



Ariel-Schwab Black Investor Survey Panel

Tuesday, March 2, 2021

00:00:15 Ariel Patrick: Good afternoon and welcome to the Charles Schwab Ariel Investments Black Investor Survey panel. My name is Arielle Patrick, chief communications officer at Ariel Investments. And we are pleased to have you for this discussion featuring leading financial services experts from Ariel, Schwab, and CNBC as they discuss the challenges driving the racial wealth opportunity gap. For more than 20 years, the Ariel Schwab Black Investor Survey has compared attitudes and behaviors on saving and investing among black and white Americans.

00:00:46 Please note that the information in this discussion does not constitute information reasonably sufficient upon which to base an investment decision and should not be considered a recommendation to purchase or sell any particular security. Enjoy and welcome.

00:01:04 Sharon Epperson: Welcome, everyone. My name is Sharon Epperson, and I'm the senior personal finance correspondent at CNBC. I am thrilled to be able to moderate today the Ariel Schwab Black Investor Survey panel, and I thank you so much for being here with us. Today, we're going to talk about something that Ariel and Schwab have collaborated on for two decades. We're talking and highlighting the similarities and sometimes the stark differences between black and white investors.

00:01:30 And to do this, every time I cover it, I am amazed at what we find in these results and also what it helps to inform as I do my coverage of the racial wealth gap. We're going to talk about the new light that's been shone on what is driving certain groups of investors and also what may be holding them back. And joining us to discuss all of this is a terrific

group of panelists, the top leaders from the two companies, from Ariel Investments and from Charles Schwab.

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We are first joined by Mellody Hobson, who is co-CEO and president of Ariel Investments. She is also the incoming chairman of the board of Starbucks and serves on the board of JPMorgan Chase. Also John Rogers, the founder, the chairman, the co-CEO, the CIO of Ariel Investments. On the boards of McDonald's, Nike, and The New York Times Company. Carrie Schwab-Pomerantz is the board chair and president of the Charles Schwab Foundation and the senior vice president of Charles Schwab and Company.

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And she's also advised two White House administrations on financial capability policy. And Kelly Johnson is a portfolio strategist with Charles Schwab Investment Advisory and supports the ThomasPartners and Windhaven Strategies groups. Kelly has over 27 years of experience in the financial services industry.

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So what struck me this year with this survey by Ariel and Schwab about black investors is just what we have seen in the past year in terms of the record-breaking stock market run and what that has meant for black investors. The bull market has basically blown past many black investors. And despite the gains that we've seen in the stock market, the percentage of black Americans who owned stocks last year was at the lowest level since Ariel and Schwab have worked on this research for the past 20 years.

00:03:22 There are some bright spots though, and particularly among younger investors. And I'm really eager for you all to see and hear some of the highlights of this survey. I'm going to turn it over now to Melody Hobson.

00:03:34 Melody Hobson: Thank you so much, Sharon. I'm delighted to give an overview of this survey for this year. Again, just really underscore the fact that we've been doing this work for a very long time. Our first survey was back in 1998. And in this survey, we're surveying what we call the middle, the middle of this country in terms of income. These are people who make \$50,000 in household income or more. And we've been assisted in this process by a great firm called Helical Research that has helped us to put together all of this research and do the survey.

00:04:07 And of course, Ariel, we're thrilled to be working with Charles Schwab again on this work and appreciate their consideration of this very, very important issue that affects not just black America but all America when it comes to the importance of saving and investing and retirement security for everyone. Now, starting off with just a very high level, you've already mentioned one of the big headlines from the survey, next slide, which shows that we are not benefitting from stock market participation at the same degree as our white counterparts.

00:04:37 Our stock market participation has dropped dramatically, and it's at the lowest level, as you mentioned, since we started the survey in 1998. More specifically, right now, our participation rate is at 55 percent versus 71 percent for our white counterparts. Now, we peaked in terms of participation back in 2002 where we were at 74 percent.

00:05:04 White Americans, white stock market participation, peaked back in 2015 at 86 percent. So you can see this gap, we've done better in the past, but the recent period, and we'll talk about why that is, we've seen a dramatic decline in our stock market participation. Now, despite this drop, the gap is not as big as it was in the beginning. So there was 24 points between us in 1998.

00:05:32 Right now, there are 16 points of difference between black and white America. So that is a little bit of a silver lining that while we've receded in overall participations the gap is not as big. What does compound the problem is we put away much less money on a monthly basis. A significant difference exists there. The average black American is saving about \$393 a month versus the typical white American at this income level of \$50,000 or more is saving about \$300 more, \$693 a month.

00:06:04 When you compound that over time when it comes to equity investing, that is real money. On the next page, you'll see one of the areas where we've had some success. We've seen a positive trend in our 401(k) plan participation. There are many times when I've said over and over again 401(k) plans are the gateway to investing for the black community. It's been a real entry point for us in terms of getting our toe in the water and getting really, really comfortable with the stock market and investing.

00:06:38 Our participation rates are beginning to track largely because of our industry's leaning into the idea of auto-enrollment. However, our actual saving rates are still very different. And more specifically, blacks are saving on average about 26 percent less than white Americans on a monthly basis in their 401(k) plan. The typical white American at this income level is saving about \$291 a month. The typical black American, 231.

00:07:08 Again, when you compound that math over time, the gap grows in a major, major, major way. On the next slide, we show you our participation in terms of various financial vehicles. I know it's a bit of an eye chart. But here's what the bottom line is. We're almost tied in terms of bank participation, in terms of having a bank account. The vast majority of African Americans and whites at this income level hold bank accounts, which is great.

