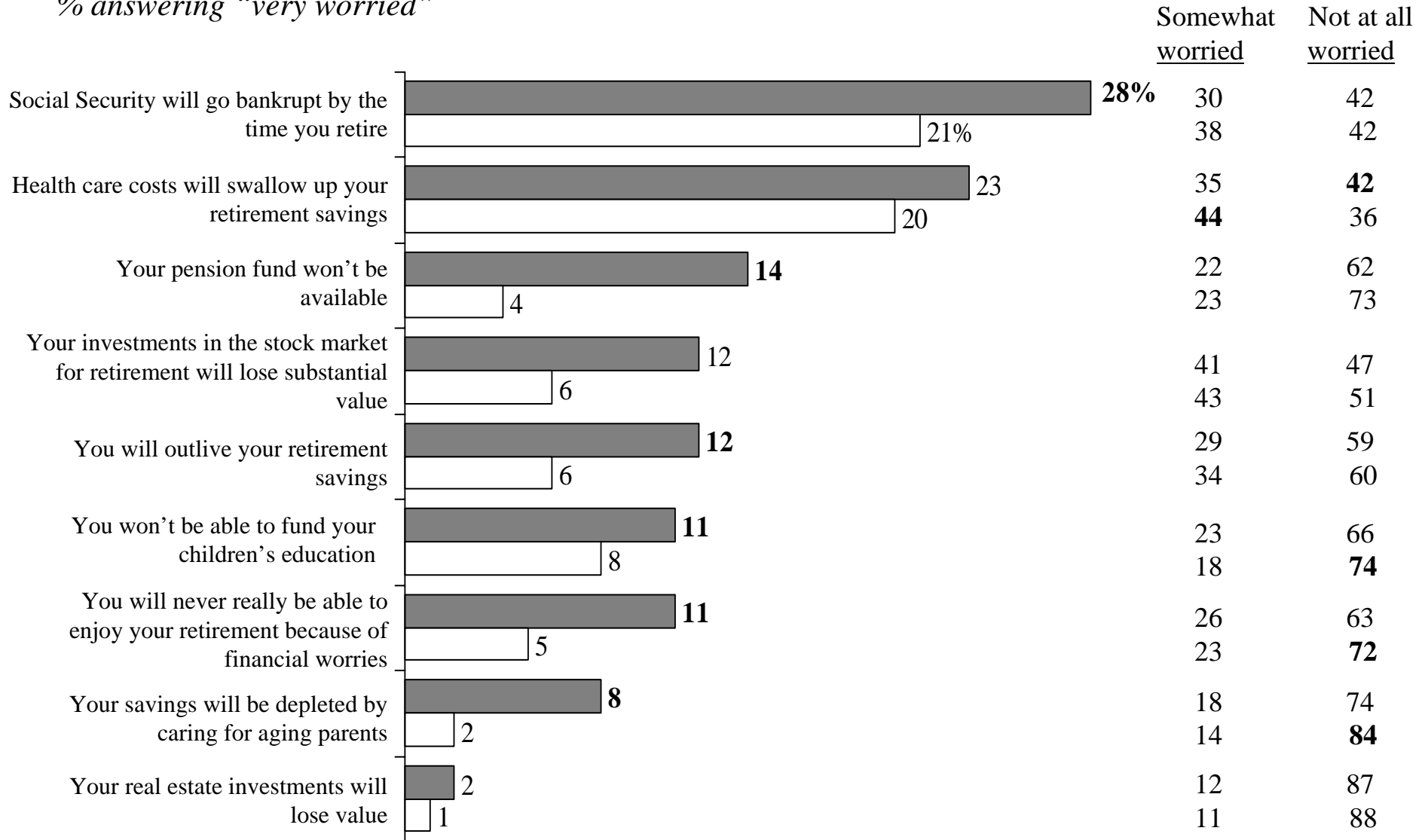


ANXIETIES ABOUT RETIREMENT

How worried are you about the following possibilities?

% answering "very worried"

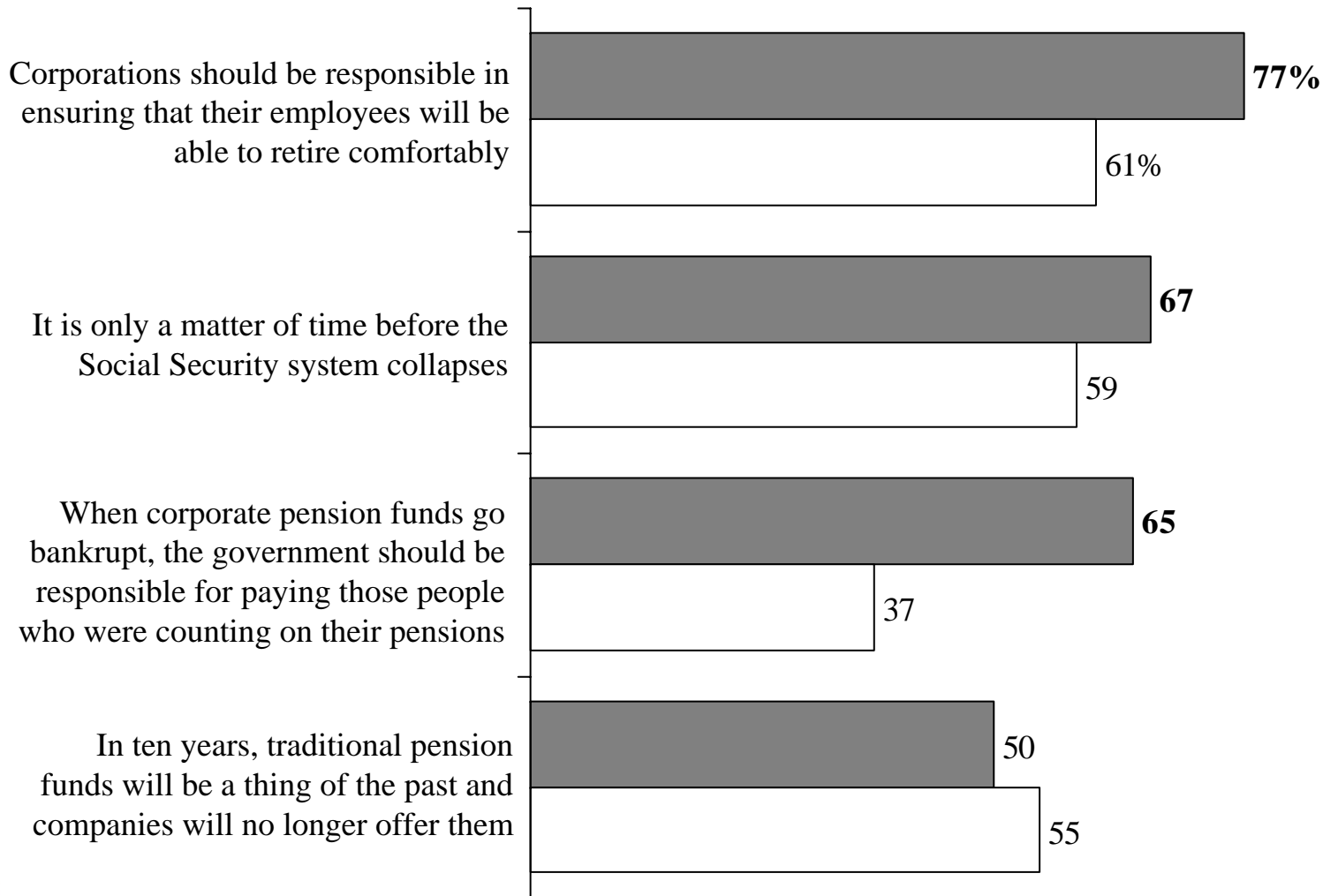
African-American
 White



ATTITUDES ABOUT RETIREMENT FUNDING

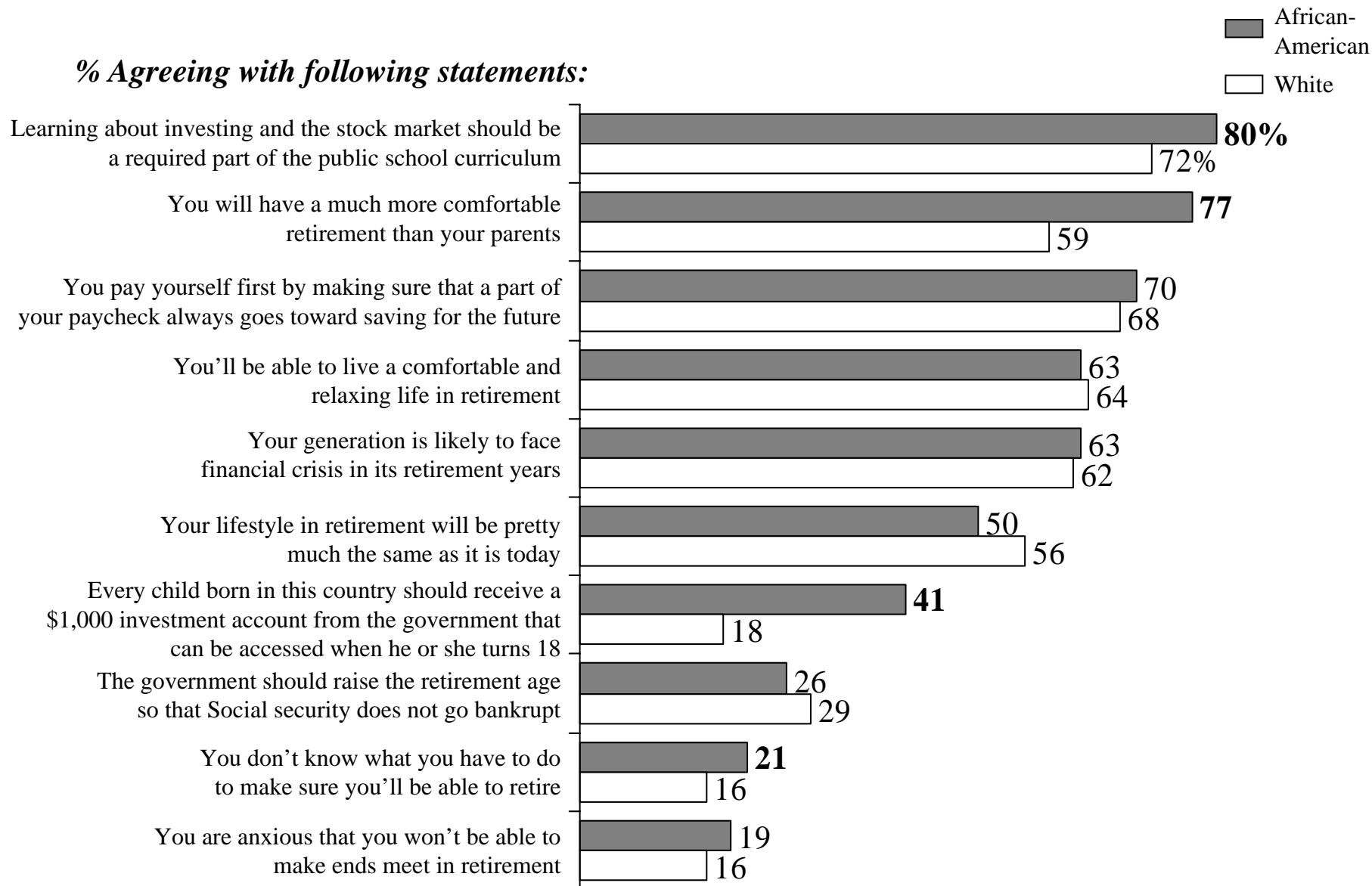
% Agreeing with following statements.

