
The Ariel/Schwab
Black Investor Survey:
Saving and Investing Among High Income
Black and White Americans

Prepared for:
**Ariel Mutual Funds and
Charles Schwab & Co., Inc.**

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Background and Study Purpose

Background

On behalf of Ariel Mutual Funds and Charles Schwab & Co., Inc., Cunningham Communications commissioned Yankelovich Partners to conduct foundational research for a comprehensive initiative designed to address the similarities and differences between African Americans and whites in terms of their savings and investment knowledge, attitudes and behaviors.

Purpose

The main objectives of this research are:

- ❖ **To identify differences between black and white investors**

More specific objectives include:

- ❖ **To characterize the similarities and differences between African Americans and whites in terms of attitudes and behaviors relating to financial services**
- ❖ **To examine which factors are important to African American investors**
- ❖ **To identify which factors will encourage more investing on the part of African Americans**

Study Methodology

A total of 1,232 interviews were conducted between January 5, 1998, and January 21, 1998, among adult African American and white respondents.

All respondents were screened for the following criteria:

- ❖ **Age 18 or older**
- ❖ **Have a total annual household income of \$50,000 or higher**
- ❖ **Primary or joint (volunteered by the respondent) decision-maker in the household in terms of financial investments**

A random-digit dialing technique was implemented in order to reach these respondents, ensuring an equal probability of contacting individuals with unlisted as well as listed numbers.

As a result, 500 interviews were completed among African Americans, and 732 interviews were completed among whites.

In this report, all percentages shown will refer to the total number of respondents interviewed (500 African Americans and 732 whites) unless otherwise specified. The margin of error for African Americans is $\pm 4.4\%$ and for whites it is $\pm 3.6\%$

***African Americans Investor Profile
and
Summary of Findings***

African American Investment Profile

High income African Americans report an average of \$117,000 in savings/investments (excluding real estate investments).

Two-thirds (67%) say they save or invest money aside from what they save/invest for retirement at least every month.

- ❖ **Aside from money invested in retirement accounts, high income African Americans report saving or investing an average of \$267 per month.**

The majority of African Americans (57%) currently have money in the stock market.

- ❖ **Overall, 43% feel that stocks (32%) or bonds (11%) are the best investment.**

One-half (50%) report having accounts in brokerage or mutual fund companies.

- ❖ **Of those who have accounts in more than one company/institution, one-quarter (26%) say they have the most money in brokerage or mutual fund companies.**

High income African Americans with stocks, bonds, or mutual funds have been investing for an average of 9.9 years.

African American Investment Profile

Where retirement is concerned:

- ❖ **On average, African Americans not currently retired plan to retire at age 58 and expect they will need approximately \$87,000 per year.**
- ❖ **79% of high income African Americans currently report they/their spouse have money in a retirement program.**
 - ♦ 59% report having money in a 401K, 36% in an IRA.
- ❖ **On average, one-third of current savings/investments (approximately \$42,000 out of \$117,000) is invested in accounts specifically for retirement.**
 - ♦ On a monthly basis, retirement account investments average \$184.
- ❖ **The majority of high income African Americans not yet retired do not expect Social Security to supplement much, if any, of their retirement income.**
 - ♦ One-third (34%) plan to use Social Security as one-quarter or less of their retirement income; another third (35%) feel Social Security will no longer exist when they retire.
- ❖ **Just over one-third (37%) have whole or universal life insurance policies they plan to use as part of retirement income, valued, on average, at \$288,000.**

Summary of Findings

Beyond the positive picture of high income African Americans is a context of similarities and differences with high-income whites.

- ❖ **The value of their investable assets, aside from real estate, is over \$100,000 (117K for African Americans, 224K for whites)**
- ❖ **Majorities of each group have money invested in the stock market (57% of African Americans, 81% of whites)**
- ❖ **50% of African Americans and 71% of whites have brokerage or mutual fund accounts**
- ❖ **Most save or invest monthly or even more often than that (66% of African Americans, 62% of whites)**
- ❖ **Both African Americans and whites are looking forward to retirement incomes of about \$100,000 annually, but they are not counting upon Social Security for this income (87K for African Americans, 107K for whites)**

As prospects, these individuals appear to be primed for a long-standing pursuit of better returns and higher account values.

Summary of Findings

African Americans have a keen interest in learning more about investing and a desire to do a better job of saving money. In spite of these desires, there is some apprehension in saving or (especially) investing more. This apprehension translates to lower overall savings and investments among African Americans in comparison to whites and is evident in the following differences between the two groups:

- ❖ **The majority of African Americans (55%) say that they are doing a fair or poor job saving money, compared to 38% of whites**
 - ♦ Even among only those with household incomes of over 100K, there are fewer African Americans than whites who are satisfied with the amount of money they are saving
 - ♦ On average, African Americans save about half as much as whites do on a monthly basis; they save about two-thirds as much as whites do for retirement on a monthly basis
- ❖ **As investors, 63% of African Americans describe themselves as conservative, compared to 53% of whites**
- ❖ **More than three-quarters of African Americans (77%) believe they know just some (47%) or very few (30%) of the things necessary to make good investment decisions, compared to 46% of whites**

Summary of Findings

- ❖ **African Americans prefer more conservative investment vehicles: 41% of African Americans have most of their money in banks, while 51% of whites have most of their money in brokerage or mutual fund companies**
 - ♦ 46% of African Americans consider real estate the best investment overall; 50% of whites consider stocks to be the best investment

Recalling that both African Americans and whites studied have equivalent annual incomes, the combination of saving less money on average, and investing money in more conservative instruments produces lower overall investable assets. Further, the rising stock market of the past 10 years has only served to exacerbate this disparity.

Fortunately, the desire to save or invest more is quite strong, as is African Americans' desire to learn more about investing.

- ❖ **Nearly three-quarters of African Americans (73%) say their lack of knowledge about investing is a reason why they do not save or invest more**
 - ♦ 38% say this is a “major” reason
- ❖ **Investing does not appear to be related to a lack of exposure to financial instruments while growing up. Neither African American nor white investors were exposed to more financial instruments or accounts than average**

Summary of Findings

- ❖ **Three-quarters of African Americans (75%) agree that “*people never really know whether they can trust a financial advisor*”**
 - ♦ 57% report that not being able to trust the advice they receive or might receive from a professional investment advisor is a reason for not saving or investing more
 - One-fifth (20%) say it is a “major” reason
- ❖ **84% agree that “*it is hard to know how to choose a good professional investment advisor, such as a stock broker or accountant*”**
- ❖ **63% say they are interested in learning more about how to pick an investment advisor/broker**
 - ♦ One-third (32%) are very interested
- ❖ **Stock and bond investors also tend to have higher than average investable assets overall (131K vs. 117K for African Americans, 243K vs. 223K for whites)**

Summary of Findings

In communicating with African Americans, it is important to note that most feel racial diversity is an important factor in choosing which companies to hold accounts with.

- ❖ **58% feel they are more likely to have an account with a company that is racially diverse**
- ❖ **57% feel they are more likely to have an account with a company that is an investment firm or mutual fund company owned or managed by African Americans.**
- ❖ **Of investors with investments in defined retirement plans, approximately half (51%) say it is important to have a choice of investing in a black owned or managed mutual fund company as part of their 401K or other defined contribution plan**

Detailed Findings

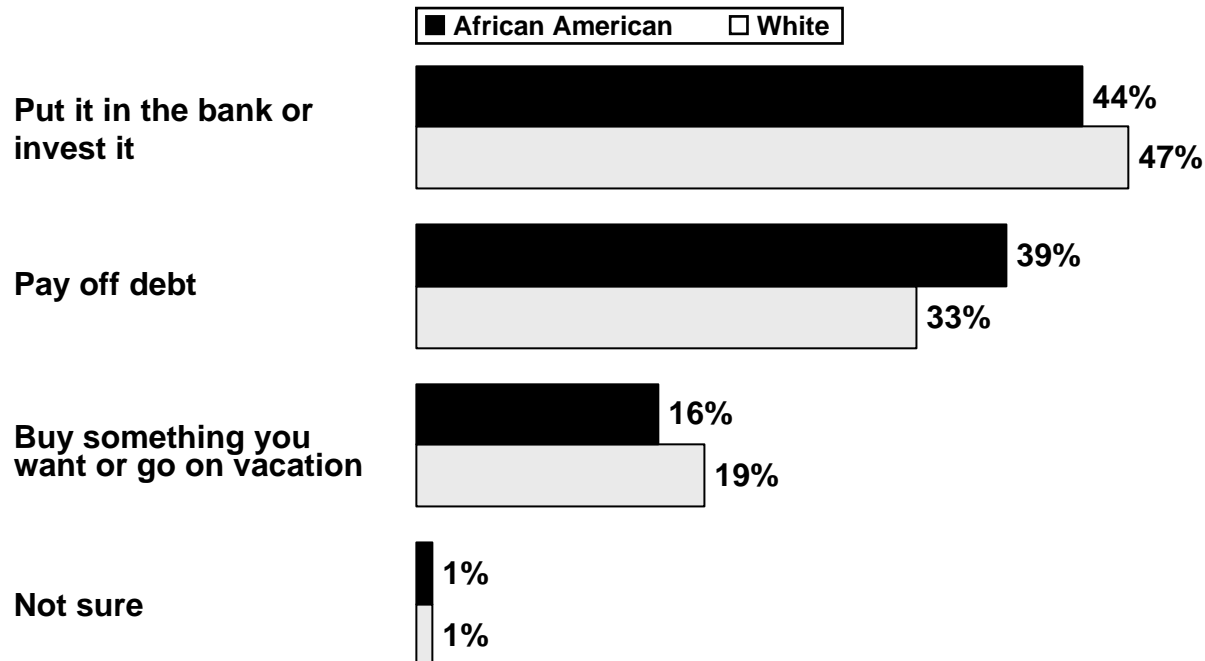
\$1,000 Windfall

If they suddenly won \$1,000 in a contest, most African Americans and whites would use the money in the same ways.

❖ **A plurality (44%) would put it in the bank or invest it.**

- ♦ More African Americans (39%) than whites would use the windfall to pay off debt.