00:07:34 However, when you look at virtually every other financial instrument, we're behind with the exception of whole life insurance. And I've been saying this for years. Our proclivity to whole life insurance does suggest we're preparing more for death than for life, and that is something that we need to address as a financial services industry and as a community.

00:07:58 On the next page, we talk about what has happened since COVID. What has that done to saving and participating in terms of stock market investing? And you can see some pretty major difference. COVID has led to deeper cuts in spending by African Americans, certainly when it comes to just the basics, but also as it relates to extras. Also, we're twice as likely to have borrowed from a 401(k) plan, more than twice as likely, and almost twice as likely to have borrowed money from family members.

00:08:29 We also tend to support others at a much higher level than our white counterparts. And we've had to delay or defray student loans right now, which, of course, is not great for our credit. So when you look at this number, you can see why our participation has gone down because we've had more needs for the scarce resources that we have.

00:08:52 On the next page, we talk about the use of experts to help us. And when you look at our likelihood to use a financial advisor, much less likely than our white counterparts, two times less likely. When you look at the next page, you can see one of the reasons I believe why. We've got some trust issues when it comes to financial advisors and the financial services industry. Why is that? The next page, I think, makes the point.

00:09:19 The industry needs more diversity. And when you look at the statements that black investors are making about the need for industry diversity, you can see that this could be one of the silver bullets, one of the areas where we get that trust factor up and get people reaching out to the experts that they need to make good financial decision. There was a green shoot that is meaningful, and that is when it comes to young investors on the next page, young meaning individuals under the age of 40 years old.

00:09:48 They're tracking. This is a new investing class, and our numbers of younger black investors versus white investors are identical. This is a great sign that we're seeing black and white investors really track at a younger age. And I think that can lead to narrowing this wealth gap over time. But there's a noteworthy watch out here.

00:10:11 When you think about the fact that a lot of these younger black investors are getting into the market recently during a time when the market is very, very frothy, there needs to be a constant conversation about long-term investing and patient investing, something we know a lot about at Ariel with our turtle log to make sure that they don't get burned and get out at the wrong time. On the next page, you see something that just warms my heart. There's no other way to say it.

00:10:38 When we started the survey, we talked about the fact that we wanted to make the stock market a subject of dinner table conversation in the black community. This is on page 10. And this is something that is actually happening. When we ask black investors did you talk about the stock market when you were growing up, our numbers were dramatically different than our white counterparts.

00:11:00 However, when we ask now are you talking about the stock market to your family and to your friends, we are over indexing in this discussion, and that is a very, very good sign. The stock market and investing is on our minds. And so that idea of having it at the dinner table conversation, we're seeing that progress in real time. Last, last but not least, the other green shoot that we have. African Americans were three times as likely to have reported investing in the market for the first time in 2020.

00:11:32 So we are triple our white counterparts as first-time investors last year. Again, super encouraging. We're trying to play catch up. Now, again, we need to make sure we have all the right information and education to make the right decisions. But when you add this to what is happening with younger people, we have some promising signs despite the step back we've made in stock market participation overall and the differences in the contributions on a monthly basis.

00:12:03 So that's the top line of the research, and I'm happy to turn it back to you, Sharon.

00:12:07 Sharon Epperson: Thanks so much, Mellody. I mean, always informative survey with compelling findings that we're going to spend some time really delving into right now. John, I want to start with you in looking at the numbers, the percentages that

Melody showed at the top and the peak in 2002 for black investor participation and then in 2016 for white investors.

00:12:33 Give us some of the historical context here of why not much has really changed in the 20-some years in terms of really significantly narrowing the gap, the racial wealth gap.

00:12:46 John Rogers: Well, as we know, we started out behind from the beginning. We all know the history in this country where we came here as slaves. We lived through Jim Crow, restrictive covenants, implicit and unconscious bias. All the challenges that we've faced as African Americans trying to build wealth here in this country. We know what's happened, and it's just been a challenge. We are working hard to improve that and to create an opportunity for there to really, truly be economic justice in this country, equal economic opportunity in this country, something we're all working hard toward.

00:13:20 And I know I've worked closely with Carrie in the past with President Obama's commitment to building economic justice and creating financial literacy. I know Carrie also worked under the Bush administration on that same area. It's so important that those two presidents understood how important this challenge was for our country. So what I would start to say is that over this last time period, there's some data from around the similar time frame you're talking about.

00:13:48 Ray Boshara from the Federal Reserve of St. Louis has data that between 1992 and 2016, college educated blacks saw their wealth decline 10 percent while college educated whites saw their wealth increase 96 percent. Over that roughly 25-year period, that is pretty brutal. And it's very similar to the data that Kerwin Charles, the dean of Yale's

business school often talks about, that relative to white Americans today, we are worse off than we were, than our grandparents' generation was.

00:14:21 So we've been going backwards substantially. And what we think has happened, since we started out behind and we started out trying to play catch up, we've had two major financial crises over the last 15 years. '08 and '09 we all know was brutal. That great recession was the greatest recession since the Great Depression. Because we're over indexed to housing, it was housing recession. And that really devastated our ability to build wealth and compound wealth.

00:14:50 And then this most recent COVID crisis, which we know is extraordinarily brutal and tough, we are disproportionately working in the service industries, in restaurants, et cetera. And so we had a double whammy of being totally devastated because of what happened during this COVID crisis we've all lived through this last year. So that's what's happened with the most recent history. The data is pretty shocking, but it's because of this over exposure to housing and over exposure to industries where we're not as able to work from home.