■ African-American
□ White



MORE ATTITUDES ABOUT RETIREMENT

% Agreeing with following statements:

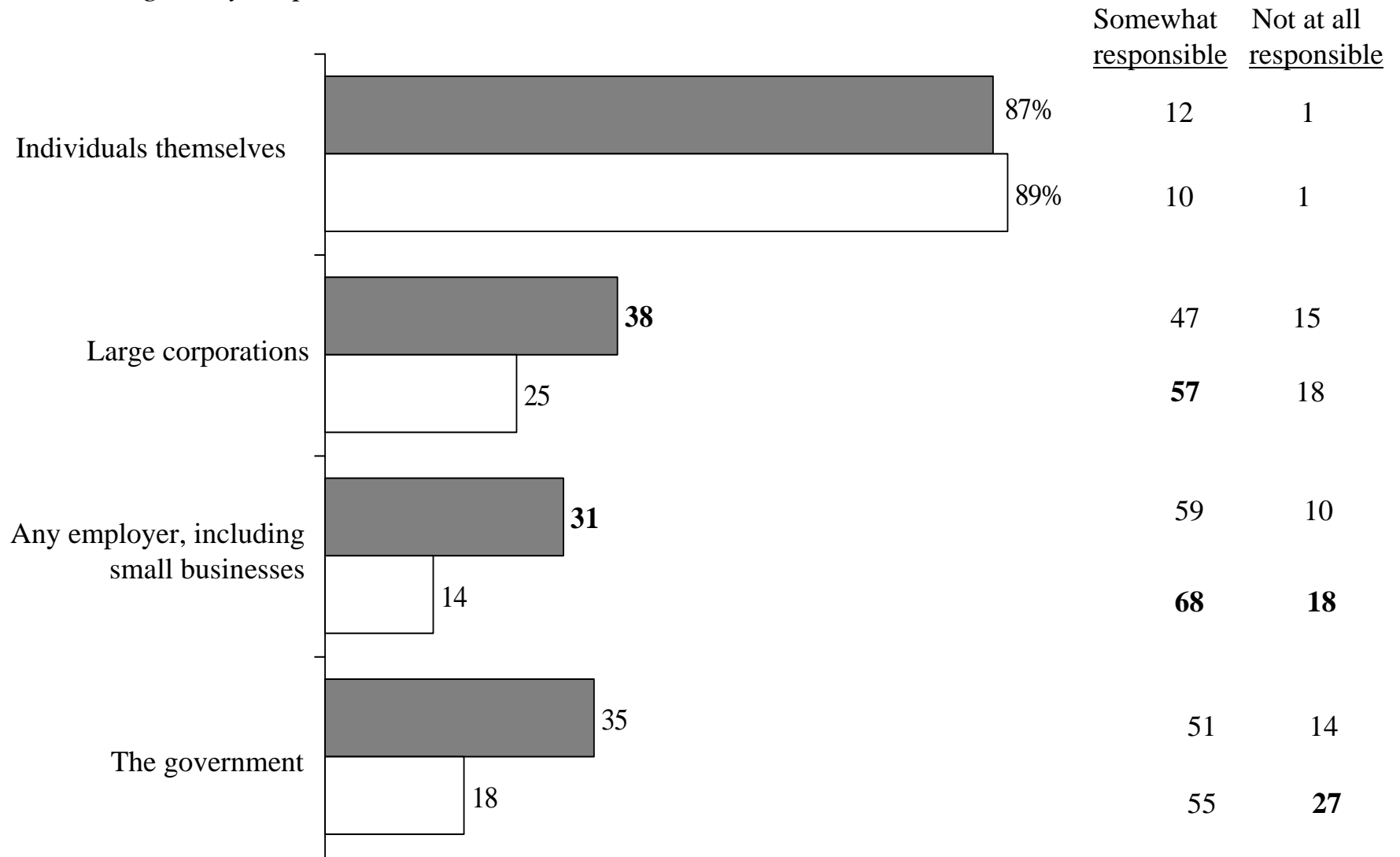


RESPONSIBILITY FOR RETIREMENT

How responsible should the following be for preparing Americans for retirement?

% answering "very responsible"

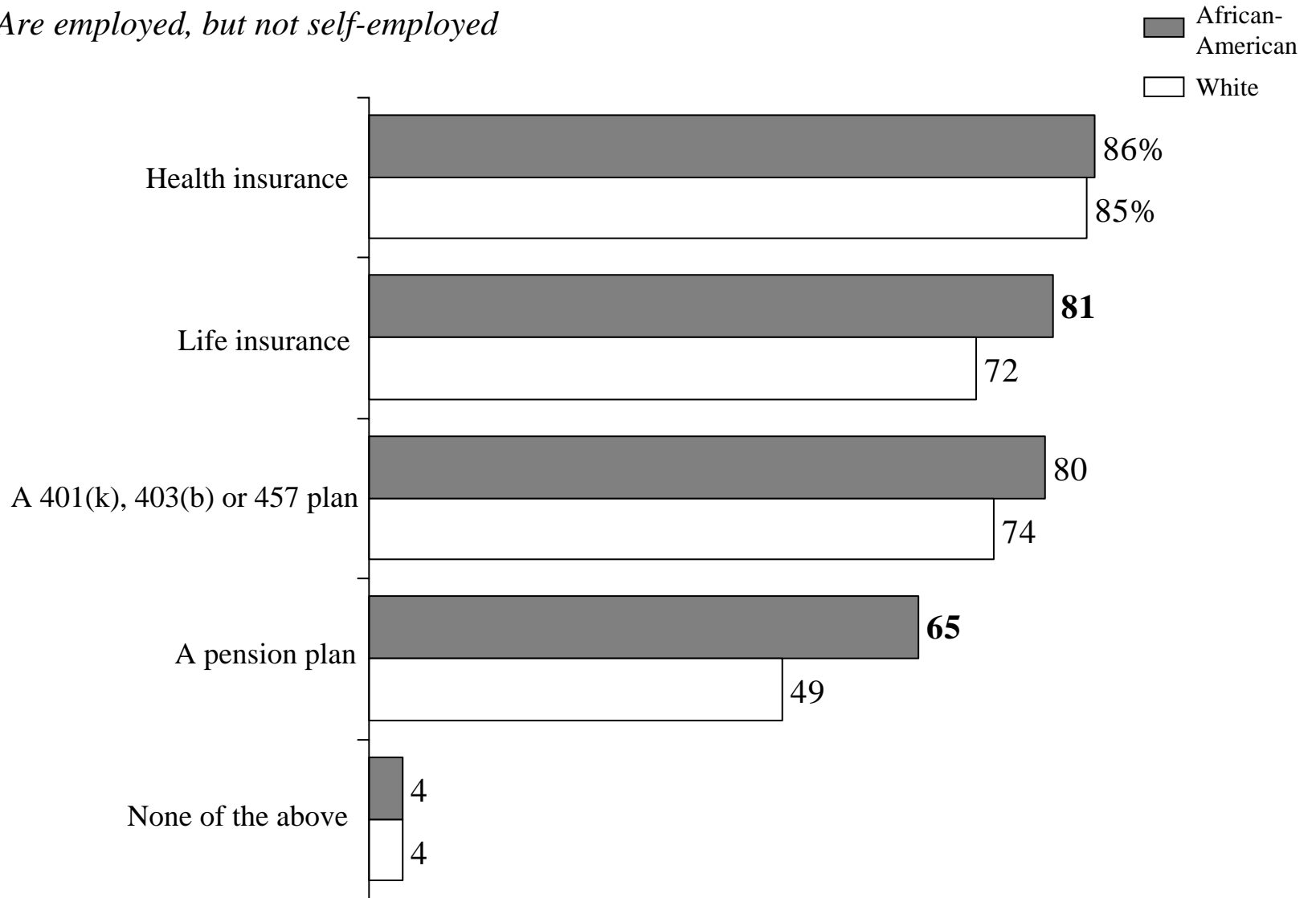
African-American
 White



BENEFITS OFFERED BY EMPLOYER

Which of the following benefits does your company or organization offer?