If you suddenly won \$1,000 in a contest, would you be most likely to:



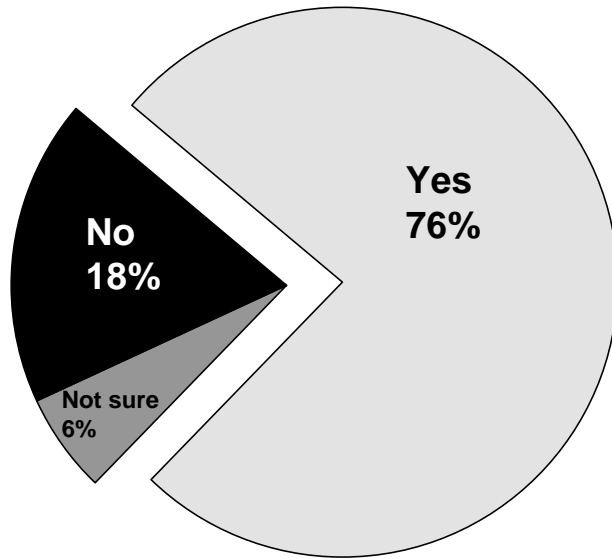
Better Off Due To Stock Market Rise

The vast majority of people surveyed feel better off now than 5 years ago.

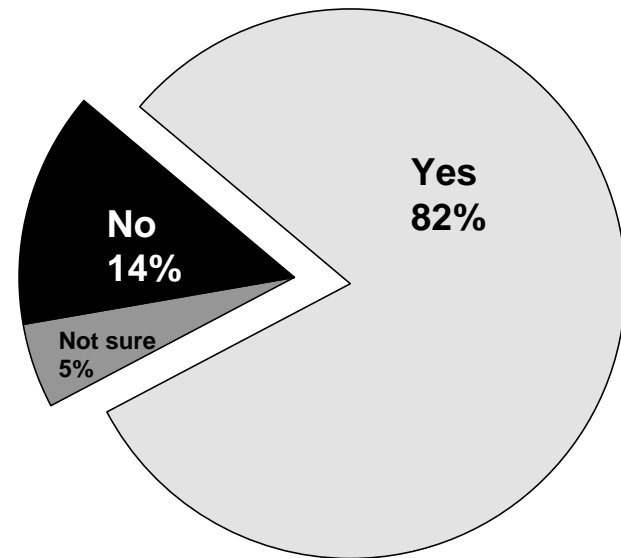
❖ This sentiment is only somewhat more true of whites than African Americans.

As a result of the stock market's rise in the last several years, are you better off now than you were 5 years ago?

African American



White

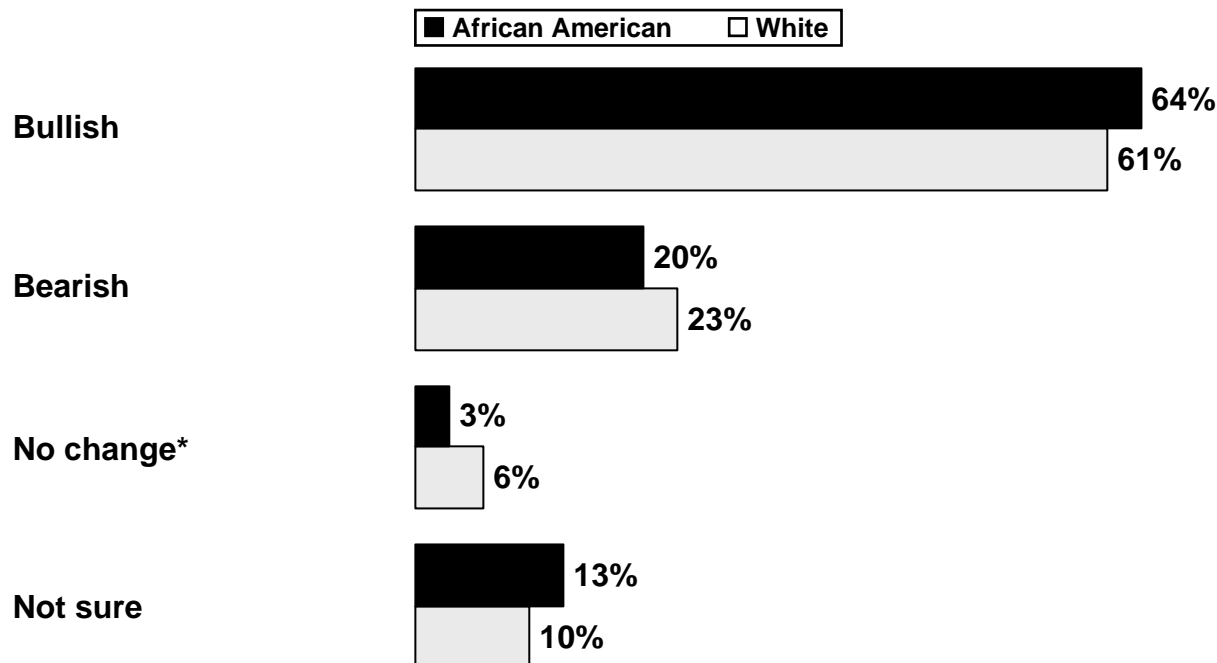


Outlook for Stock Market

Mirroring their feelings for the past 5 years, most individuals also feel optimistic about the progress in the stock market for the next 12 months.

- ❖ Among both African Americans and whites, this optimism decreases slightly with age

Is your outlook for the stock market in the next twelve months generally bullish, that is, you think it will go up, or bearish, that is, you think it will go down?



* Volunteered response

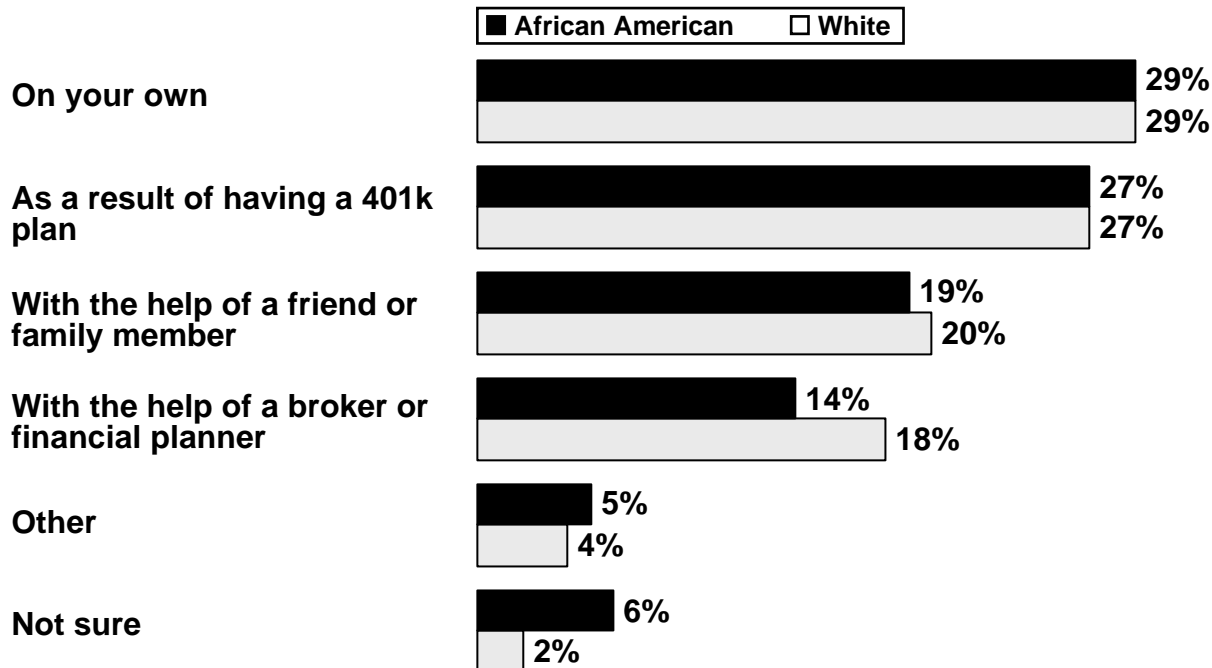
Saving & Investing Profile

Getting Started With Investing

Getting started investing money results from self initiative and having a 401K plan.

- ❖ Whites are slightly more likely than African Americans to give credit to their broker or financial planner

Which of the following best describes how you got started investing? Was it:

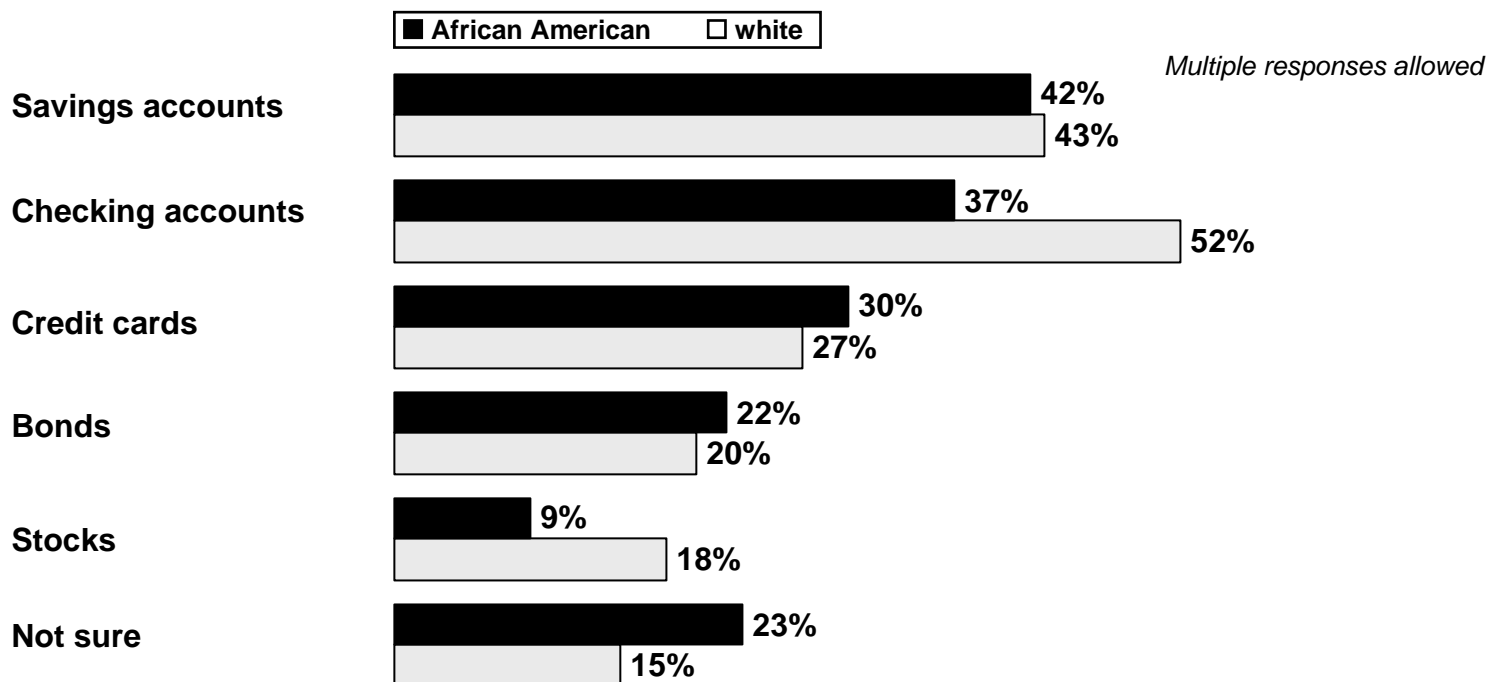


Financial Tools Owned/Used by Family

The presence of checking accounts and stocks is much more common among whites than African Americans, but the presence of most other accounts/instruments is quite even.

- ❖ African Americans over the age of 50 are even less likely than average to have grown up using checking accounts or stocks as investments
- ❖ African Americans who are investors today are not more likely than others to have had exposure to financial instruments while growing up

Which of the following things were owned or used by your family when you were growing up?

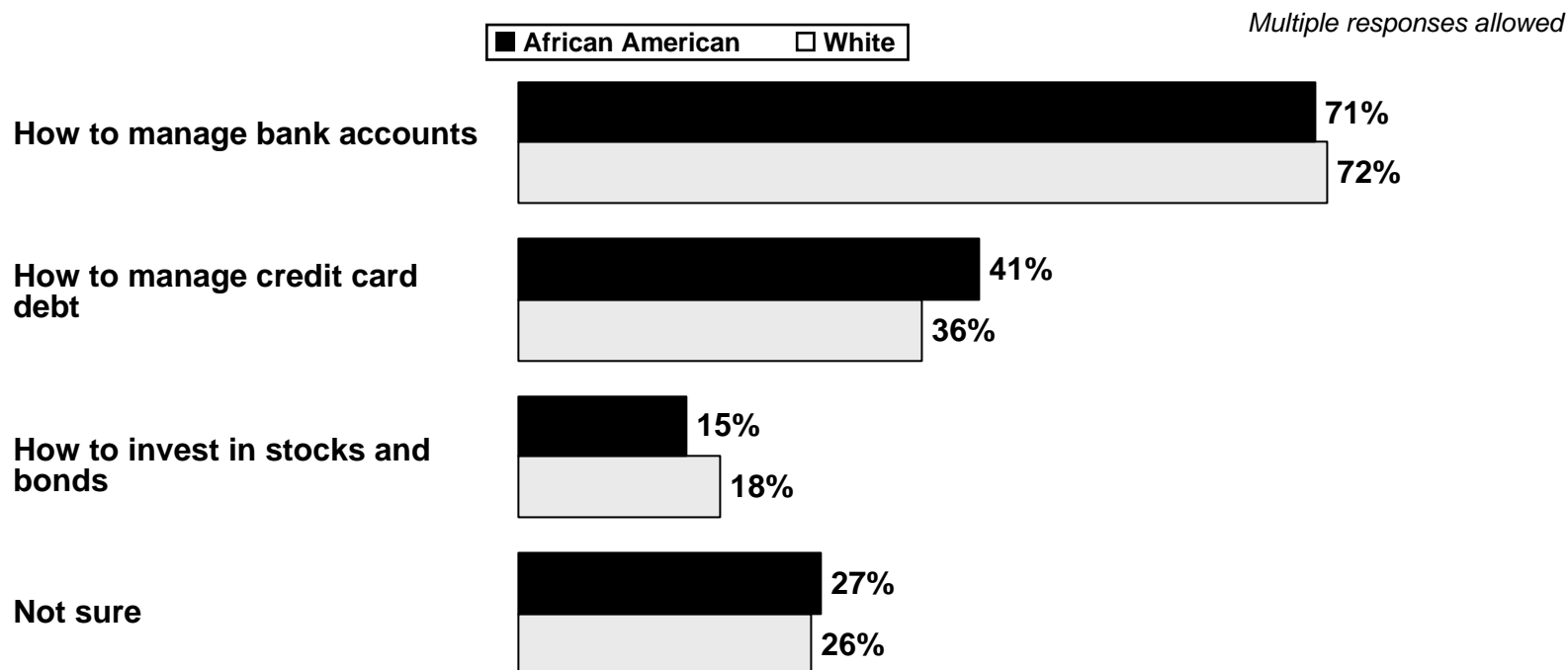


Financial Strategies Taught by Family

The majority of people surveyed say that they were taught to manage bank accounts.

- ❖ Even more African Americans than whites were taught to manage credit card debt
- ❖ Younger African Americans, those age 18-34, are more likely to have been taught about bank accounts and managing credit cards, but not stocks and bonds, than older African Americans

Which, if any, of the following things were you taught about by your family when you were growing up?



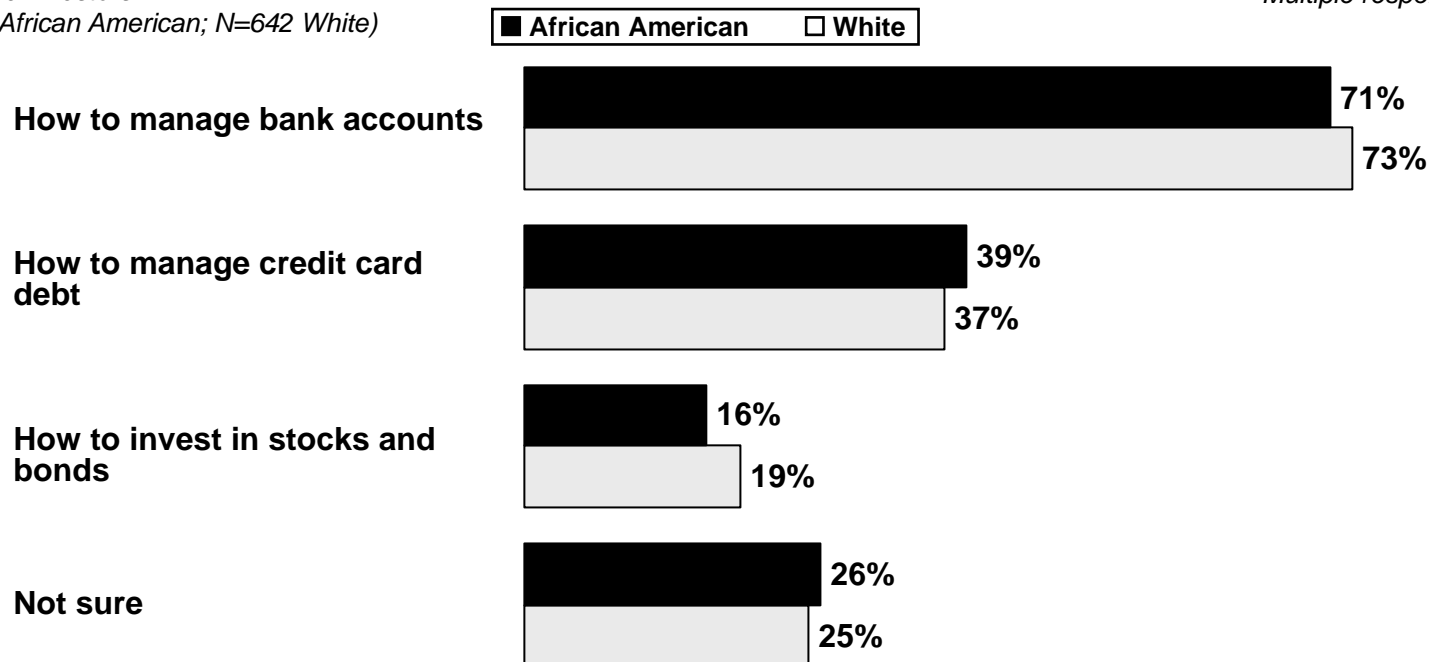
Financial Strategies Taught by Family

Learning about financial strategies early does not create investors among either African Americans or whites.

Which, if any, of the following things were you taught about by your family when you were growing up?