00:15:22 Sharon Epperson: Yeah. I mean, the issue also, as you mentioned, it has to do with financial literacy and where the literacy is coming from, where people are learning about the market, how they're learning about the market, and when they're learning about the market. Carrie, how does that factor in to what we're seeing in terms of the disparities here. What role does financial literacy play? And at what age does it play the most important role?

00:15:46 Carrie Schwab-Pomerantz: Yeah. So I'm a big believer in financial literacy. I've spent most of my career on this particular topic. But let me just take a step back about why we need to focus on it. And John sort of alluded to it as well. I know he could echo these comments. But there is no mass distribution channel for financial literacy. And what I mean by that, basic budgeting and saving and investing, debt management.

00:16:14 We all know, especially in this panel, that debt does have a great place in terms of building wealth in our country. And it's also about knowing when something is too good to be true. But the bottom line is that in America today, we all as individuals are required to not only save for our future but also invest. And that is the best way we can protect ourselves.

00:16:41 Yet what we find in this country is that parents don't talk about money. We're seeing a little bit of a rise, but it's just not culturally been in the family conversation historically. Employers are just dabbling in workplace financial education. Hopefully that will ramp up. And then schools. There's only 22 states that require personal finance in order to graduate from high school. And unfortunately, I read a couple of recent studies that the majority of those mandated courses are in rich schools.

00:17:16 And yet young people formulate their money habits as young as seven years old. And then also I'm a big believer in that financial literacy can be one of the great equalizers of our society today. A lot of people don't realize or think about it, but it does contribute to many of the social issues that we face today in America. And there's plenty of those issues, but let me just share a couple.

00:17:46 For instance, college access. We have a national program, Money Matters program, with Boys and Girls Club of America, largest youth agency in the country. And we have educated well over a million teens. And through our research, we found that those teens who actually went through the Money Matters program were more likely seek out going to college, whether it's a two-year degree or a four-year degree.

00:18:15 So to me, that is about economic mobility. Or let's talk about workforce readiness. A lot of people don't really see the connection there. But we read a lot about how there's this mismatch of people who need jobs versus employers who have openings. And what we find is that a lot of employers look at your credit score before they'll even consider hiring you.

00:18:45 So what that means is if you did make a -- I shouldn't say a bad decision. You had an unfortunate decision early in your life. It could come back and keep you from that dream job that you always wanted. So my opinion is, and I know, John, you feel the same way and everybody on this panel, I know Mellody too and Kelly. And that is that we got to fire on all cylinders in this country. We need the federal government, local government, schools, families, employers, all of us to come together and create this national conversation where we're all responsible for learning and being engaged in our finances.

00:19:25 Sharon Epperson: Absolutely. Firing on all cylinders is critical. And a lot of clients may say there's a challenge that they're seeing in terms of people saying they want to invest, but they're not investing perhaps up to the full potential or investing as much as they need to. Kelly, what are some of the challenges that you're hearing from clients in terms of being an investor or being an investor at a higher level?

00:19:49 Because those dollar amounts that Mellody outlined at the top in terms of what monthly investments blacks are making versus white, it's such a stark difference and, over time, really matters so very much to overall wealth. So what are you hearing about the challenges to get people investing and investing at the right level or at a higher level?

00:20:10 Kelly Johnson: Sharon, I've been working with clients for a number of years. And there's really three that I run into all the time, the first of which is lack of trust. Secondly, the fear of losing their money if they do invest it. And then thirdly, financial literacy. So to take them on one at a time, lack of trust, the classic example of that is there are lots of minorities who if they go into a business or financial institution and they look around and they don't see anyone that looks like them, then they're uncomfortable.

00:20:43 And that can certainly dilute their trust in that situation. In terms of fear of losing your assets, I mean, I've talked to countless clients who they're the first in their family to go to college. They've achieved a middle class status. And they're absolutely terrified of losing all the wealth that they've earned over their career. And so being sensitive to that kind of perspective is extremely important because it definitely leads to a lot of us investing much more conservatively than perhaps we should.

00:21:19 And then in terms of financial literacy, I'll tell a quick story. Pre-COVID, I went to Tucson to give an investment seminar for beginning black American investors. And I started talking about how whether it's a bull market or a bear market, it's very important to have a financial plan. And after I said that, a lady put her hand up. And she said, "I don't really understand what you mean by a bull or bear market."

00:21:46 And at that point, she actually did me a favor because at that point I realized there were people in the room who understand that jargon and there's people who don't. And so it's very important to speak plain English to newer investors, be they black or white or anyone else, so that they feel comfortable. And that's how you really build trust.

00:22:10 Sharon Epperson: It's interesting. I want to follow up on that with you, Kelly, because you're talking about new investors. New investors aren't necessarily younger investors. And so I'd love for you to kind of talk about the differences there. Because the survey found quite a bright spot with younger generations in terms of a narrowing of the gap between black and white younger investors and that closing. But what is driving the interest from younger investors?

00:22:37 And could potentially younger investors be teaching some of the new investors overall of all ages?

00:22:45 Kelly Johnson: Sure. Mellody spoke about how essentially a lot of investing conversations are happening in families now. And in fact, the level of conversation that's happening according to the survey is about the same among black and white Americans. We're extremely excited to see that when you look at folks under 40 years old, for example, about 60 percent of both black and white Americans are actually investing in the stock market right now.

00:23:13 And so this gives us a lot of energy around once there's interest in something then people are much more coachable and you have at least a base to build from. And in terms of

what's driving the youthful interest, I can use my own son as an example. He's in his mid-20s and has never talked about investing much before. But about two weeks ago he walks in and starts asking me about Bitcoin and what I thought.