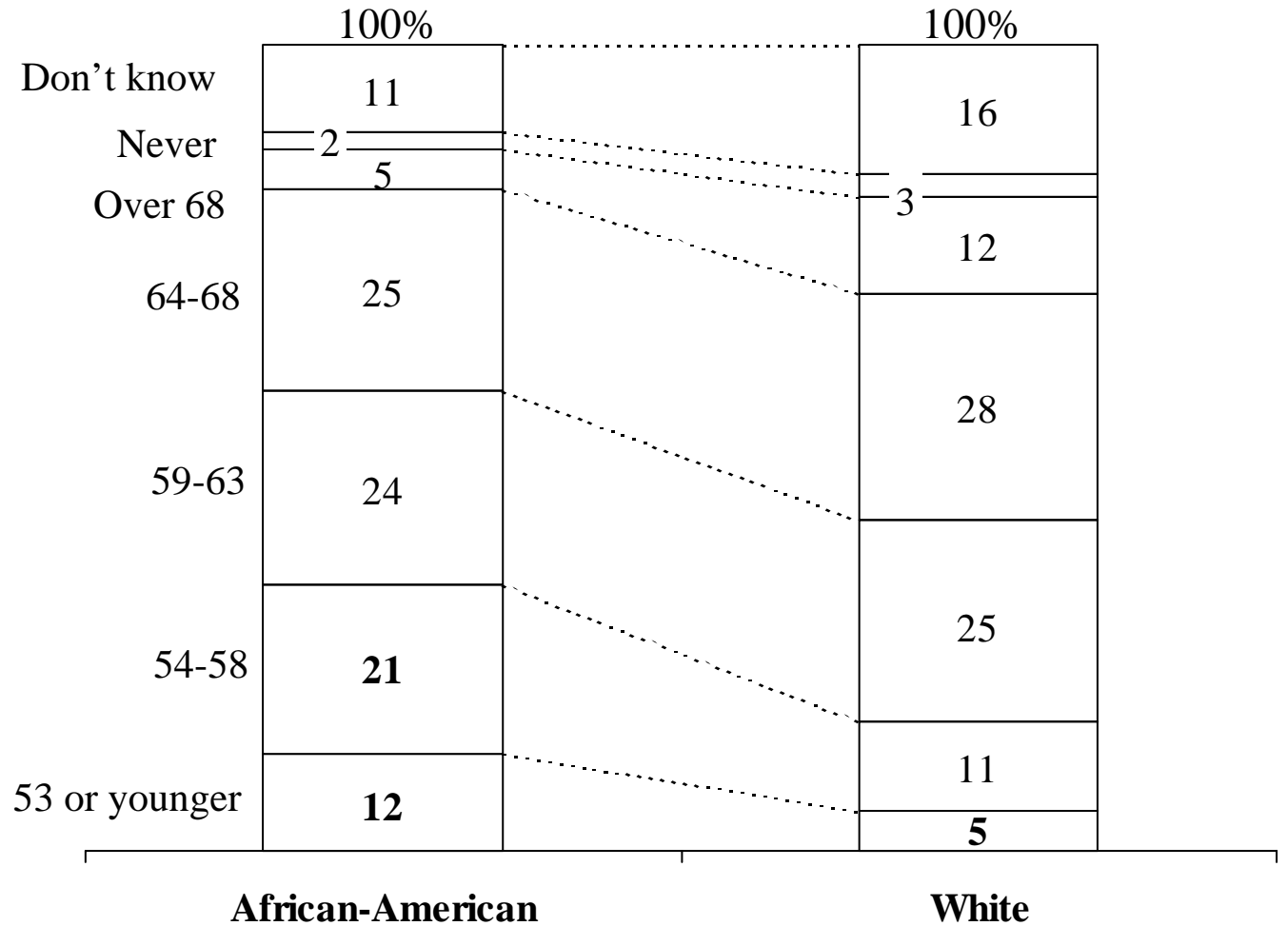
Base: Are employed, but not self-employed



PLANNED RETIREMENT AGE

At what age are you aiming to retire?

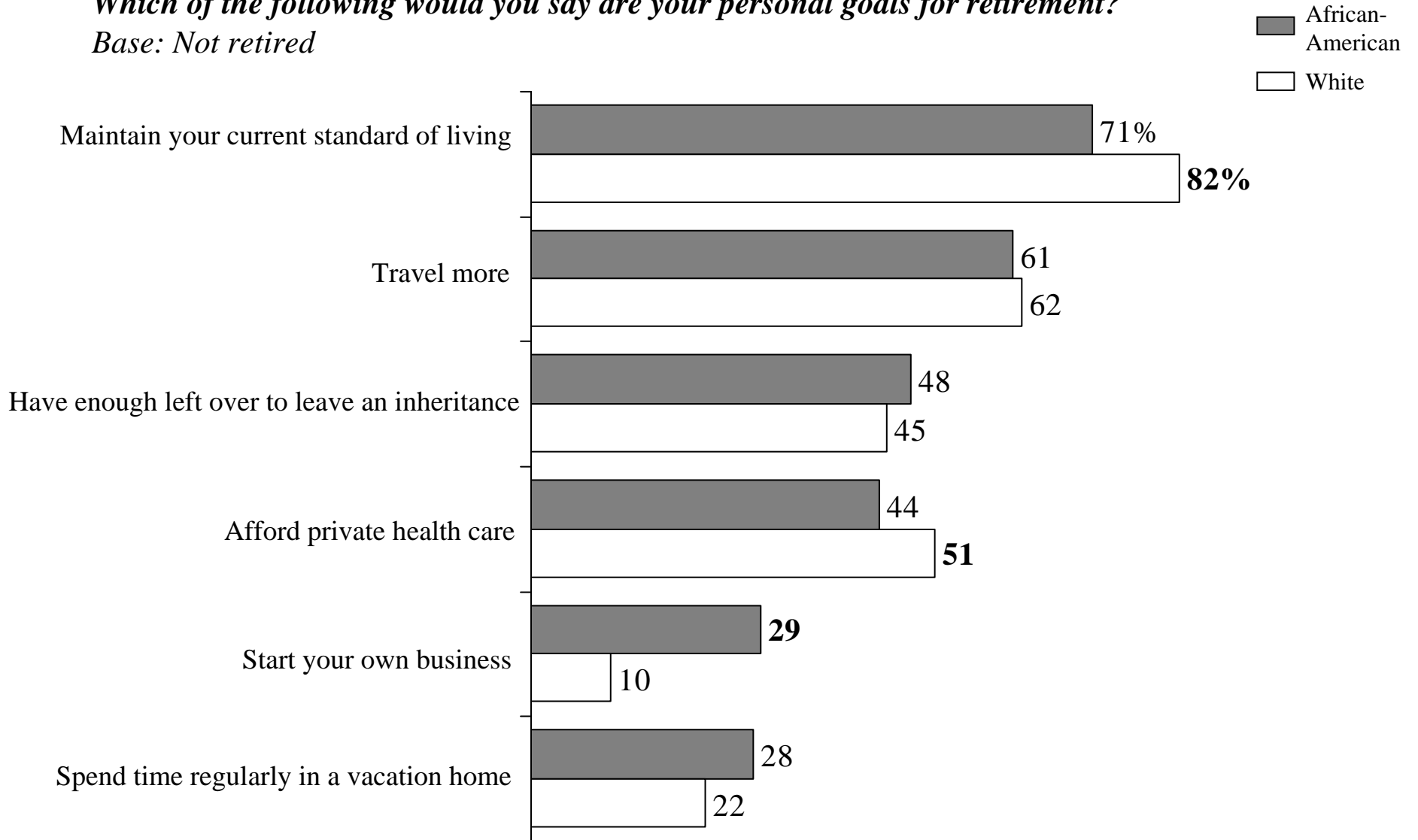
Base: Not retired



PERSONAL RETIREMENT GOALS

Which of the following would you say are your personal goals for retirement?

Base: Not retired

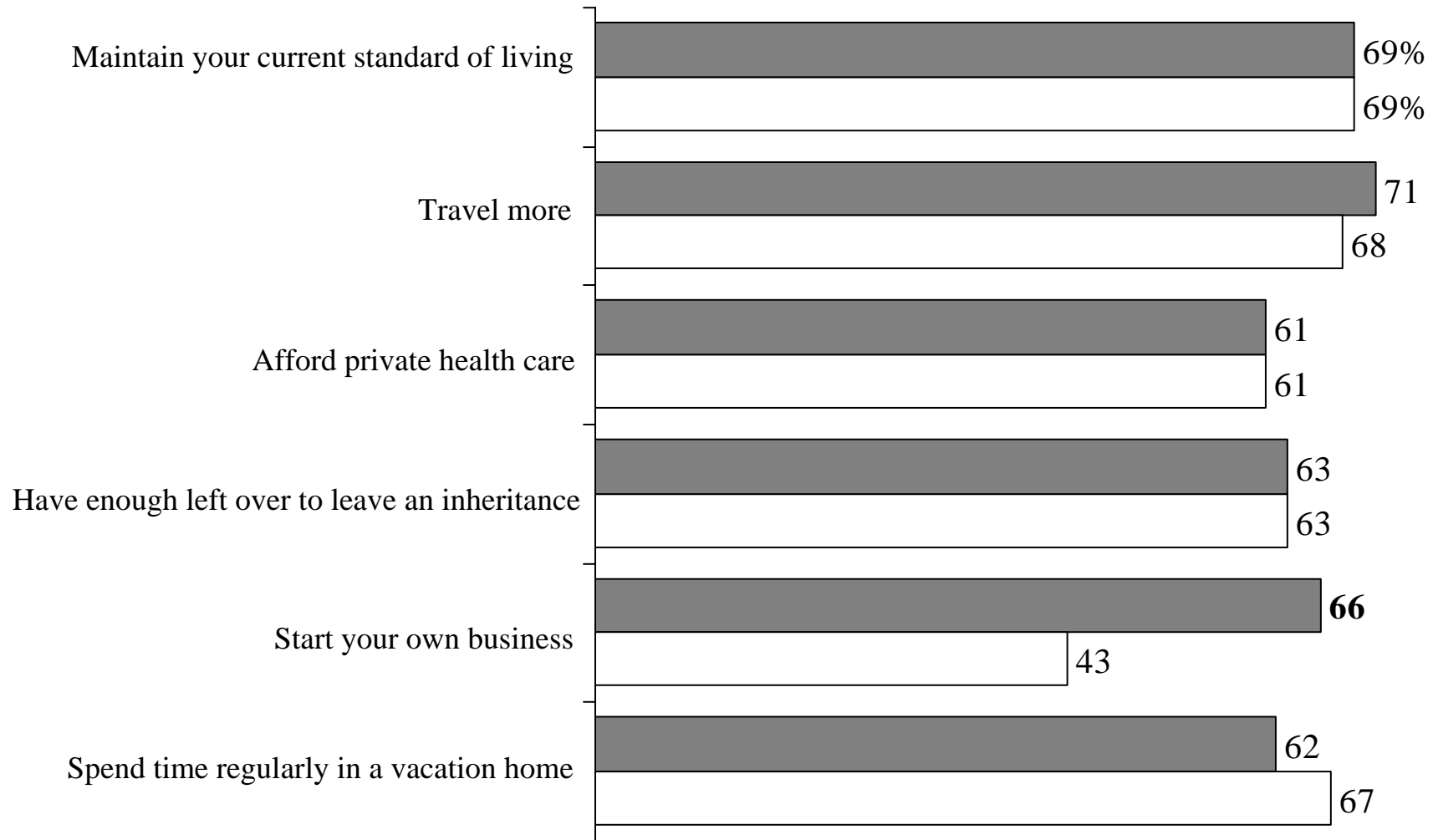


ABILITY TO MEET RETIREMENT GOALS

Realistically considering your financial situation, do you think you will be able to meet these goals when you aim to retire? (% having goal and saying “yes”)