Base: Are investors
(N=356 African American; N=642 White)

Multiple responses allowed

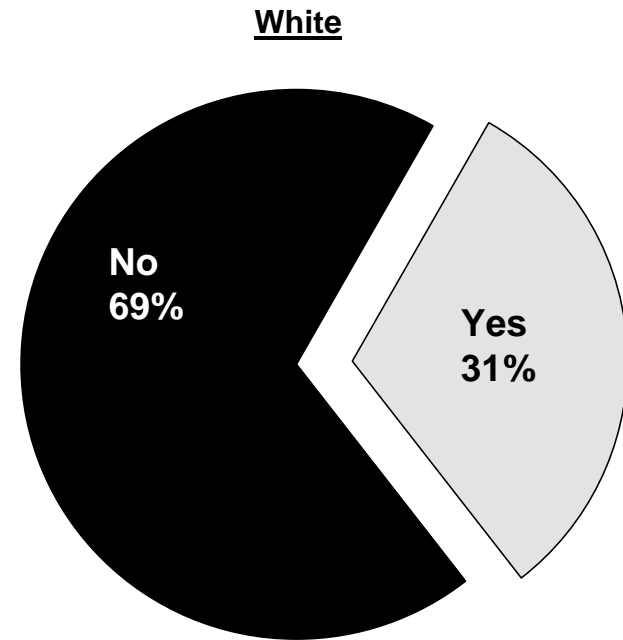
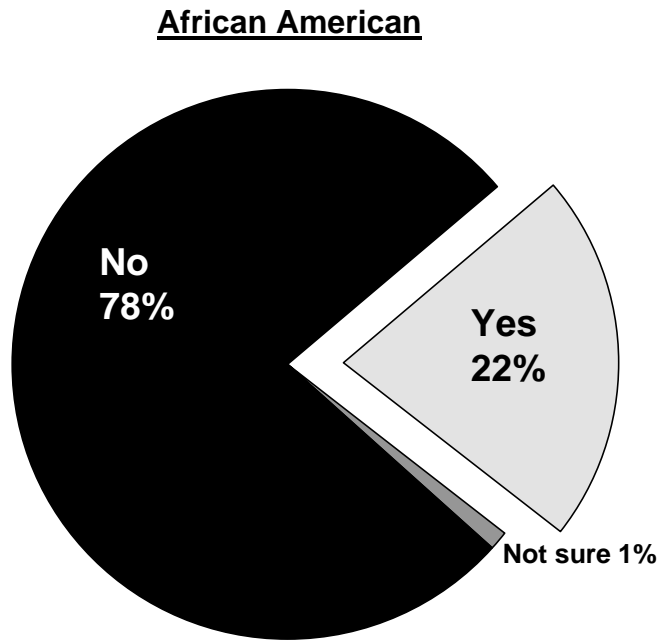


Investments Gifted or Inherited

Relatively few investors have received stocks, bonds, mutual funds or other investments as a gift or inheritance.

- ❖ **Although more white investors say that they have received these gifts or inheritances than African Americans**

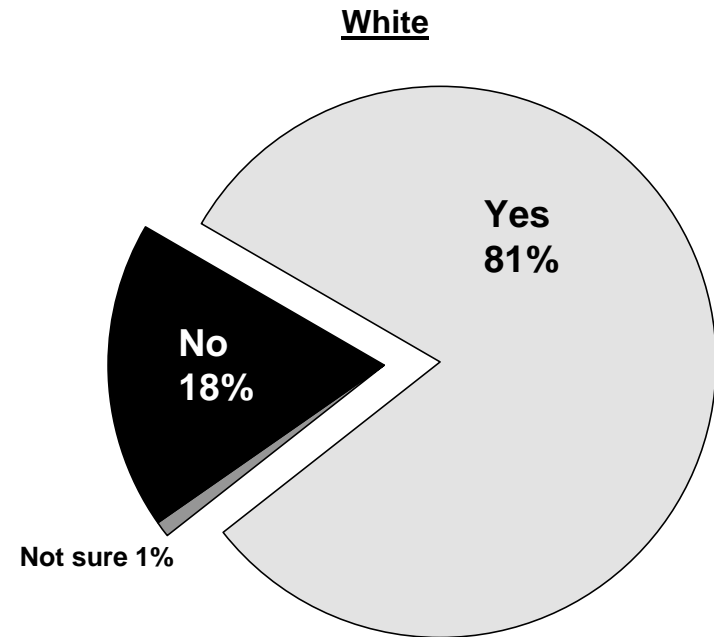
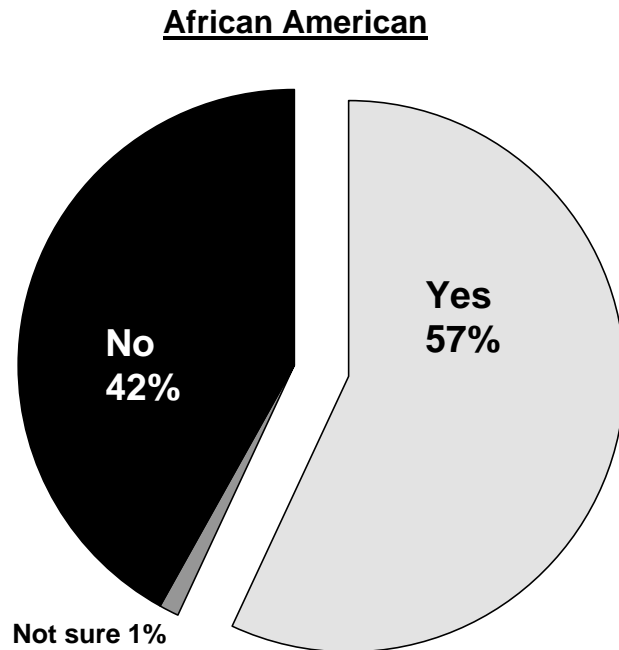
Have you ever received stocks, bonds, mutual funds or other investments as a gift or have you ever inherited investments like them?



Funds in the Stock Market

Although majorities of each group have money in the stock market, the tendency to do so is much stronger among whites.

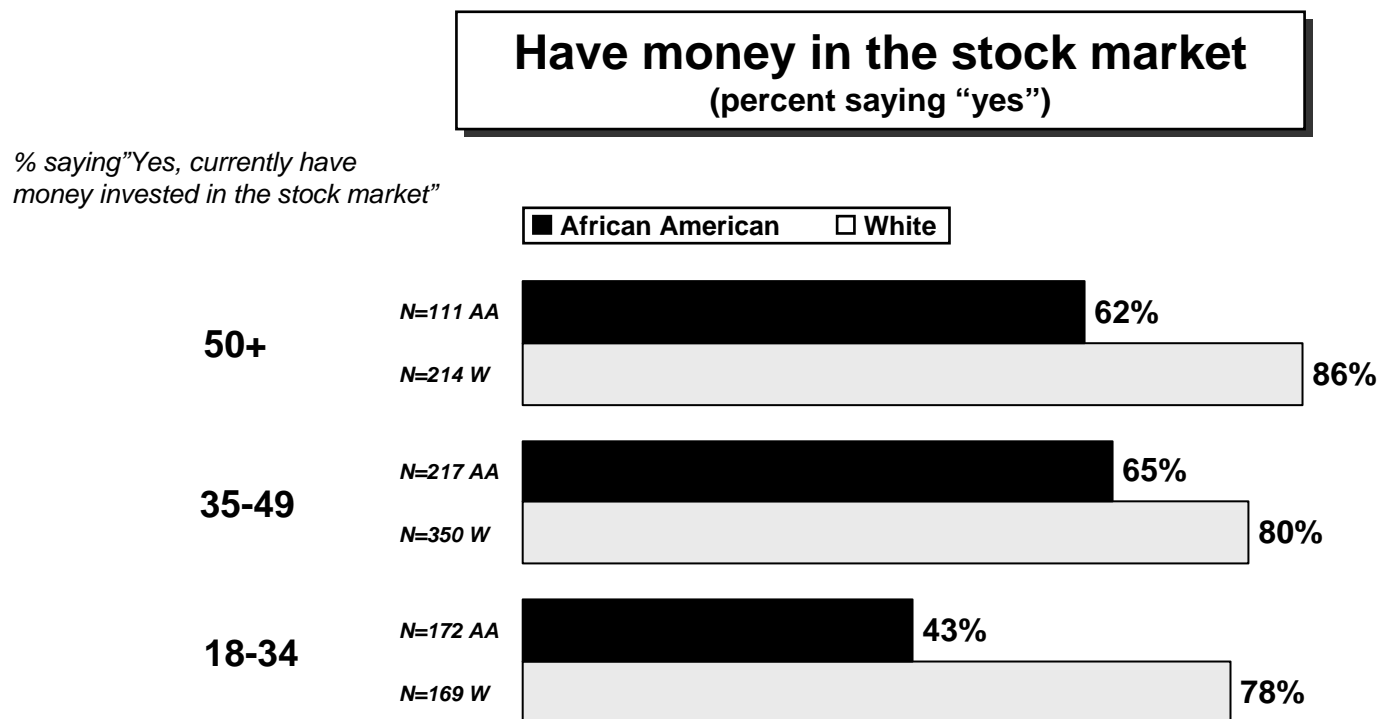
Do you personally, or with a spouse, have any money invested in the stock market right now?



Funds in the Stock Market

The tendency to invest in the market among African Americans increases with age, while among whites, this tendency is strong throughout the lifecycle.

- ❖ The disparity between African Americans' and whites' investments in the stock market may be the result of divergent savings goals, or, the lack of using brokers or other professional financial advisors

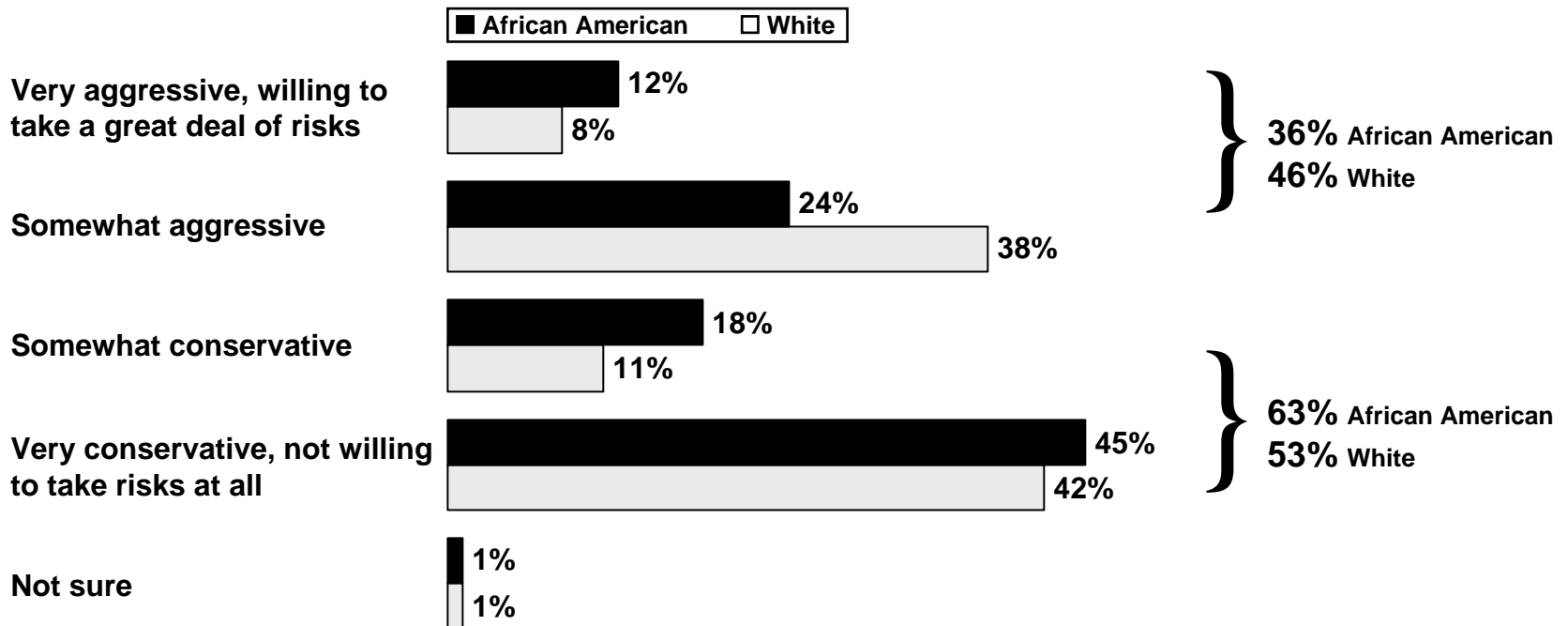


Investing Style

As investors, about one-half of whites describe themselves as somewhat or very aggressive, compared to just over one-third of African Americans.