00:23:40 And so it occurred to me at that point, and it's obviously just an anecdote, but culturally right now, it's an exciting time for investing with all the social media and Bitcoin and Game Stop and all these other things that are hitting the news. And I think it's a great opportunity for our industry to reach out and educate these younger folks and make sure that they're investing at a risk level that's appropriate.

00:24:05 Sharon Epperson: Yeah. Carrie, I want to bring you in on that and I also want everyone out there to know I am seeing your question. Audience questions are coming in, and I'm going to try to make sure that we get to as many of them as possible. Carrie, a question that's come in asking about black investors under the age of 40 who have entered the stock market for the first time in the last year. Of course, the data is showing that it's a much higher rate than white investors. Are there any concerns about this, especially in light of what happened with Robin Hood?

00:24:33 What are your thoughts? This is one of the audience members asking this question.

00:24:36 Carrie Schwab-Pomerantz: Yeah. So Mellody alluded to this. She and I had sort of the same emotions about all these young people, black and white investors, getting engaged. By the way, I have a couple sons who same thing, Bitcoin, Game Stop, the works. I don't think there's any one of us who hasn't had a son in their 20s bringing this up.

00:24:58 But what we really need to do is teach them the basics of money matters, of principled investing, which is diversification and thinking about it as a long-term lifelong pursuit. Diversification based on your risk tolerance and your timeframe. We always recommend that you do not invest in something that you have a goal that's less than seven years. So it's appropriate for college expenditures for your children or for your retirement or any other long-term thing.

00:25:34 So absolutely do I worry about this. If you go back to 2009 or '08 when the market tanked, the S&P 500 went down to 50 percent, what I saw and what we all saw here is many investors fled the market. Or I'm sorry, fled the market, left the market, and they never came back. They locked in their losses and they called it a day.

00:26:02 I'll never become an investor again. And that's what we don't want to happen. That's why we're having this panel. All of us are in this game of trying to get the word out. We love you being an investor. It is the way to create wealth. But let's do it in a really methodical way.

00:26:21 Sharon Epperson: Yeah. Trying to convince some young people -- and we have a very small sample of 20-something or late teenage boys. I have one of them as well. And that whole fervor over Game Stop and Bitcoin and trying to explain to a young person you have your sum of money in a Roth IRA. That is something that is going to be with you for a very long time. You're invested. You're okay. But it's not until they see someone who was supposedly was going to be making \$10,000 and then lost \$20,000 that

they realize, wait a minute, maybe this spur of the moment, try and invest in something because everybody else is doing it is not the right move.

00:26:59 I know, Melody, you have, as Carrie mentioned, some concerns about some of these numbers, though it's a bright spot that younger people are getting invested. We want them to stay invested and to be invested in something that's going to really grow over time for them. What are your concerns about the pros and cons of the digital platforms that are driving some young people to invest for the first time?

00:27:22 Melody Hobson: Okay. I'm going to answer that question a couple ways. So the first one is, there are things that they are getting right in terms of drawing interest and getting people excited about investing. And we should study those things and make sure that we build on that. Because having a class of new investors and having young people excited about the stock market, that can be a fantastic thing, especially for a lifetime. What I would say, however, at the same time is there are some things that are not going to go well here.

00:27:52 Speculative bubbles never end well. There's that famous saying, "History does not repeat, it rhymes." I can show you speculative bubble after speculative bubble of where history repeated itself, it didn't rhyme. It ended badly every single time, starting with tulip bulbs. And we've all read that and seen those phenomenon occur. So I would say one of the things we need to do as an industry is to remind people of that kind of history, of when these bubbles burst and they don't end well, what that means for someone's pocketbook, first and foremost.

00:28:30 But maybe also how they might feel about the market long term and really making sure they understand that. So we have historical references that we can bring up to show people we're not trying to dismiss their enthusiasm in any way or dampen it but just explain to them when you are in a situation of a speculative bubble.

00:28:51 Sharon Epperson: Absolutely. John, I want to jump to you for a moment because you've been investing since you were 12 years old. So seeing that young people now are doing what you've been doing since you were a young boy must be encouraging. But what advice, and this is coming from audience members as well, what advice do you have on what people should be doing to better educate themselves? What books should they be reading? What do I need to add to my shelves here? What should people out there be doing? What's your advice to be a really savvy investor right now?

00:29:19 John Rogers: I think it's nice to mention that my dad did buy stocks for me every birthday and every Christmas instead of toys after I was 12. So this is my 50th year as an investor. So perfect timing. And I can remember those early days. I was trying to get rich quick too. I was trying to play options and invest in gold. I was also investing in solar industry stocks that came and went and disappeared.

00:29:44 So I'm very familiar with this tendency to try to figure out ways to get rich quickly. I think today it's important that in things to read, I go back to the famous book, "A Random Walk Down Wall Street" by Burton Malkiel. He was the head of the economics department when I was at Princeton. And he's a friend of Melody and mine. He's just fantastic. And in that book, he talks often and eloquently about prior bubbles and even predicted the internet bubble before it happened, before it actually collapsed.

00:30:18 So that is my absolute favorite, favorite book. My new favorite book is Adam Grant's "Think Again". It just came out. It's a number one best seller. And it really teaches you some of the things that we know from behavioral finance, that you just cannot just fall in love with an idea and not be open to seeing new information. To be a great investor, you have to be able to learn from your experiences, learn from your mistakes, and be able to take a different thesis once the facts change.

00:30:47 And so I love Adam Grant's new book. I think it's absolutely terrific. Finally, I always tell people read everything you can read on Warren Buffett, whether books about Warren or articles about Warren. It's extraordinary what he's been able to accomplish. And then, of course, Carrie's books are also terrific.