Base: Not retired and aiming to retire by a certain age

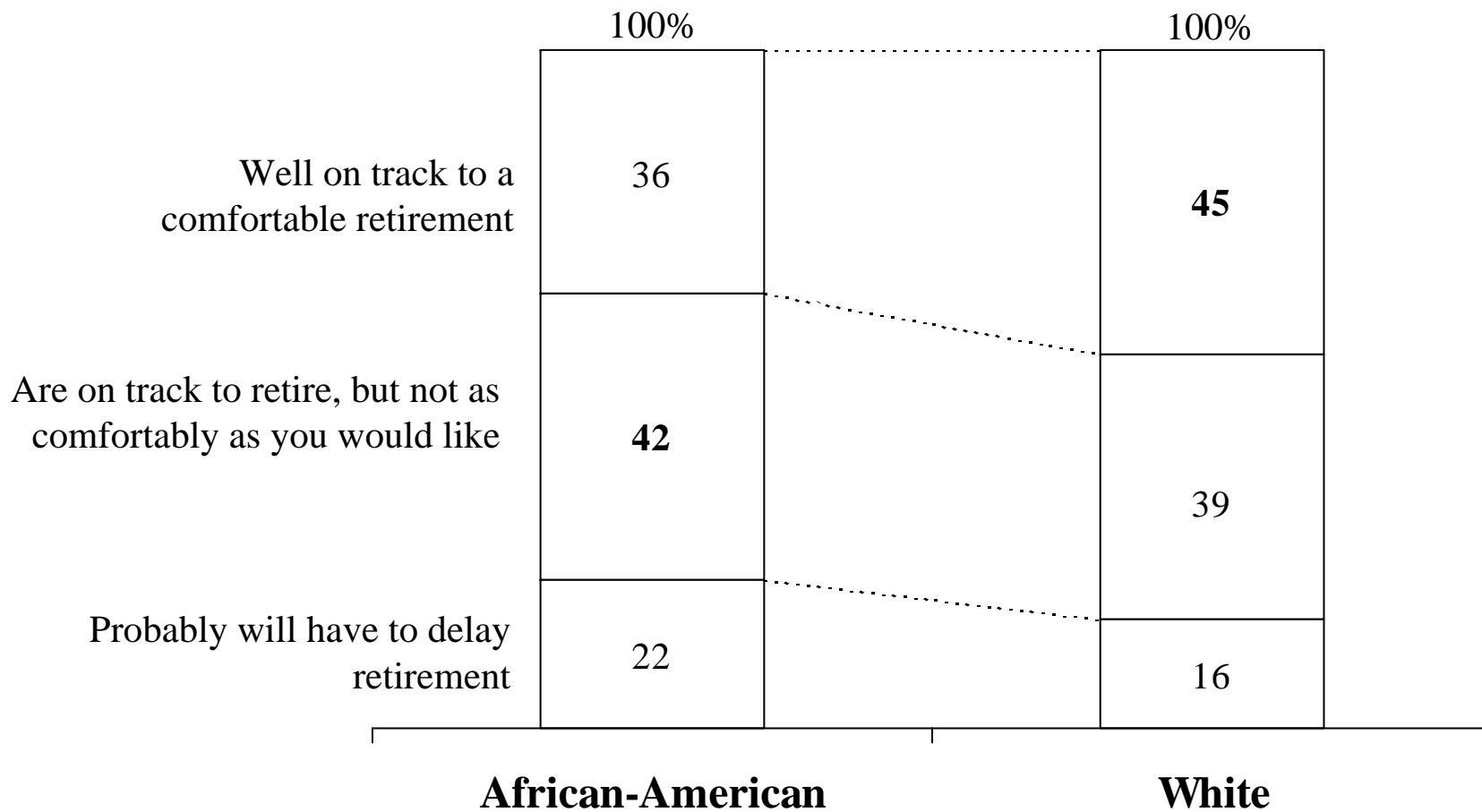
■ African-American
□ White



RETIREMENT READINESS SELF-ASSESSMENT

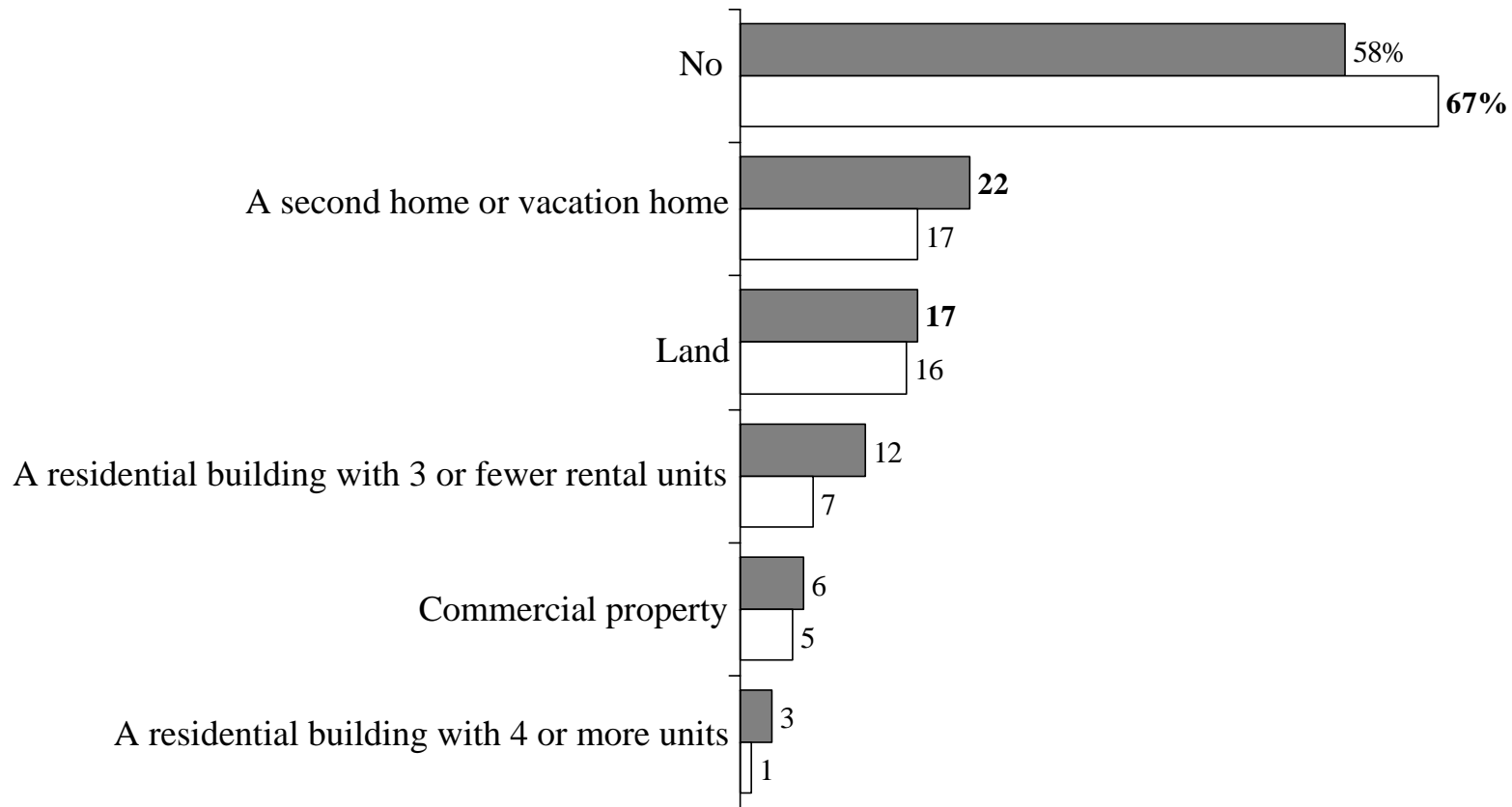
Considering the total money you currently have saved for retirement, would you say that you are...?

Base: Not retired



REAL ESTATE OWNERSHIP

Apart from a primary residence, do you own any other real estate or investment properties?

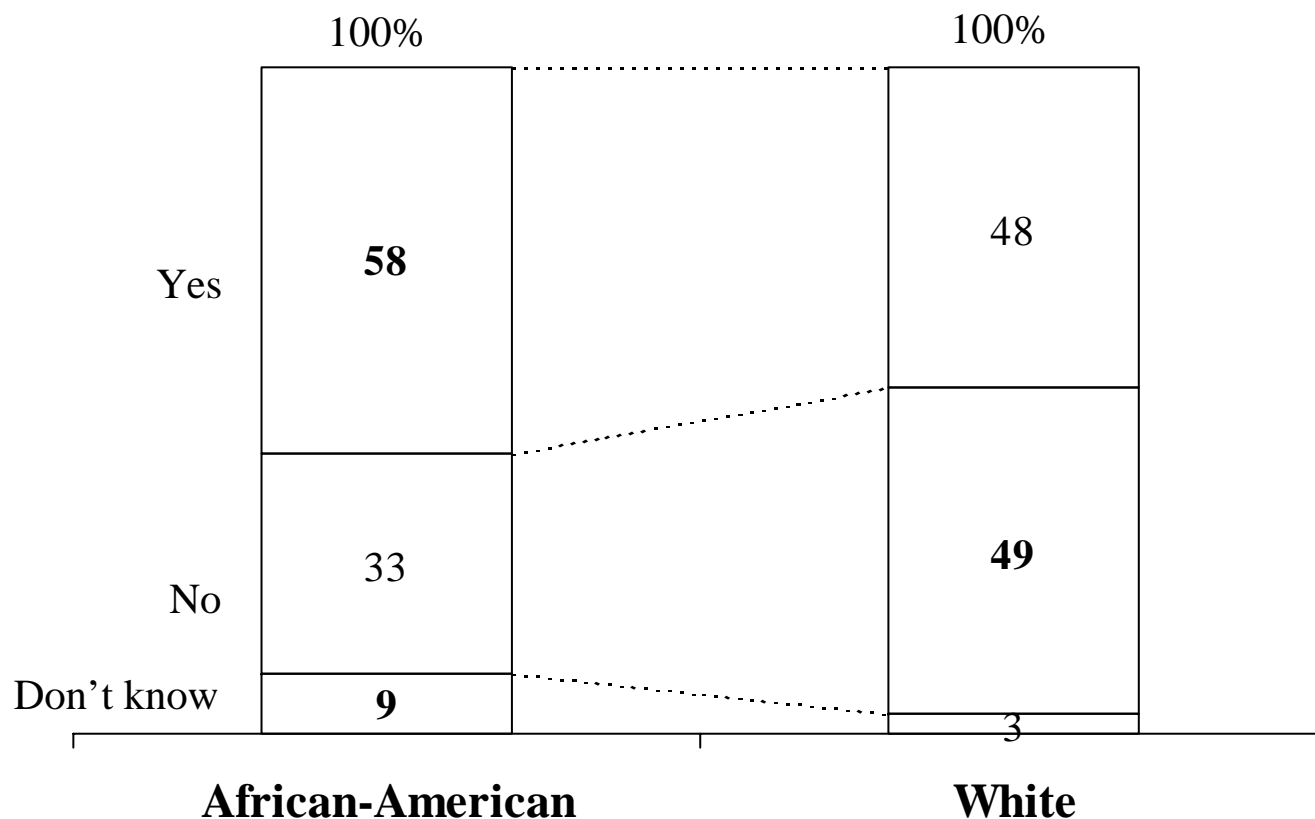


REAL ESTATE AS FUNDS FOR RETIREMENT

Do you expect that this real estate investment will help you fund your retirement?