- ❖ Females are less likely to describe themselves as aggressive investors compared to males, with white females just slightly more aggressive than African American females

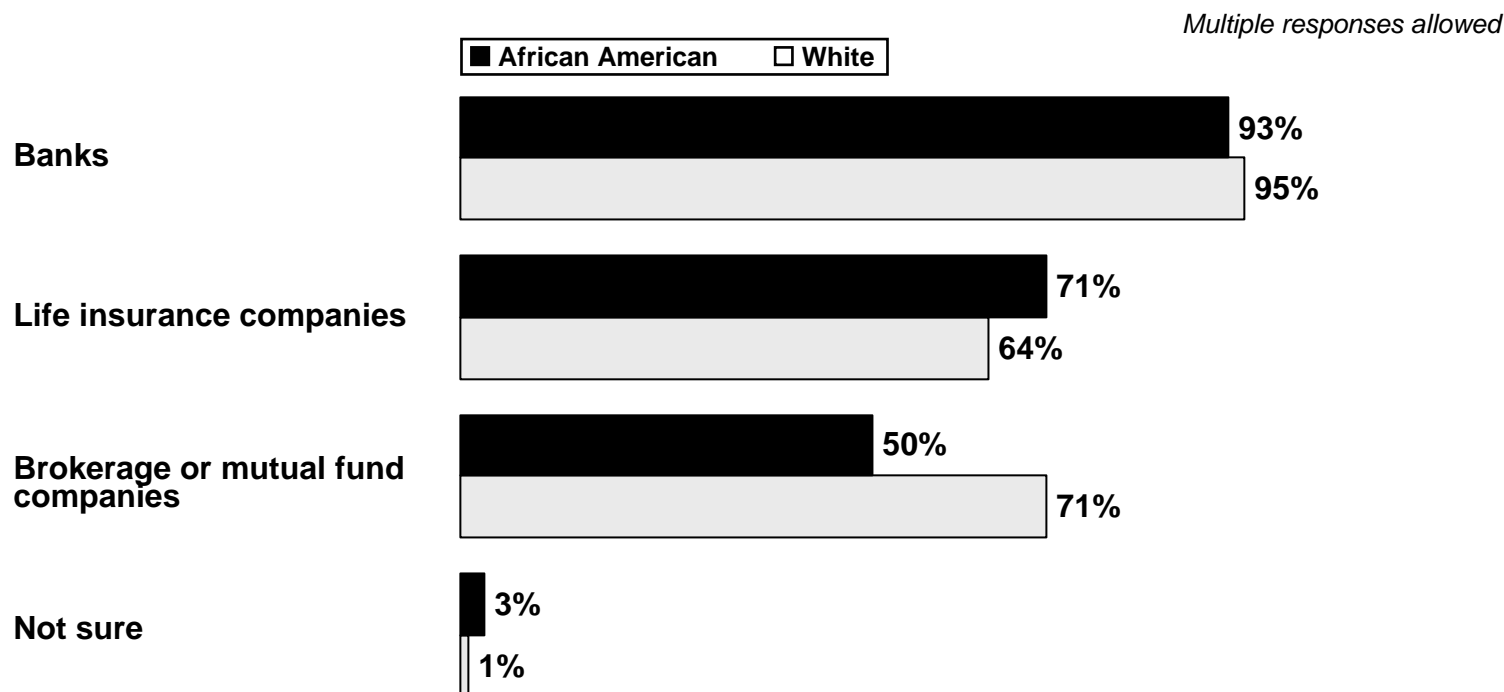
As an investor, would you describe yourself as:



Institutions Currently Utilize

Although half of African Americans have brokerage accounts, the majority are likely to possess more conservative accounts, such as bank accounts or life insurance policies.

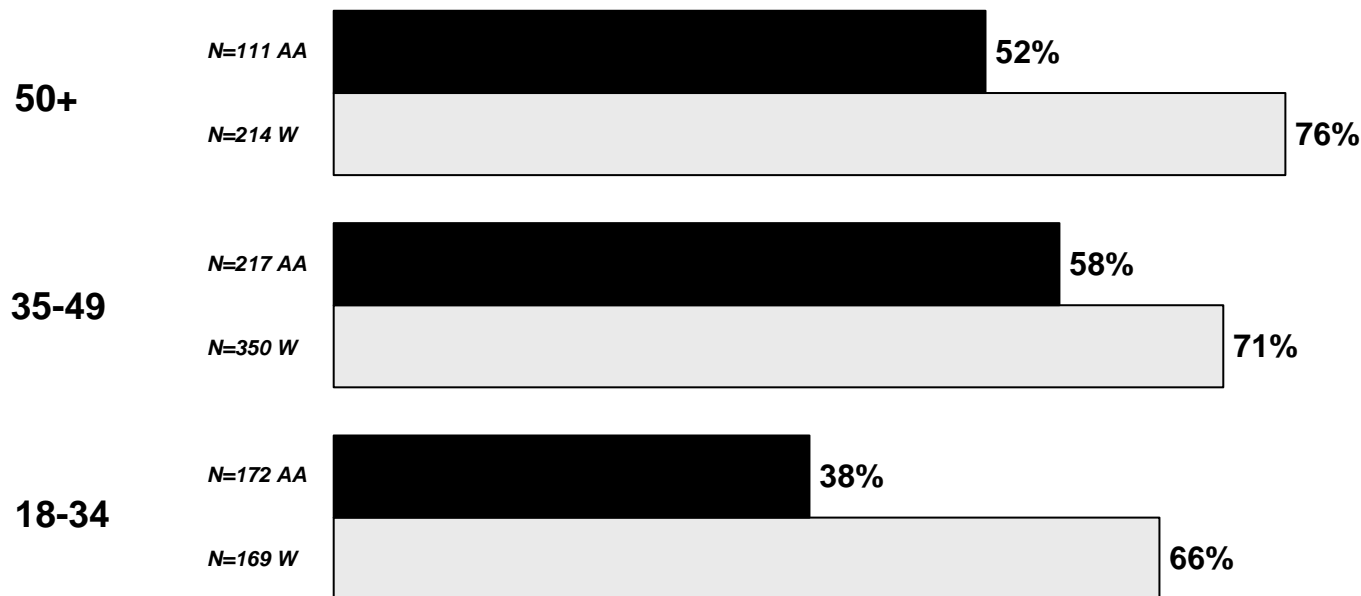
In which of the following institutions do you have any accounts?



Institutions Currently Utilize

Younger African Americans are less likely than average to have brokerage or mutual fund accounts. Among whites, the tendency is high overall, but is at its peak among investors over 50.

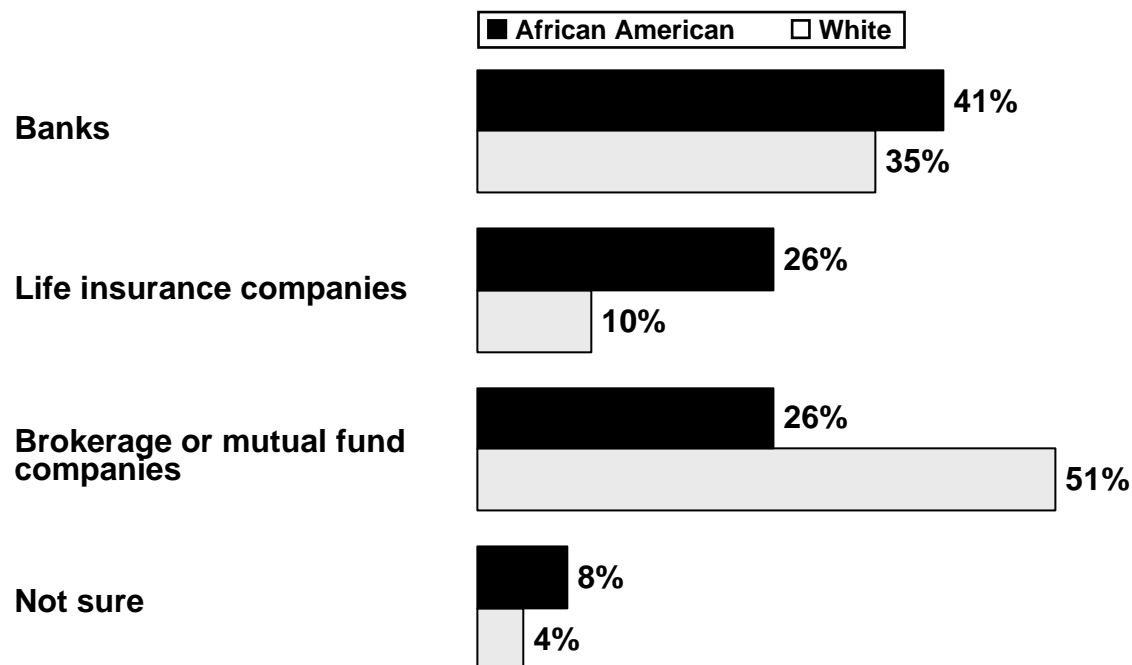
Have an account with a brokerage or mutual fund company (percent saying “yes”)



Institution with Greatest Investment

This pattern of more conservative investing and saving among African Americans is exaggerated when respondents were asked where most of their money is.