00:31:07 Carrie Schwab-Pomerantz: I was going to comment though also following Sharon, a great personal finance expert. And also Michelle Singletary is another great personal finance columnist. In fact, she's very inspirational. And she had a great article about her own family's journey of being afraid of the stock market to taking advantage of the market and actually creating a retirement plan for herself or a nest egg and also paying for her kids' college education.

00:31:39 Sharon Epperson: Yeah. Thank you very much, Carrie. But I think telling people's stories is very helpful and instructive for people who are entering the market or feeling a little bit wary because the market turns and they're wondering if they should still stay invested. And building trust, I think, is a really key part. Kelly, I know you talk about that a lot, about building trust and how you build trust.

00:32:01 And I'm wondering how the issues of trust come up now, particularly with people being able to access information on digital platforms or in some cases choosing to invest there as opposed to allowing a financial advisor in person to guide their investment. So how does trust really factor in to what we're seeing today between black and white investors?

00:32:23 Kelly Johnson: No, it's obviously huge. When I first joined this project team a couple months ago when we were studying the data and we were preparing the research, kind of the strawman I put up myself was that trust would be a key issue. And sure enough, it came out in the actual data as a big one. So I would think about it in the following way. This is a very simplistic analogy, but I think it works.

00:32:48 So I think of the financial advisor-client relationship as being a lot like a doctor-patient relationship in the sense that there are two things in your life that are very personal and important to all of us. It is your health and your financial situation. We all have those two things in common. And so basically, just imagine a situation where you're not feeling very well and you call your doctor and you go in. And that person, while you're telling them how you feel, they're on the phone or they're checking their email or taking calls or whatever.

00:33:21 That's not an environment where you're going to trust them, even if you work with them for a long time. So the analogy I would draw is that if you're a first-time person to go to college and you worked your way into the middle class and you've gotten to a point where you're thinking about retirement in a few years. And you go, okay, I'm going to go get some good advice. And you go in there, and that person's treating you anything close

to what I just described, they're disrespecting you in any way, you're not going to build trust.

00:33:51 So it's absolutely key that we empathize with the situation of these folks that are coming in. Honestly, in a lot of ways, I'm talking about myself. I'm pretty much the person that I just described. First in my family to go to college. First to ascend to middle class. So I can very much relate to the clients that I in many cases sit across a desk from.

00:34:13 Sharon Epperson: I think that's a key factor. But there are some people that are saying, they still say, I don't have the money to go to a financial advisor. Carrie, we have seen in the numbers in the survey of those using financial advisors to be lower than perhaps we would have expected or that we would like to see, some in the industry would like to see. So what other resources are available or how do you build up to using some resources and then eventually hiring a financial advisor? What is your advice there?

00:34:43 Carrie Schwab-Pomerantz: So first of all, I want to say that there is a financial advisor for everybody. And you do not need to be rich to have a financial advisor. I mean, I can speak from Schwab or Fidelity or E-Trade. There's a lot of firms that would love to have your business. So don't let that get in the way. A financial advisor is a great partner. I actually have somebody too, and I always say the experts even get expert help.

00:35:14 But if you don't want a financial advisor, there's a lot of digital options and so forth today. The first thing you need to make sure is that you have a financial plan for yourself. And that goes if you have a financial advisor or if you don't. And so many Americans don't

have a financial plan. And it doesn't have to be complicated. And again, you don't have to be rich. You just have a pencil and paper.

00:35:41 And it serves as that navigation tool for you. So where are you and where you want to go financially. Is it about buying that first home or putting your children through college or having a retirement where you have a full life and you're not a burden on anyone. Whatever it may be. It's just a matter of taking some time and really assessing your situation. What studies have shown is that people who actually plan, and John, this is Annamaria Lusardi's study, that they're more likely to save 300 percent more than those who do not plan.

00:36:20 And again, it doesn't have to be complicated. And then John, of course, offered some great resources, books. I took note of that. And I mentioned you, Sharon, and Michelle. The media has a lot of great things. And also, I just have to give a shout out for an educational website called schwabmoneywise.com. I had firsthand in that. It's our public service offering that provides tools and calculators on any topic, financial topic, that you may have. And it's for all investors.

00:36:52 Sharon Epperson: Carrie, I know you talked about planning, how important it is, and how it doesn't have to be complicated. But as one audience member points out, it is complicated because people are dealing with student loan debt, paying for family members, dealing with this COVID crisis, all at the same time that they want to be investing. So this audience member is asking how do you invest, how do you figure out the right way to invest, the right amount to invest, when you have so many competing

priorities, whether it's student loan debt, whether it's caring for older relatives, or caring for your family.

00:37:24 All of these different things compete. How do you create a plan that allows you to invest strategically with all of these factors?

00:37:32 Carrie Schwab-Pomerantz: And I can answer that. I mean, first of all, the plan will help you with that. It will identify, again, how much money you owe, how much you own. Again, how do you pay off? How much do you save? But we all have a lot of priorities. And I just want to throw out a few things to think about. First of all, you have to assess your spending and see if there's ways that you could cut back.

00:38:00 You've got your essential expenditures and you've got your sort of discretionary. Is there any opportunity to cut down on discretionary? Do you have a line item for savings for your future? And if you make it automatic, you often tend to forget about it, right? That makes it a lot easier. So I think those are some things to be thinking about.

00:38:24 Sharon Epperson: Absolutely. Absolutely. The other thing that has come up is looking at when we focused on that good news about those under 40 getting into the market for the first time or investing in greater numbers than we've seen in the past. But another audience member asks what happens if you're over 40? Is it too late? What do you need to be doing? And I know there's been a lot of research as well in this survey and in ongoing surveys about participation in 401(k), participation in IRAs, and how important that is.