(If retired: Is this real estate investment helping your fund your retirement?)

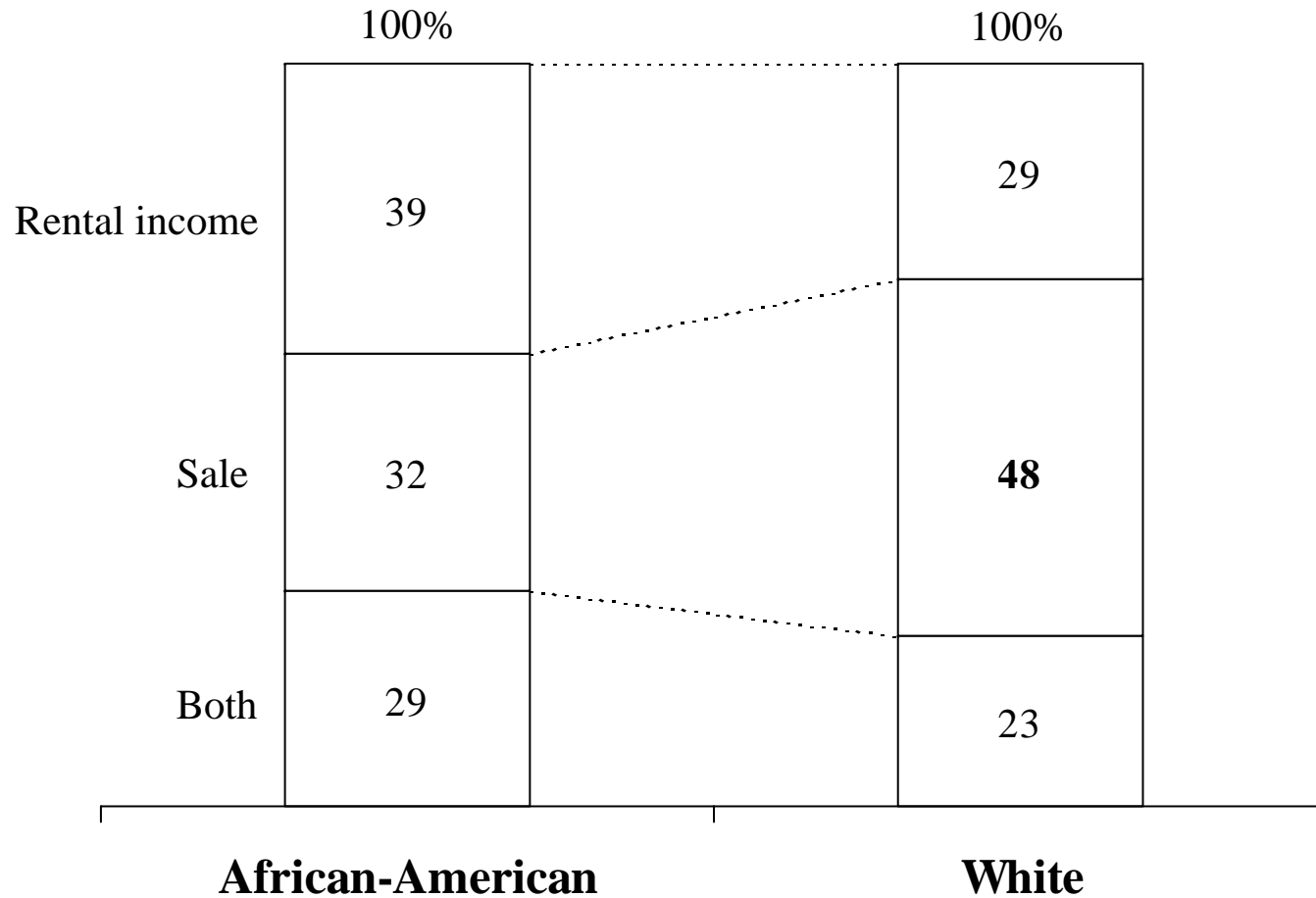
Base: Own real estate other than primary residence



SOURCE OF REAL ESTATE FUNDS FOR RETIREMENT

How will it help/how is it helping you fund your retirement?

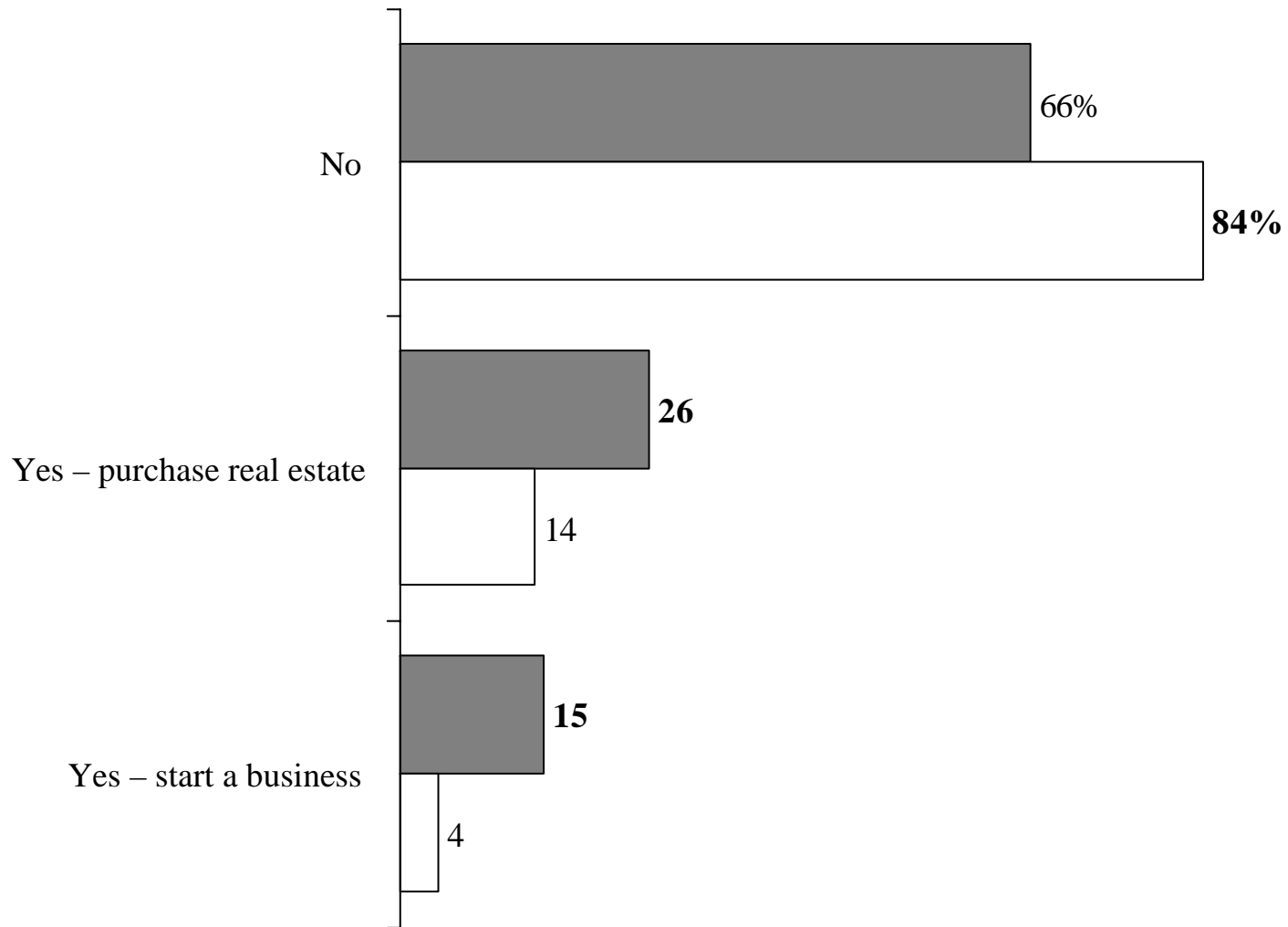
Base: Own real estate investments expected to help fund retirement