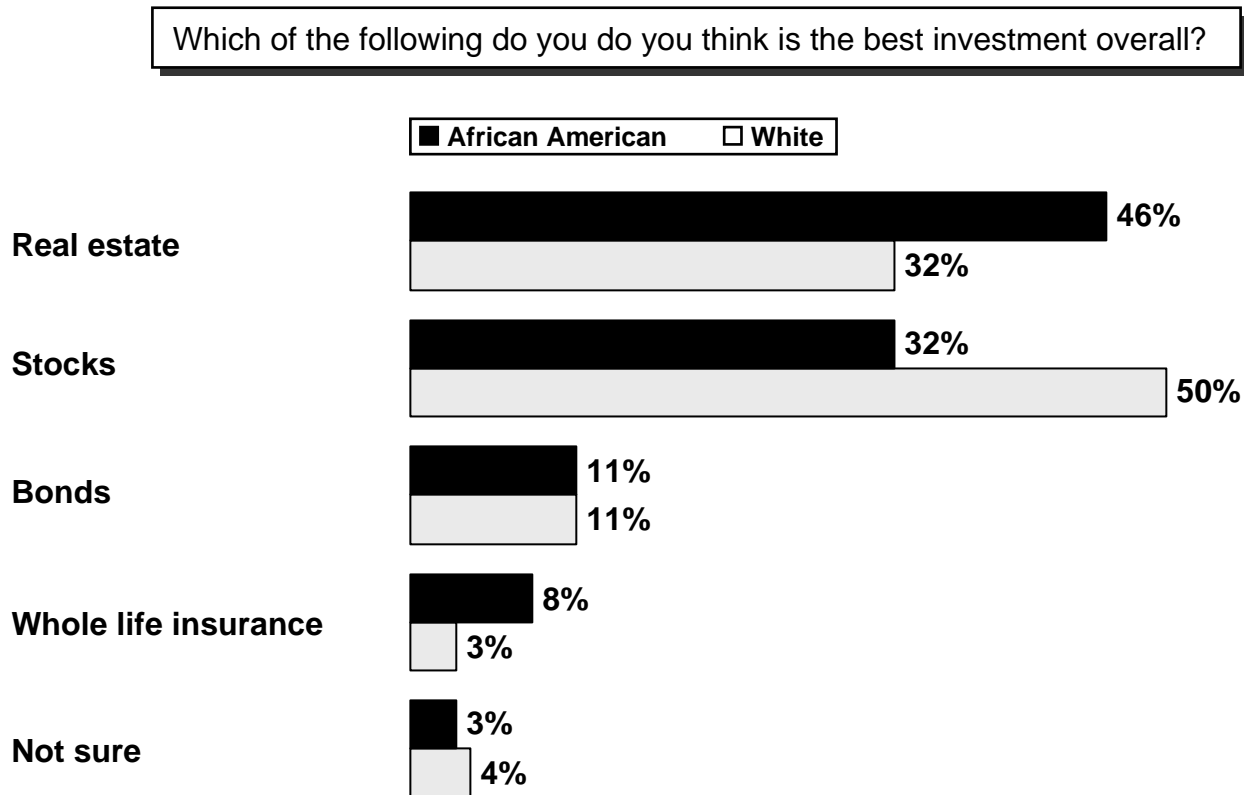
Of the institutions I just named, where do you have the most money?



Best Overall Investment

African Americans are most likely to agree that real estate is the best investment overall, followed by stocks. This propensity echoes African Americans' possession of more conservative investment vehicles, such as whole life insurance.

- ❖ Only African Americans with very high incomes (over 100K annually) perceive stocks at par with real estate

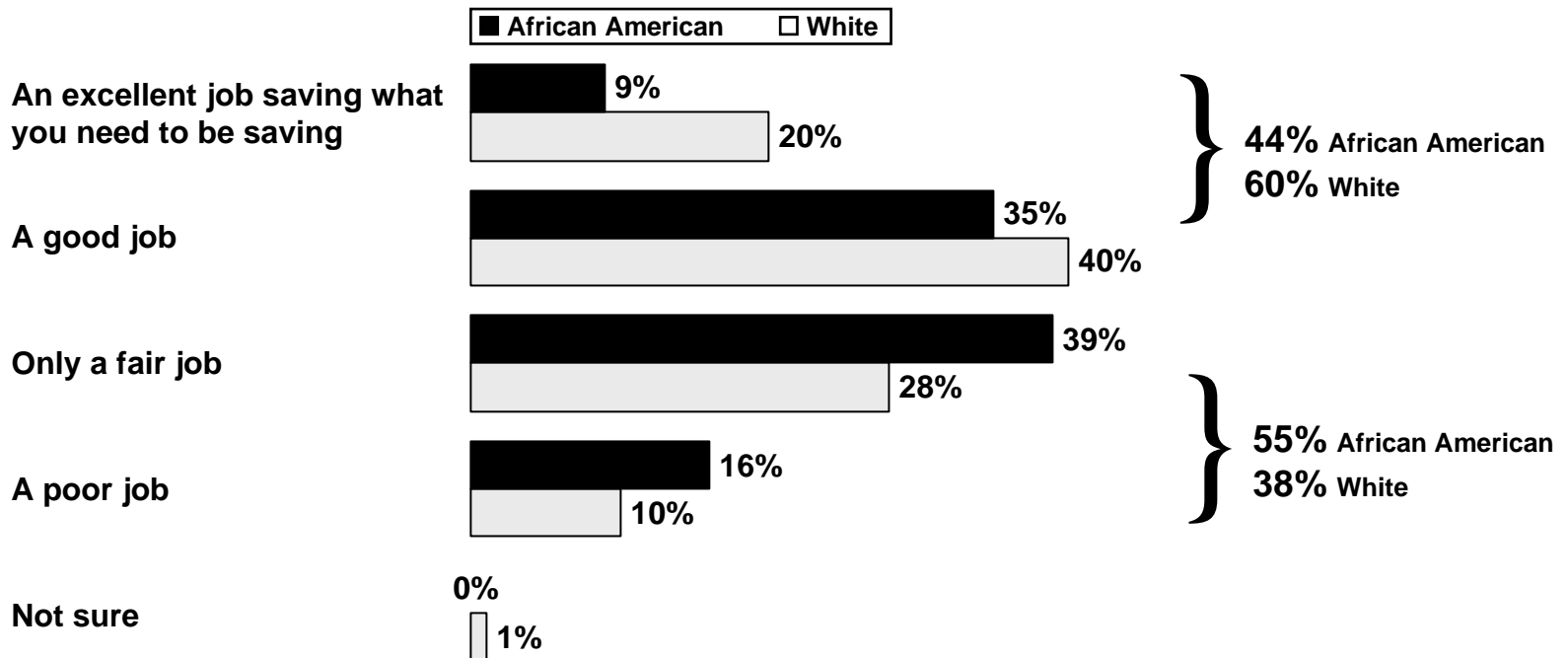


Saving Money

The majority of whites say that they are doing a good or excellent job of saving money, but the majority of African Americans do not share this sentiment.

- ❖ **Satisfaction with the amount of money saved is lower for African Americans regardless of age, gender, and even income level.**

Thinking about the amount of money you are saving, would you say you are doing:



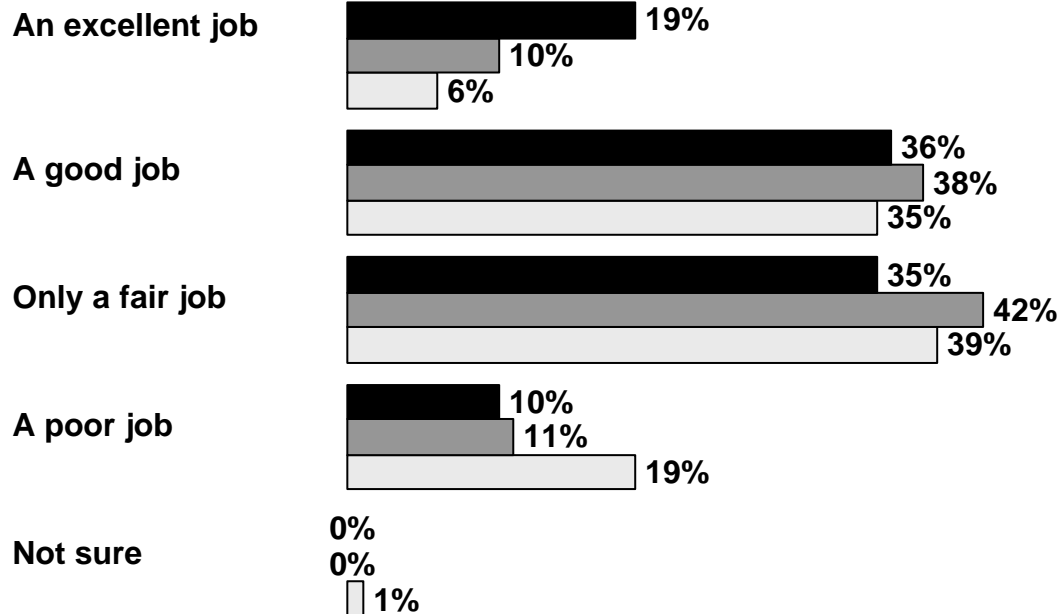
Saving Money

Even among whites and African Americans who have the highest incomes, whites are more likely to say that they do a good or excellent job of saving.