00:38:56 Mellody, is it too late if you're over 40 to be getting involved? How do we increase the rates there where you really can still see some significant long-term growth?

00:39:08 Mellody Hobson: It is literally never too late. And I really want to underscore that fact. Because even in retirement, people need stocks for growth in their portfolio. So stocks should be some component of an individual's full investment plan over the long term. The 401(k) plan has been magical in so many ways. When you ask African Americans how did they first start investing, this is a very interesting difference.

00:39:39 63 percent of African Americans say it was the 401(k) plan versus 55 percent of white Americans. Now, today, I mention that we're tracking in terms of our participation in 401(k) plans. Right now, about 53 percent of blacks are participating in a 401(k) plan versus 55 percent of whites. And that's great news. And as I mentioned, that's largely been driven by auto-enrollment where we go, we get a job, and our employer automatically puts us in the 401(k) plan unless we opt out.

00:40:10 That has made a huge difference in participation. Now, without auto-escalation where the amount of money that we put in on a yearly basis goes up, perhaps even with our raise or cost of living, et cetera, and certainly being able to put away enough to get the company match, without auto-escalation, you see the gap exists between the value of those accounts. So it's great that we're in. What we need to do to improve is make sure we're contributing more over time.

00:40:38 Now, the other piece of this is while the 401(k) plan has been magical, as I've said, and very, very important to our participation, the person who is involved in a 401(k) plan is

more likely to go and invest outside of work and have an IRA or other kinds of investments, a child savings account, et cetera. That said, our numbers are still very much behind.

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So just IRA ownership, 35 percent of African Americans making \$50,000 in income or more have an IRA, individual retirement account, versus 57 percent of white Americans. So that's almost a 20-point difference in terms of investing outside of work. If you look at a defined benefit plan, it used to be called and still called pensions, we're much less likely to have a pension than our white counterparts. So when you put that all together, we again are behind the eight ball in terms of total retirement security.

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And so this is something that needs a point of emphasis for black investors and for our industry to really understand. We need to move the needle on this area. Everyone wins. The industry ends up with more assets. Individuals end up with more retirement security and being in a better place. So driving investors to have investment accounts outside of the 401(k) and really understanding the need to increase their 401(k) contribution or defined contribution is good for everyone and certainly for the individual.

00:42:07

Sharon Epperson: What about the investor who does not have access to a 401(k) or a 403(b) plan or a 457 plan through their job? And it's on them to figure out how they're going to create their own retirement savings plan. What should they be doing and how best to reach those investors?

00:42:27

Melody Hobson: That's why the individual retirement account is so important because that you can do yourself. That's your own retirement security where you go and

invest on a yearly basis in mutual funds or individual stocks, ETFs. There's the whole gamut of investment possibilities there to shore up your retirement. So anyone can do that. Anyone. The other thing to think about, and I think it's really important, is helping people to understand, which Carrie also mentioned, you don't have to have a lot of money.

00:42:55 There's this misperception in the black community that you have to be wealthy to invest. We discovered this years ago in our research. We said what leads people to invest? For black investors, it was wage. And for white investors, it was age. There was like a right of passage for a white individual when it came to investing. They hit a certain age, and they started investing. Black investors, we were waiting to make enough money.

00:43:20 Now, the good thing is there's been a great democratization of the opportunity. And it's something that John and I have fought for for decades. I remember going to visit the big financial houses and saying you need to lower the minimums so that black and Latinx people can be involved in the stock market. That has actually happened. There are fintech companies and places like Schwab and others where you could literally save change. You can buy slivers of shares. I mean, there are so many opportunities now to participate.

00:43:50 And underscoring that for individuals who don't have those retirement plans at work and think I don't have enough money. I can't be an investor because I'm not rich. Understanding a little bit goes a long way, especially with the power of compounding, which Warren Buffett calls the eighth wonder of the world.

00:44:08 Sharon Epperson: Absolutely. Absolutely. When it comes to explaining even a little bit further about retirement saving, Carrie, I want to go to something that you were talking about in terms of making sure you understand how to speak to investors about opportunities and you're not talking over them or going above their heads. One of the things that I don't know if it was covered in this particular survey but what has been interesting is how many people who have access to a 401(k) plan at work do not realize that there may be two versions of that 401(k) plan that they have at work, that they may have access to a Roth 401(k) at work and a traditional 401(k) at work.

00:44:45 And the impact that that can have putting the after-tax dollars into that Roth 401(k) and what that means for that nest egg that is actually theirs and not going to be taxed when they take the money out for retirement. I'm wondering how much that comes up in conversations in terms of retirement planning and how much it should come up in terms of the tax hit with your retirement savings as well.

00:45:10 Carrie Schwab-Pomerantz: Yeah. It's funny. Just these last couple questions just remind me. If I had a magic wand, I would simplify our retirement system. We've talked about the Roth, the traditional IRA, the 403(b). There's thousands of different investment opportunities for us to invest in. It is overly complex, and we need to simplify it. But in terms of, you asked about the Roth versus the traditional.

00:45:41 I think it's most important, first of all, I mean, there is a difference. There's a tax difference. Do you want to be taxed up front, which is the traditional IRA or the traditional 401(k)? And then your money grows. And you will still have to pay ordinary

income tax on the growth. On a Roth 401(k), you don't get the tax deferral, but it grows tax free. And then, guess what, you don't have to pay taxes. So that's pretty compelling.