SAVING MONEY FOR REAL ESTATE OR BUSINESS

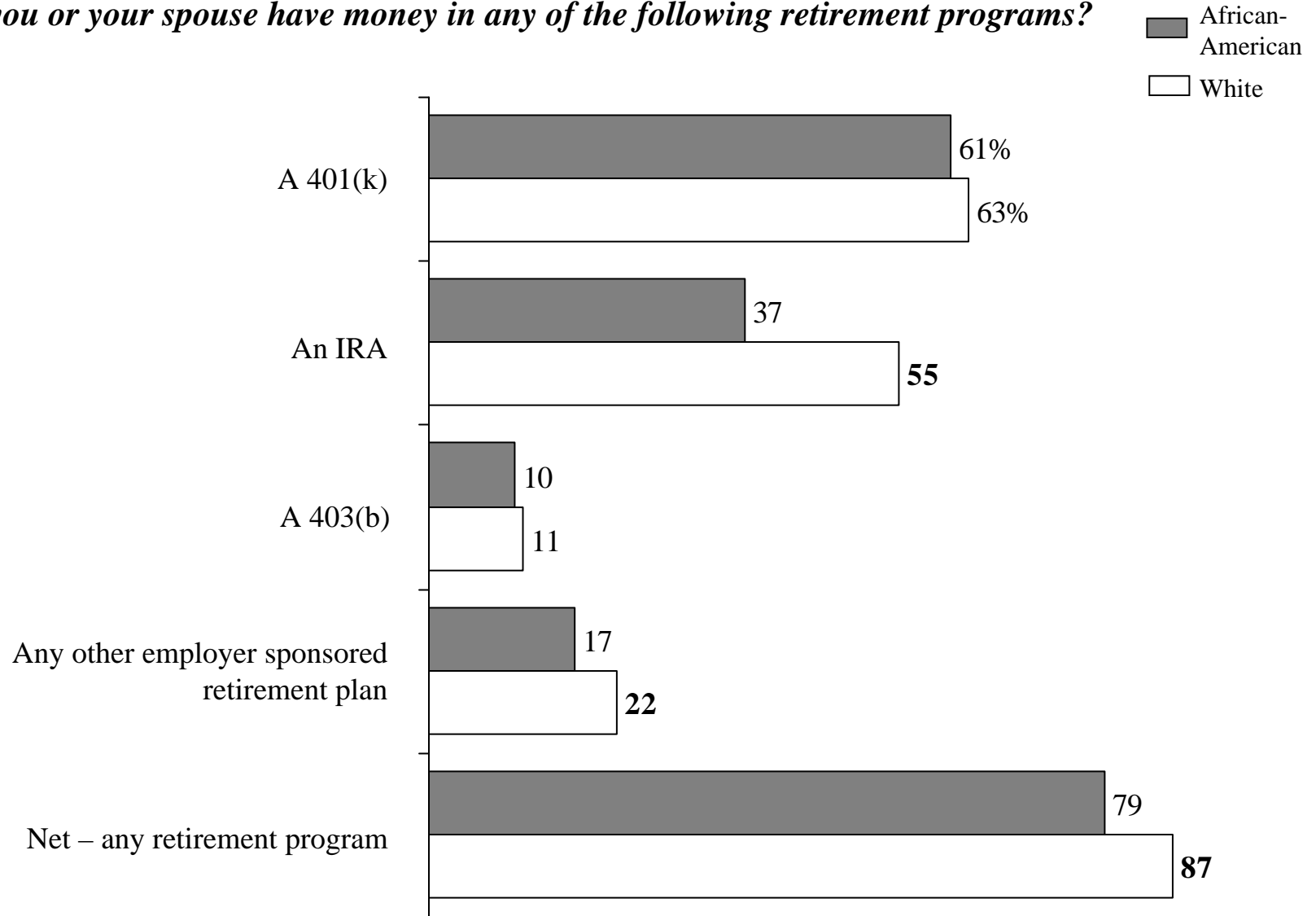
Are you currently saving money in order to purchase real estate or to start a business?

■ African-American
□ White



RETIREMENT PLANS OWNED

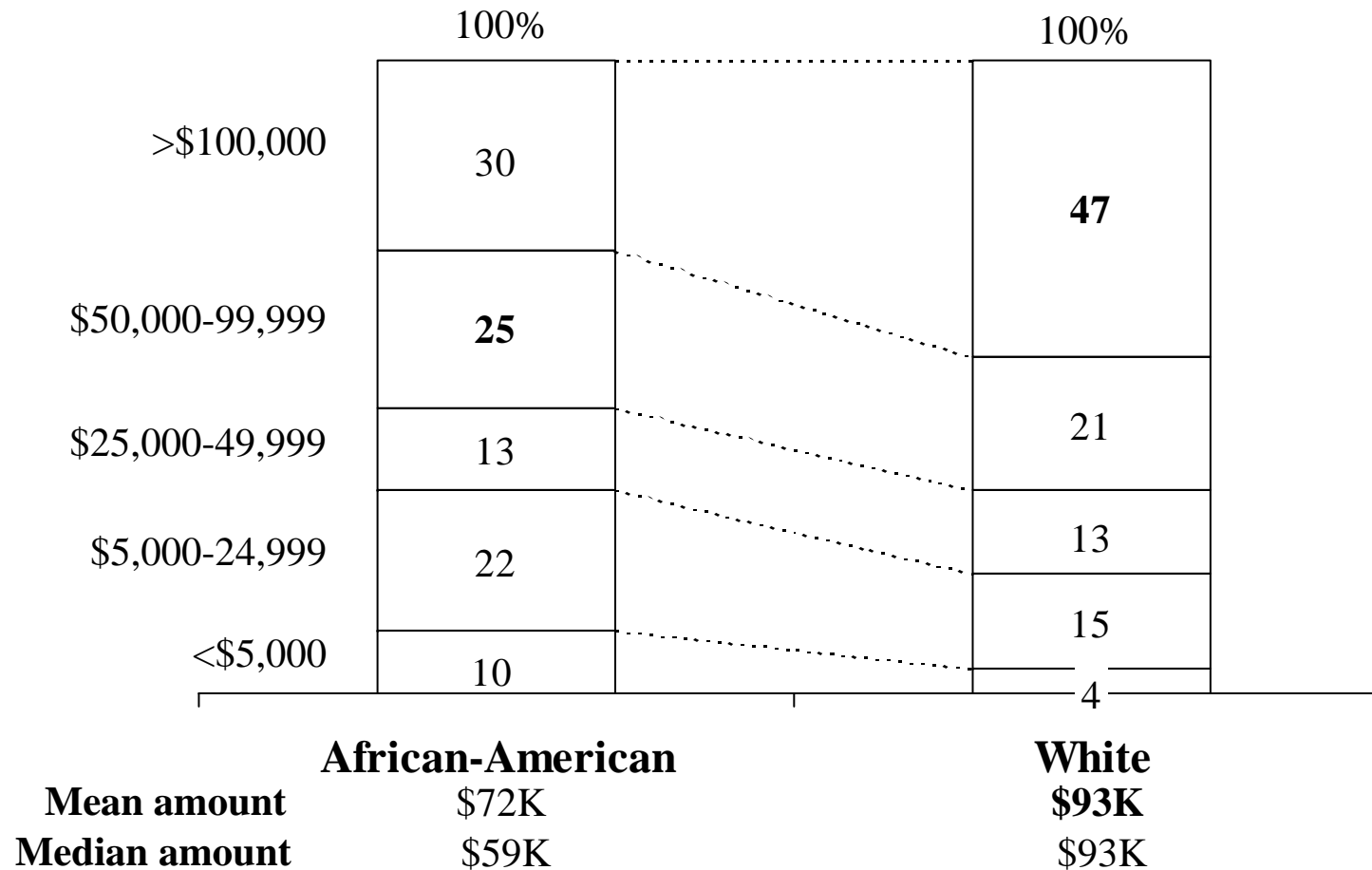
Do you or your spouse have money in any of the following retirement programs?



RETIREMENT ACCOUNT SAVINGS

How much money do you have in accounts specifically for retirement?