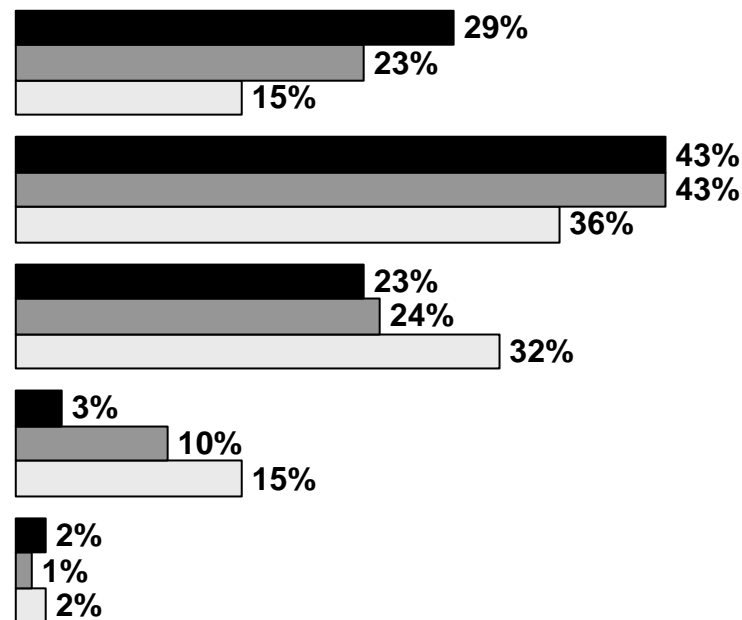
Thinking about the amount of money you are saving, would you say you are doing:

■ \$100K+ ■ \$75-99K ■ \$50-74K

African Americans



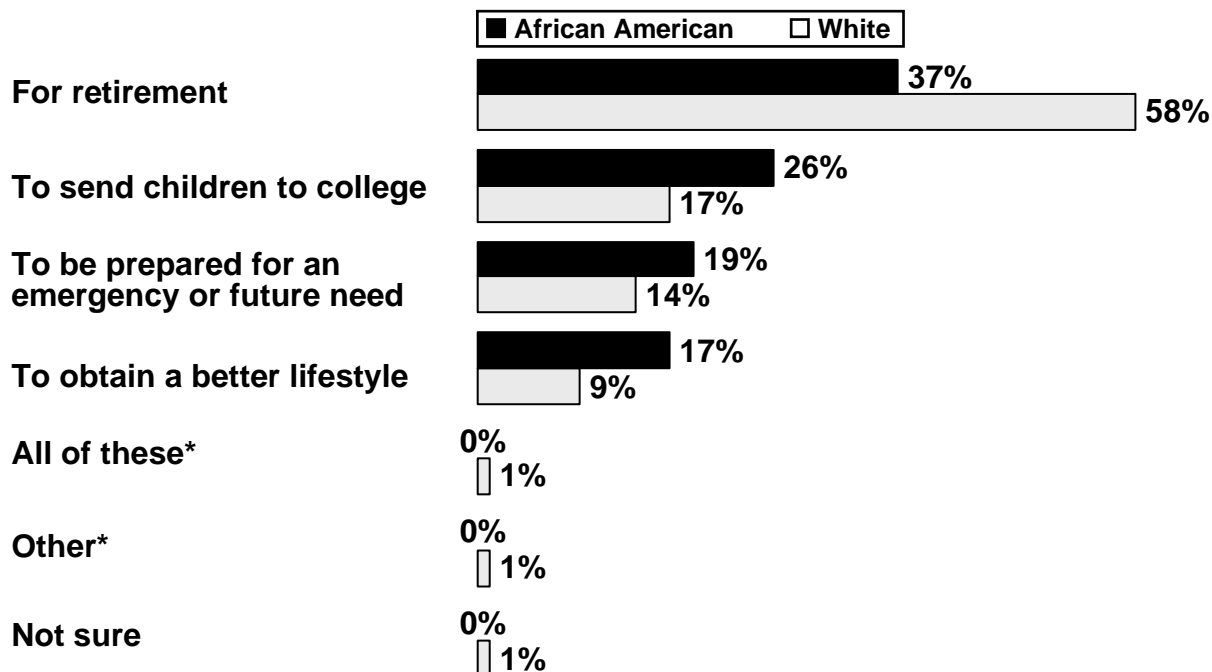
Whites



Financial Goals

African Americans and whites do not share their saving/investing goals. While the majority of whites are concerned with retirement savings, African Americans' savings goals are divided between retirement, college needs, emergencies and lifestyle goals.

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

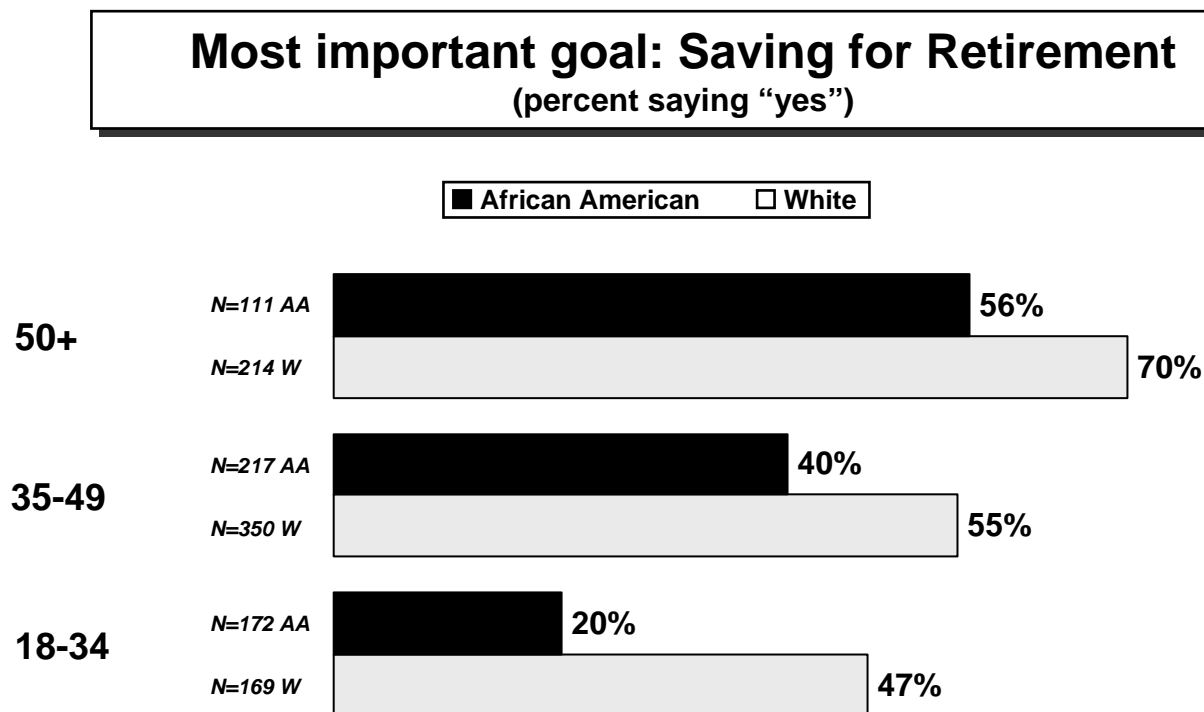


* Volunteered response

Financial Goals

By the time they reach the age of 50, the majority of African American and white savers share the most important goal for saving money. The bulk of the difference between African Americans and whites in terms of major savings goals appears to be at a much younger age.

- ❖ And, since African Americans are not likely to save for retirement at as young an age as whites, many will not be able to take advantage of compounding

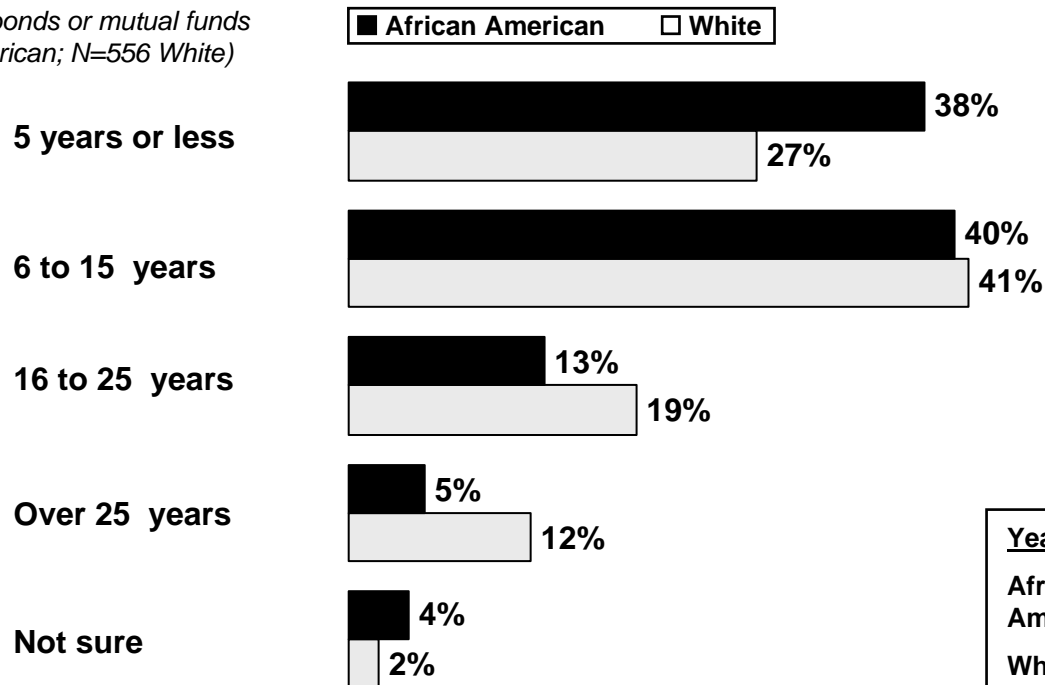


Years As an Investor

Those African Americans who do invest have been in the market for a slightly shorter amount of time than white investors.