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And what we recommend with people is if you're not sure, consider tax diversification. Do a little bit of both. But if you think you're going to be in a higher income bracket when you retire, which a lot of times you are because you're building assets, that a Roth IRA might really be the way to go because you don't want to pay 30 percent or whatever it is, 40 percent on taxes when you're in retirement. And so those are definitely some decisions to be made.

00:46:40

But I do want to take a step back, and that is kind of building on what everybody's been saying, is that no matter what kind of plan you have, and Mellody mentioned this, if you don't have access to a tax-deferred plan, you still need to save and invest for your future. So if you're in your 20s, you can save less because you're starting earlier. So 10 percent, 15 percent is a good amount for the rest of your life, and you should have a relatively comfortable retirement.

00:47:11

However, if you wait until your 30s, you're going to have to save about 20 percent of your income towards your retirement. And, of course, if you wait further than 30s, you're going to have to pay more. But as Warren Buffett, Mellody, John alluded, it's all about compound growth. It's not about how much money you make. It's about how much time you have for your money to grow.

00:47:36

Sharon Epperson: Absolutely. So important to look at that time horizon in terms of your investing. And it's so important to be able to talk to somebody about your time

horizon and to ask the questions, Kelly, that you may be embarrassed to talk about. And so there is a question that has come from the audience about retaining and developing more black financial advisors. Will this help attract more African Americans to invest and to save? What is your thought about that? What should be done?

00:48:05 Kelly Johnson: Yeah. We've talked a ton about that at Schwab. I sense that other firms are as well. There's just no question that for people to be able to feel comfortable investing, to feel comfortable in this industry, to feel comfortable coming to you as a client, it's important that there's diversity across any number of dimensions.

00:48:32 This is a little bit of a subtle point, but you send a signal about what type of organization you are by the fact that you're diverse. Do you even care about these things? That alone, making that effort sends a strong signal to people. And it can relax them and make them trust you more and get into investing at a higher level.

00:48:54 Sharon Epperson: Yeah. Absolutely. Absolutely. There's another question that I thought you and Mellody could tackle from the audience about new generations of minority professionals who are earning higher salaries than previous generations and their families. What are financial advisory firms doing to engage young adult minorities that have the potential for higher income and wealth with the right advice? So what do you think, Kelly, in terms of how is that happening or how should that be happening?

00:49:24 Kelly Johnson: Yeah. It's a key initiative actually at Schwab. I'll take that question a couple ways. First of all, we're reaching into younger people, younger even than professionals, in terms of education. And it's attracting their interest in investing. So

going into schools and even partnering with organizations like the Boys and Girls Club to stoke that interest and to provide education.

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And then to take it up the next level to the pre-professional level, the college. Just recently, we've inked a deal worth \$3.5 million in scholarships to seven major universities where we're providing education and partnership and helping those universities attract minority students. And then to answer your question, Sharon, on the back end of the pipeline, we feel that if we are able to recruit from these universities and attract the most talented minorities out there, that that will help us in turn reach out to these minority young professionals who want to do business with organizations that are diverse and forward looking.

00:50:30

Sharon Epperson: Absolutely. Absolutely. Melody, in terms of what Ariel is doing in reaching out and trying to encourage young people to understand more about investing and maybe down the road become financial advisors, what are some of the initiatives that you're working on?

00:50:45

Melody Hobson: We've been working at this for my entire career at Ariel. We're trying to build on the John Rogers story, the John Rogers story of getting stocks every birthday as a child instead of toys and how a childhood hobby led to an obsession that became our company. So we're showing people that a career can come from a fascination. So we talk a lot to people in speeches and in all the platforms we have about teaching and investing and introducing investing to children.

00:51:17 And the way that we've tried to replicate it at Ariel is with the Ariel Community Academy, the school that we have, that has a saving investment curriculum where we give every first grade class 20,000 real dollars to invest. And the money follows them through their grade school career with the students having increasing responsibilities for managing the money. And so we want to create a language of money for kids. Just like when you learn a foreign language, it's smarter to learn earlier, not later. And you become more comfortable with that language over time.

00:51:47 We're hoping that others might replicate what we do. And so we've actually created an investment curriculum for elementary school students called financial futures that we'll give to anyone who asks. We want to make it available, that all of those years of hard work of trying to figure out how to teach things like market capitalization and supply and demand and opportunity cost and all of these economic concepts to children, that we've been able to break that down in such a way that we think is effective.

00:52:16 And we're saying it's not just for us, this is for the world for free. So those are some of the steps that we've taken. We're also, and I know John is raising his hand, we're evangelists on this subject. We really do believe this is life changing for one other reason. Just like 401(k) plans become the gateway to investing for African Americans, children are the gateway to financial literacy for parents. Because we don't learn about investing in the stock market in most schools in America.

00:52:43 I say this all the time. It boggles the mind. You can take wood shop or auto in this country in a high school, but not a class on investing. And so when the children, and I'm literally talking first and second graders, get homework and it's brought home to their

parents that the parents don't know, we're teaching the parents along the way. That is the magic of children.

00:53:08 Sharon Epperson: John, I want to bring you --

00:53:08 Mellody Hobson: John, I think you had something to add there.

00:53:09 Sharon Epperson: We've heard every word you said, Mellody. Your video is kind of going in and out, but we heard every word that you said. And I know John wants to add to that a bit. John?

00:53:18 John Rogers: I was just going to say one of the benefits of the Ariel Community Academy that we didn't see in the beginning was that as the young people come down to our Ariel offices and work with us learning how to pick stocks, how to do research, see how we did our homework. And then we would go down to the school and talk about our favorite stocks and why we bought this. Many of the young people and graduates have gotten into financial services careers. A couple of the young people have worked at Ariel full time.