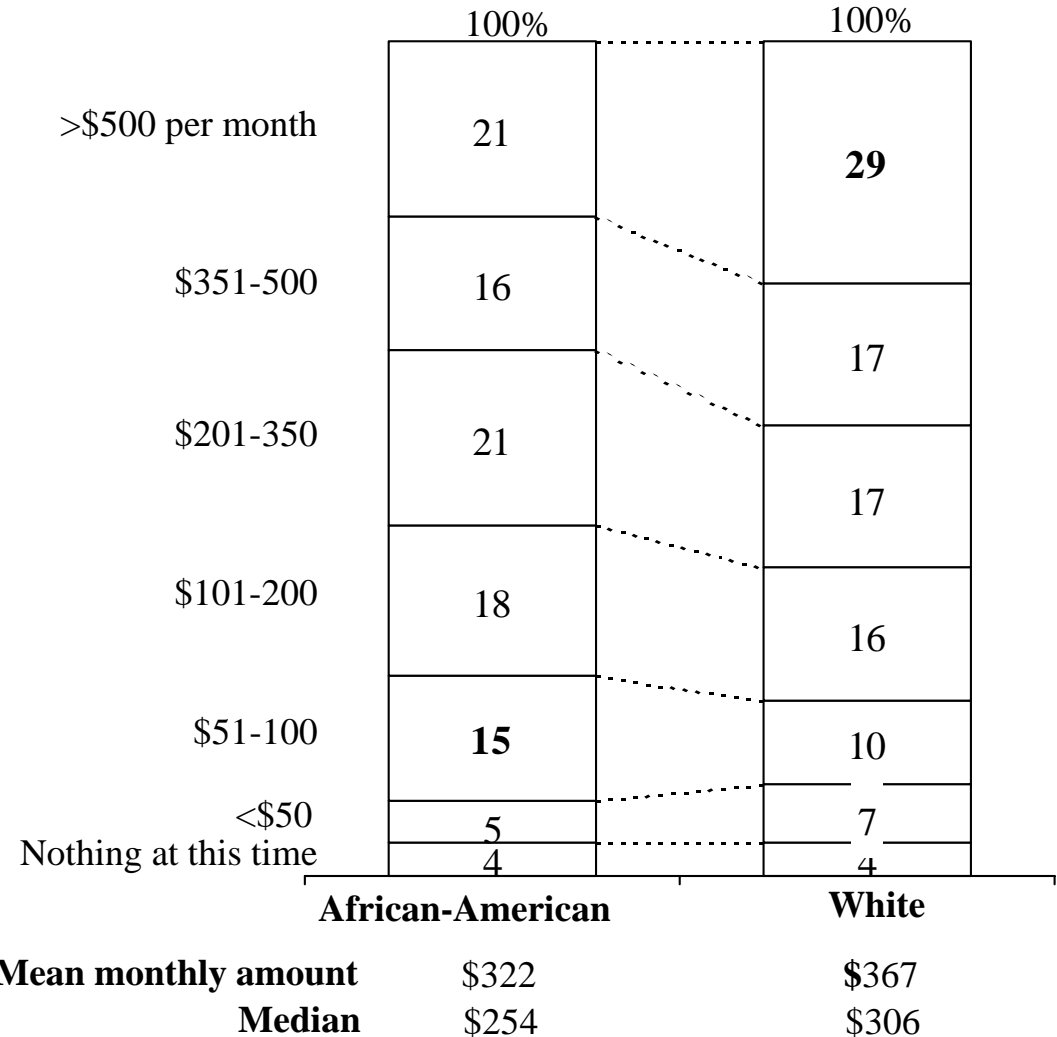
Base: Have money in a retirement plan



MONTHLY RETIREMENT ACCOUNT CONTRIBUTIONS

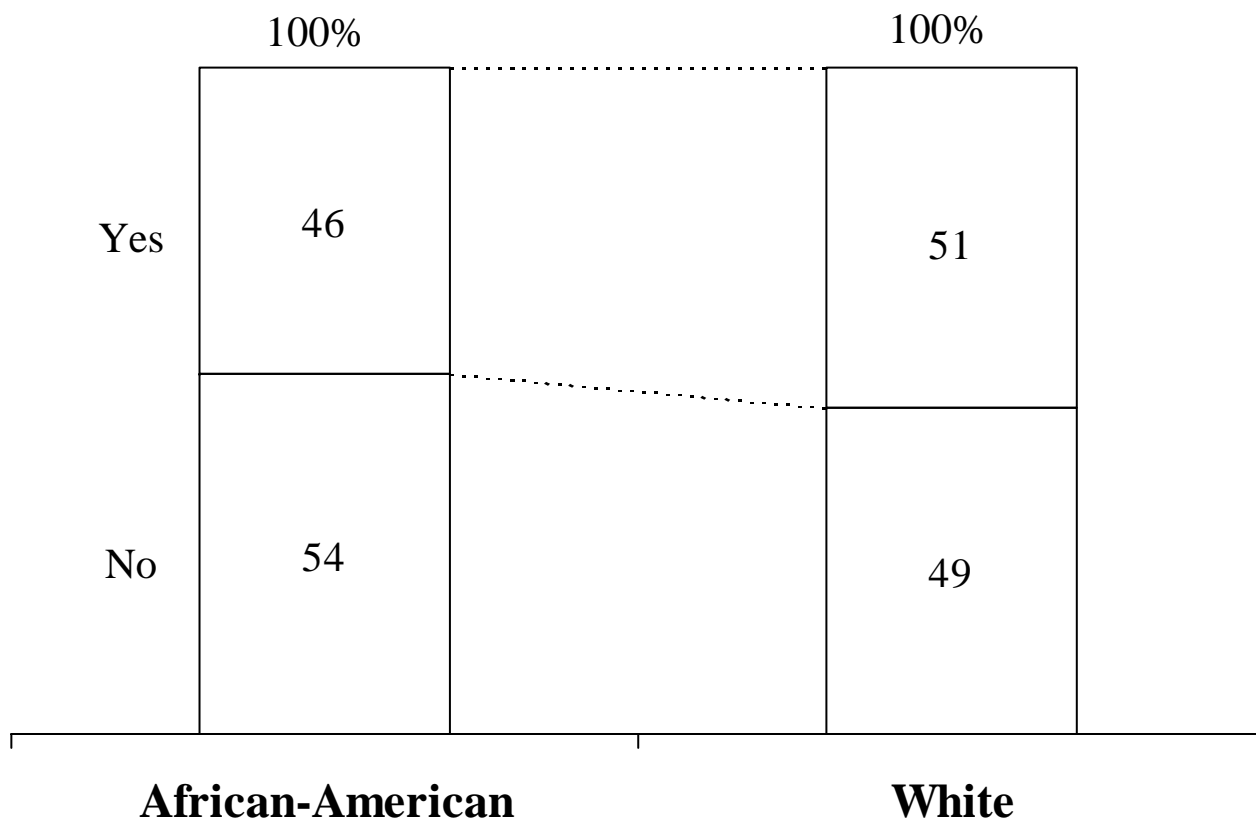
How much money are you investing per month in any sort of retirement account, including an employer sponsored retirement plan?

Base: Employed and have money in a retirement plan



RETIREMENT SAVING OUTSIDE OF PLANS

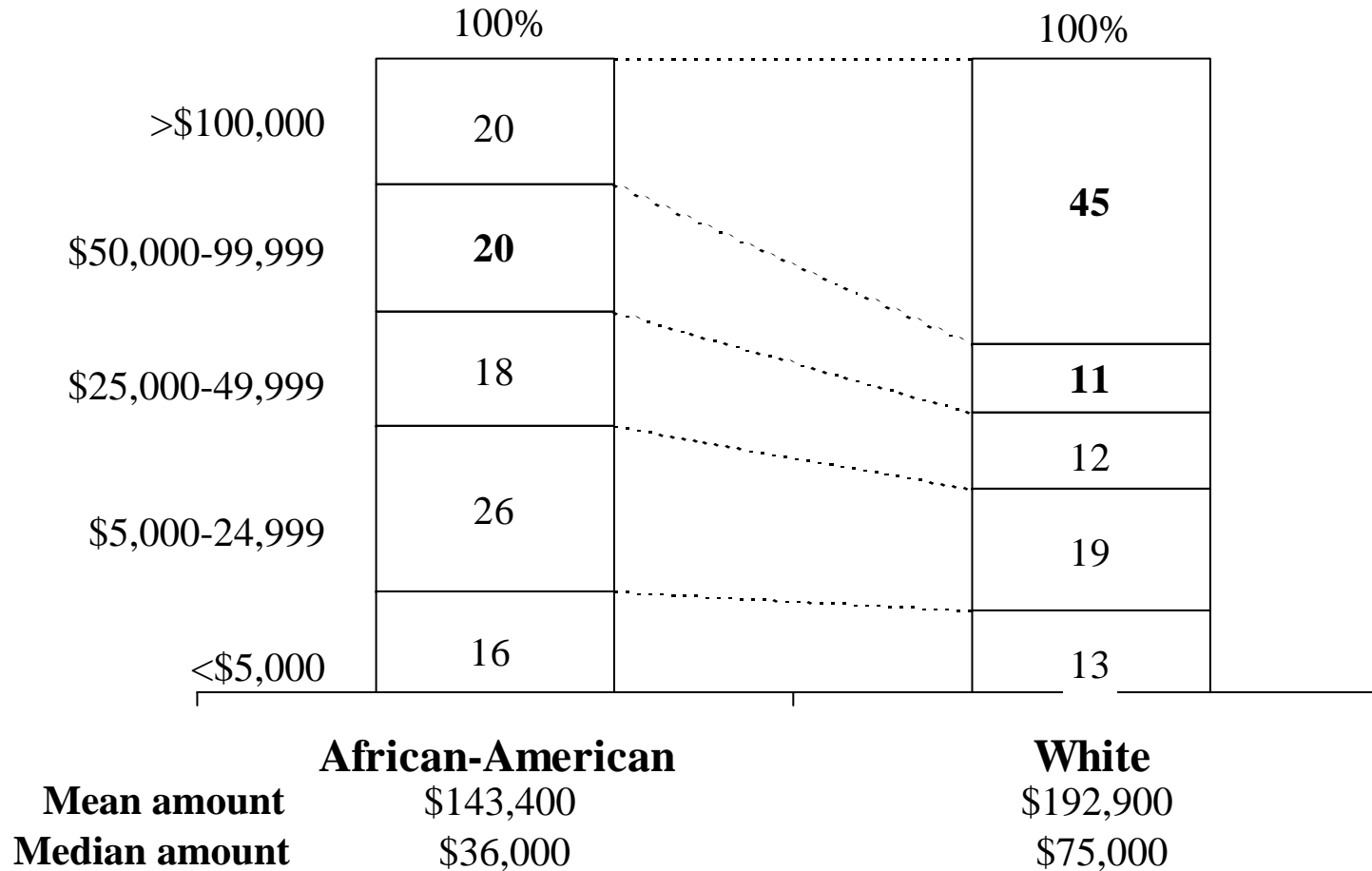
Outside of your retirement accounts, do you have any savings or investments earmarked for your retirement?



OTHER RETIREMENT SAVINGS

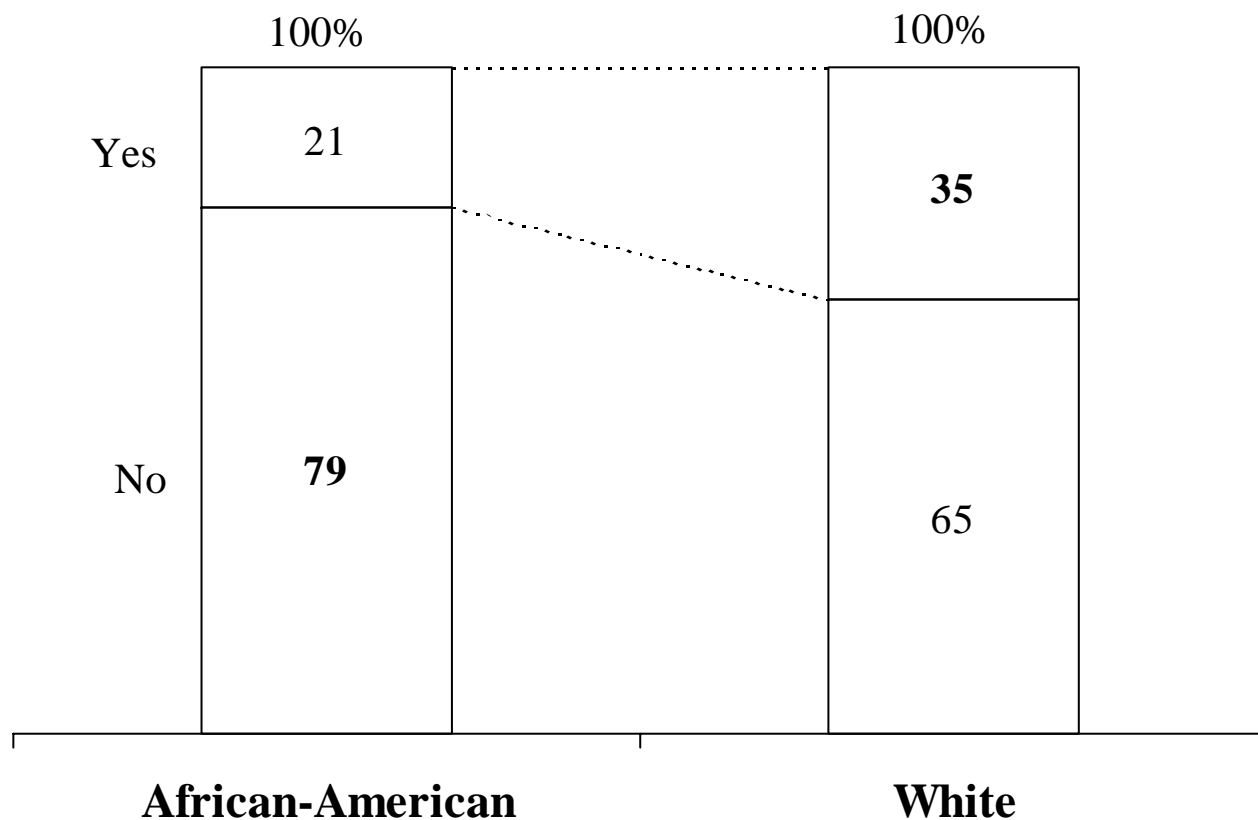
*How much money have you saved for retirement outside your retirement accounts?
(open-ended question)*

Base: Have money saved for retirement outside a retirement account



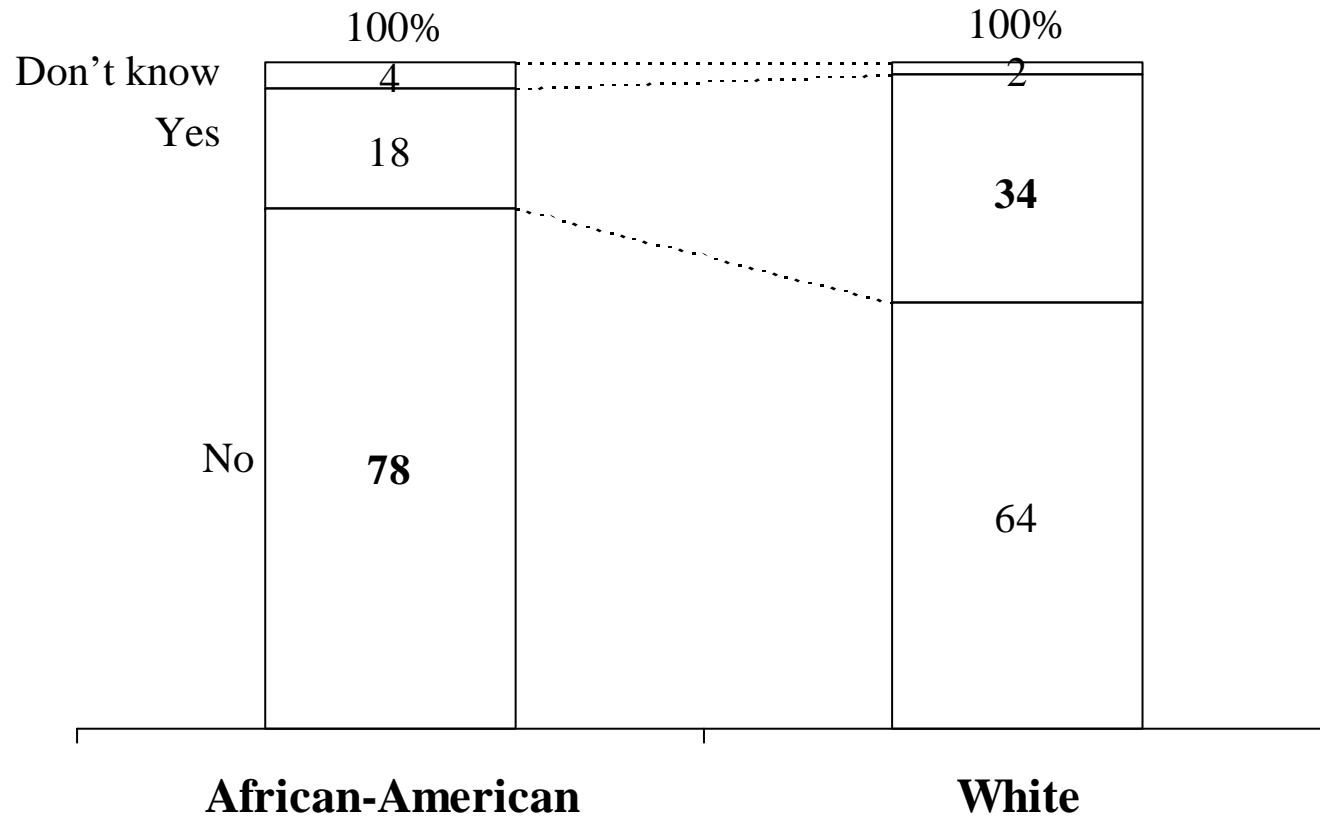
BENEFICIARY OF INHERITANCE

Have you ever received an inheritance?



EXPECTATION OF INHERITANCE

Do you expect to receive an inheritance in the future?

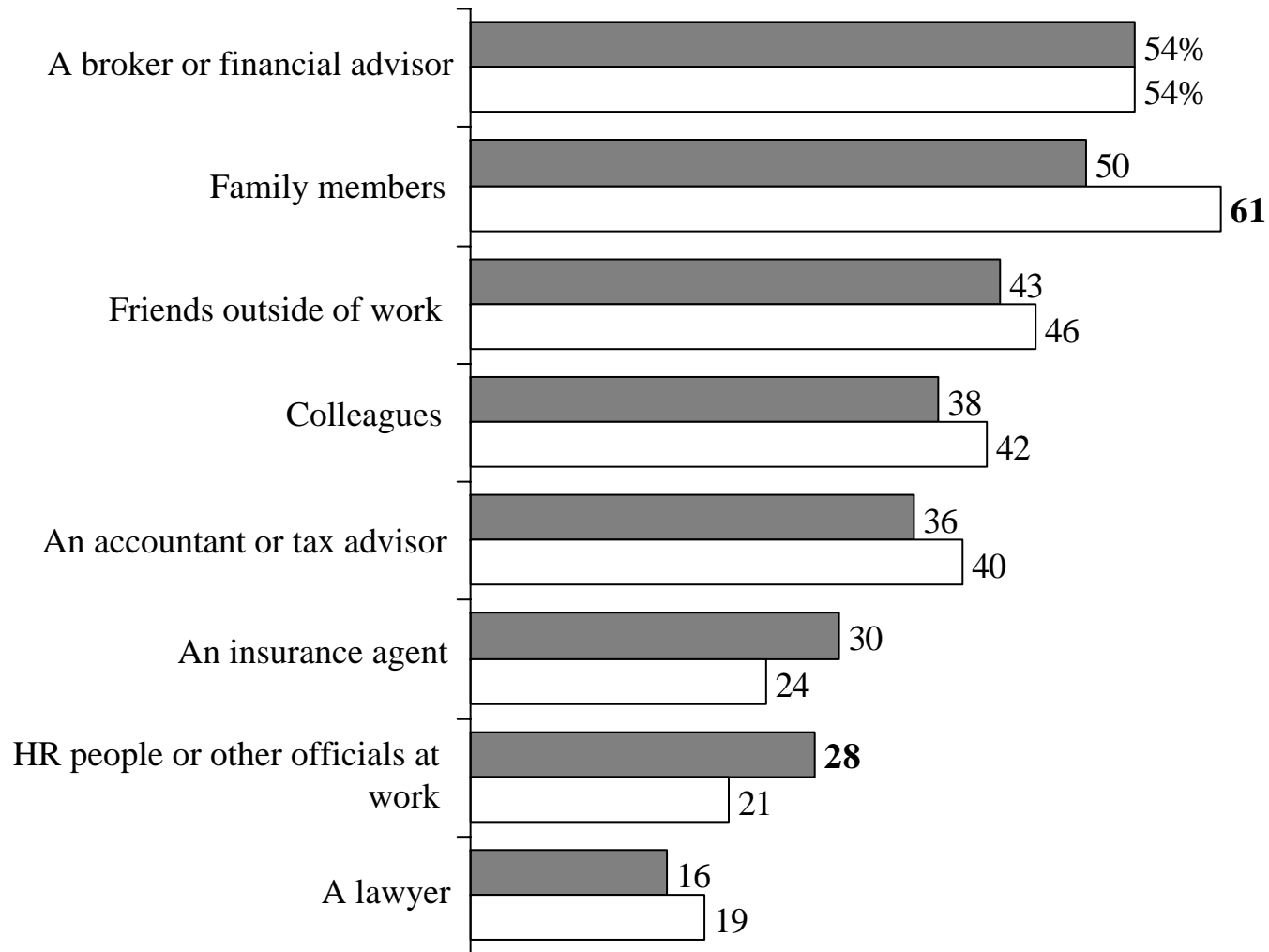


SOURCES OF FINANCIAL ADVICE

Which of the following people do you ever talk to regarding financial advice about retirement?

Base: Not retired

African-American
 White



DEMOGRAPHIC PROFILE

GENDER

	African-American %	White %
Male	41	48
Female	59	52

EDUCATION

	African-American %	White %
Some HS or less	5	2
HS graduate	11	15
Some college	30	22
College graduate	33	34
Postgraduate study	22	27

EMPLOYMENT STATUS

	African-American %	White %
Employed full time*	74	64
Retired	16	20
Employed part-time*	4	8
Unemployed	1	2
Homemaker	3	5
Full-time student	1	1

*Of these, 20% of African-Americans and 22% of Whites are self-employed.

AGE

	African-American %	White %
18-29	7	5
30-39	25	16
40-49	26	26
50-64	33	35
65+	9	17
Mean	47	51
Median	47	52

HOUSEHOLD INCOME

	African-American %	White %
\$50,000-74,999	47	37
\$75,000-99,999	22	29
\$100,000-149,999	18	21
\$150,000-250,000	9	9
Over \$250,000	4	4
Mean	\$104K	\$107K
Median	\$77K	\$81K

TYPE OF EMPLOYER

(of those employed)

	African-American %	White %
Private co.	42	60
State/fed. gov't	44	25
Not-for-profit	14	15

DEMOGRAPHIC PROFILE (CONTINUED)

MARITAL STATUS

	African-American	White
	%	%
Single/never married	17	12
Not married/living together	2	1
Married	61	74
Divorced/separated	15	7
Widowed	5	6

CHILDREN

	African-American	White
	%	%
Have children	80	79
Do not have children	20	21

NON-SPOUSE ADULTS IN HOME

	African-American	White
	%	%
Other adults present	27	18
No other adults present	73	82

FINANCIAL PROFILE

VALUE OF SAVINGS AND INVESTMENTS (ex. real estate)

	African-American	White
	%	%
>\$1,000,000	3	5
\$500,00-\$999,999	7	10
\$250,000-\$499,999	13	16
\$100,000-\$249,999	16	20
\$50,000-\$99,999	19	17
\$25,000-\$49,999	15	15
\$5,000-\$24,999	16	13
<\$5,000	11	4
Mean	\$187K	\$273K
Median	\$70K	\$171K

MONTHLY SAVINGS/INVESTMENTS

	African-American	White
	%	%
\$2,500+	6	5
\$1,001-\$2,500	6	16
\$501-\$1,000	13	16
\$351-\$500	14	15
\$201-\$350	15	15
\$101-\$200	15	15
\$51-\$100	11	9
<\$50	8	4
Nothing at this time	12	11
Mean	\$542	\$612
Median	\$245	\$317