00:53:43 Many have worked for us for internships. I won't be surprised if many of these young people will become financial advisors down the road. So we think that financial literacy is important. Not only learning how to save and invest but also to think about careers in this part of the economy, which we know has been one that's been booming and growing. Often, we have not participated as fully as we would have liked to.

00:54:05 A final quick story. Used to take with Don Thompson, who's the CEO of McDonald's, we would take roughly 40 kids every year to the annual meeting of McDonald's. And one kid would get to ask a question and then spend an hour after the annual meeting with the CEO and the chairman of the board, Andy McKenna, and talk about what it all meant. And that's the kind of exposure these kids need to be able to think about how to build business careers in our capitalist democracy.

00:54:30 Sharon Epperson: Exposure is key. Absolutely, John. I want to bring this question. It's a big question, John, but I want to pose it to you. And then I'm going to do a lightning round with everybody with a couple questions as well. But this audience members asks when do you think the gap may disappear between black and white overall. Will it take decades, another generation, more? When's it going to happen, John?

00:54:54 John Rogers: You never know. It's been taking a long time. We've going backwards. So now we need to steady the ship and start to move in the right direction. I think the kind of partnership we have with Schwab, it can be really impactful in starting to go the right direction. Hopefully, this will inspire other financial services companies to partner with public schools and engage in this conversation. And we'll start to move in the right direction.

00:55:17 But whether it's 10 years or 20 years, it's going to take a while because, as I said earlier, in my beginning remarks, we started so far behind in this race. We're playing catch up. And it will take a while to get back on an even playing field and then start to really be at an equal place. So I don't know the magic, but I do know there's more and more efforts

out there around the country. It will happen eventually. I'm an optimist. As Warren said this weekend, believe in America, it's the best system ever invented.

00:55:45 Sharon Epperson: Absolutely. And the lightning round that we're going to do now, I'm hoping that you all will be able to answer these one or two questions pretty quickly. And that is what is the one thing that an individual investor should be able to do right now to secure their financial futures. What is the first step that they need to take? Carrie?

00:56:01 Carrie Schwab-Pomerantz: I'm just going to say save. During your 20s, save 10 to 15 percent of your income. Save and invest for the rest of your life, and you should have a relatively comfortable retirement.

00:56:11 Sharon Epperson: And what is the one thing that the financial services industry can do to challenge the status quo, close the racial wealth gap? Kelly, what's the one thing that they should do right now?

00:56:21 Kelly Johnson: Well, we're trying to do it, Sharon, and that is get out into the community and get people educated and get people the right information.

00:56:29 Sharon Epperson: Absolutely. Melody, what should be done better in terms of the financial services industry in terms of closing this gap? What should people be doing?

00:56:38 Melody Hobson: Two things. One is we have to see more diversity in this industry. We shouldn't be unicorns. We should be prevalent throughout the industry, people of color, black and Latinx. It's going to be very, very important to build trust. The

other thing that I think needs to happen is the industry needs to target the minority investor. Every other industry has targeted their client. I remember being a child and watching targeted ads from McDonald's to the black community or the Latinx community.

00:57:06 And you can talk about all sorts of consumer products companies that have targeted their advertising. But the financial services industry has not really done that with race. We've done it with gender, but we have not done it with race. And I think it's time to make sure we target specifically with a laser focus black and Latinx investors.

00:57:26 Sharon Epperson: I think that's really important, Mellody, what you just raised. I remember going to a huge expo that a financial service company was holding. And the first image I saw was of an African American financial advisor on a huge screen in a montage of other investors. And I thought, this is a sea change. This is a huge firm that I never even thought paid attention in the way that they paid attention at that particular forum. And it was an industry wide forum where many advisors could see this is a leader saying this is important.

00:57:56 So I wholeheartedly agree with you about that. And, John, I'm going to leave it to you for what is the one thing investors should know from John Rogers that they should be doing right now to secure their financial future?

00:58:09 John Rogers: Invest in equities. Think long term. Put your money into the markets. Leave it there for the long run, understanding don't bet against American. These great companies will do really, really well. You'll compound your money over time. Don't get

swept up into the short-term emotions that actually always happen in the markets. But be able to think beyond that.

00:58:29 Sharon Epperson: Absolutely. Don't bet against America and be American and invest, right? I mean, make sure that you're part of the investment community, which is so very important, particularly at this time. And we have talked so much about the disparities and we've talked about some of the differences that we're seeing in terms of black and white investors. But there is a commonality here too, which is there's an opportunity.

00:58:53 There's an opportunity for everyone to get into the market, to invest at their level, to invest along with the competing priorities that you may have of paying down debt, of making sure that you're taking care of family members, of making sure that you're staying employed. All of those are definitely competing challenges. But having that plan, as Carrie laid out, and making sure that you have someone you can trust in your life, as Kelly pointed out, is the way to do it.

00:59:17 And continue to follow this survey because it really does tell our story in a way that no one else really does. And it can give you hope. It can challenge you as well. But it's important to follow it and to listen to what the findings have told us thus far and how we can make a difference going forward. I thank you all very much for joining us this afternoon for the Ariel Schwab panel discussion on the Black Investor Survey. And we look forward to having you go to the link, look at the survey in more detail, continue to ask questions, continue to have the conversation.

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And all of us who are on social media are going to have that conversation with you. You know we do all the time. Carrie for sure will answer those questions on LinkedIn. Great about doing that. So make sure that you reach out and continue the conversation. Thank you all for being here. Please stay safe and be well.

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