For how many years have you been investing in stocks, bonds, mutual funds, or other types of investments

Base: have stocks, bonds or mutual funds
(N=328 African American; N=556 White)

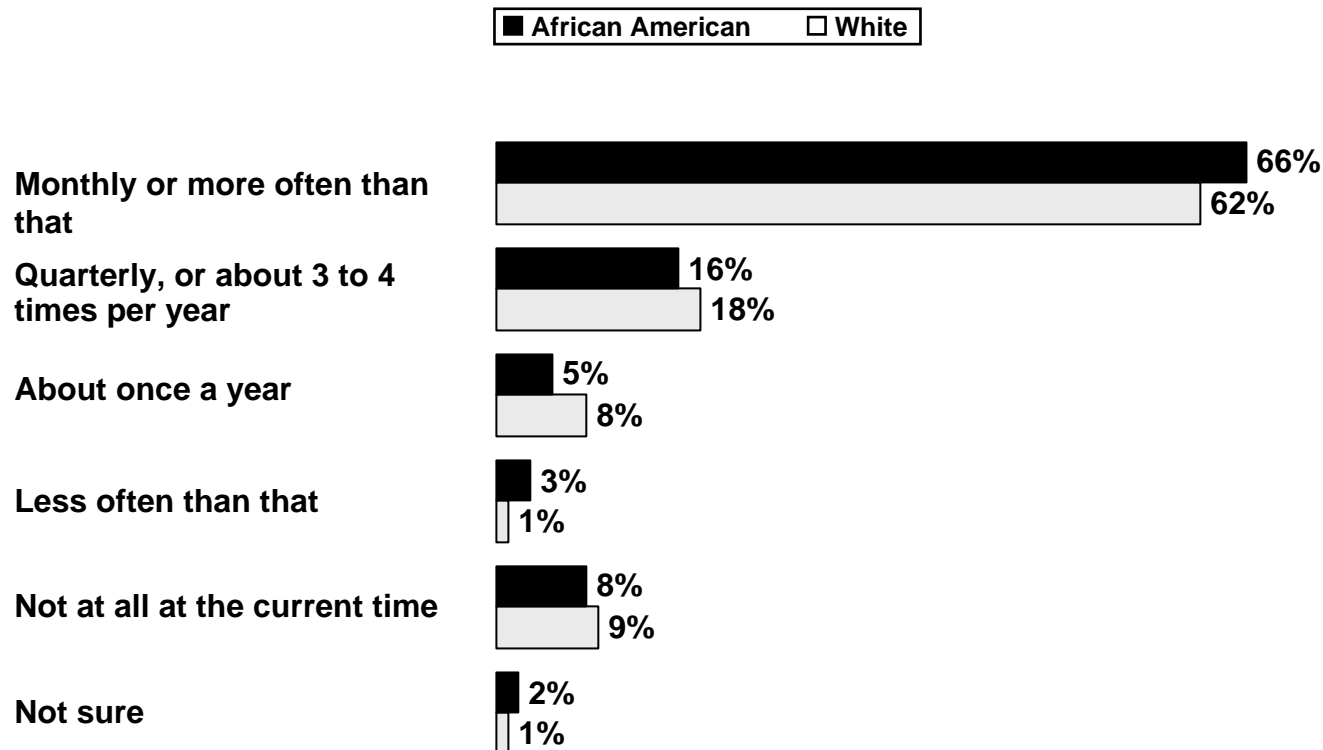


Years investing	Avg	Med
African American	9.9	10.0
White	13.7	12.0

Frequency of Non-Retirement Savings/Investments

Most investors save money monthly or even more often than that.

Not including money you are saving specifically for retirement, how often do you save or invest money? Is it...

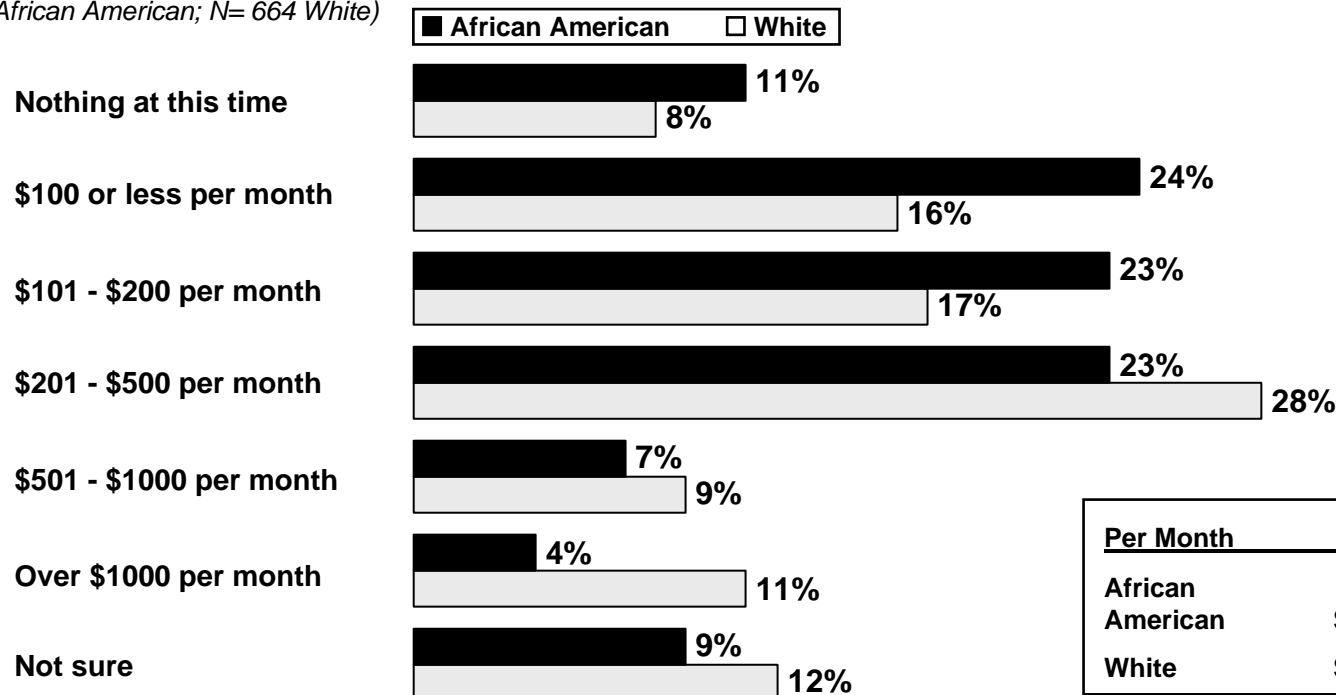


Amount Saving or Investing

Whites save almost twice as much as African Americans do per month.

Again not counting money you are saving specifically for retirement, how much money are you saving or investing per month? Even if you may not save on a monthly basis, we would like your answer in dollars per month. Is it...

Base: save/invest money aside from retirement savings/investments
(N=458 African American; N= 664 White)

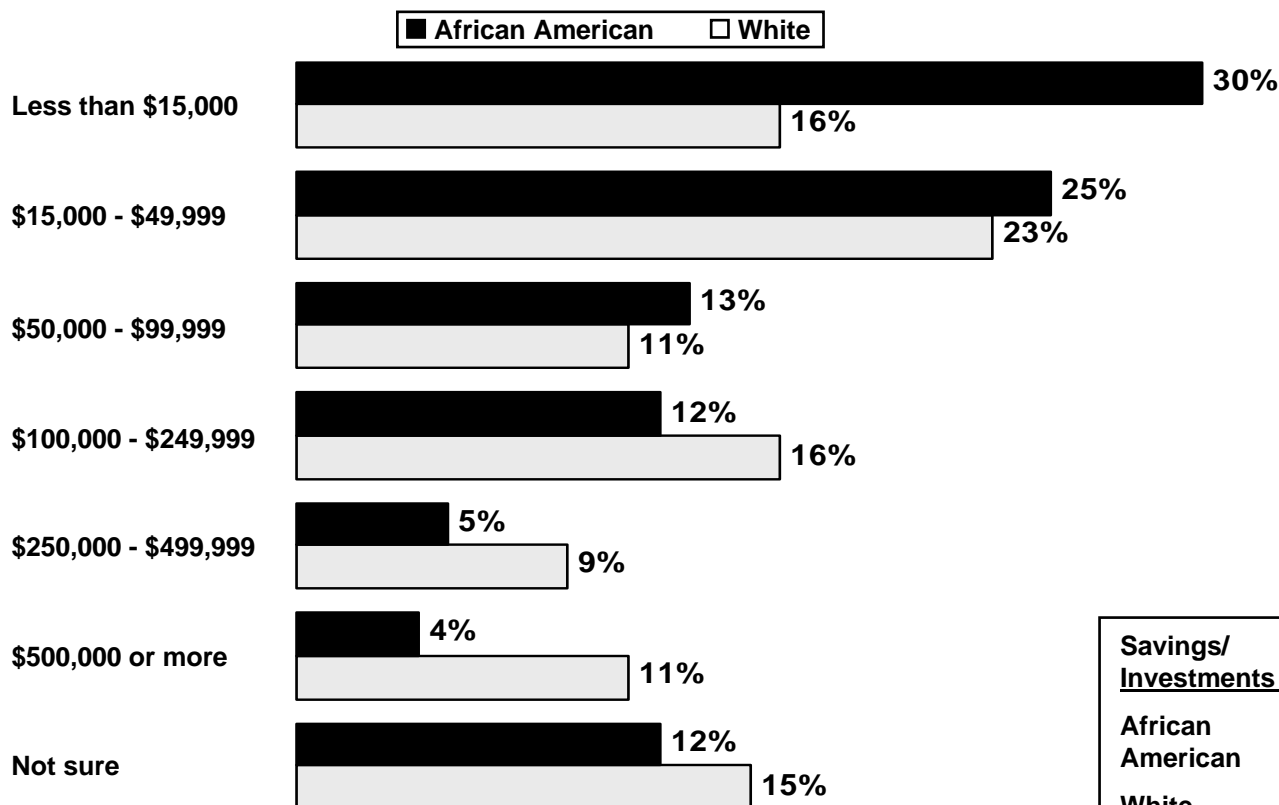


Per Month	Avg	Med
African American	\$267	\$146
White	\$488	\$236

Value of Savings and Investments

While their holdings are sizable, African Americans in this study have about one-half the investable assets of whites surveyed.

Not counting real estate, what is the approximate value of your savings and investments, or any investments held jointly by you and your spouse, including any retirement accounts?

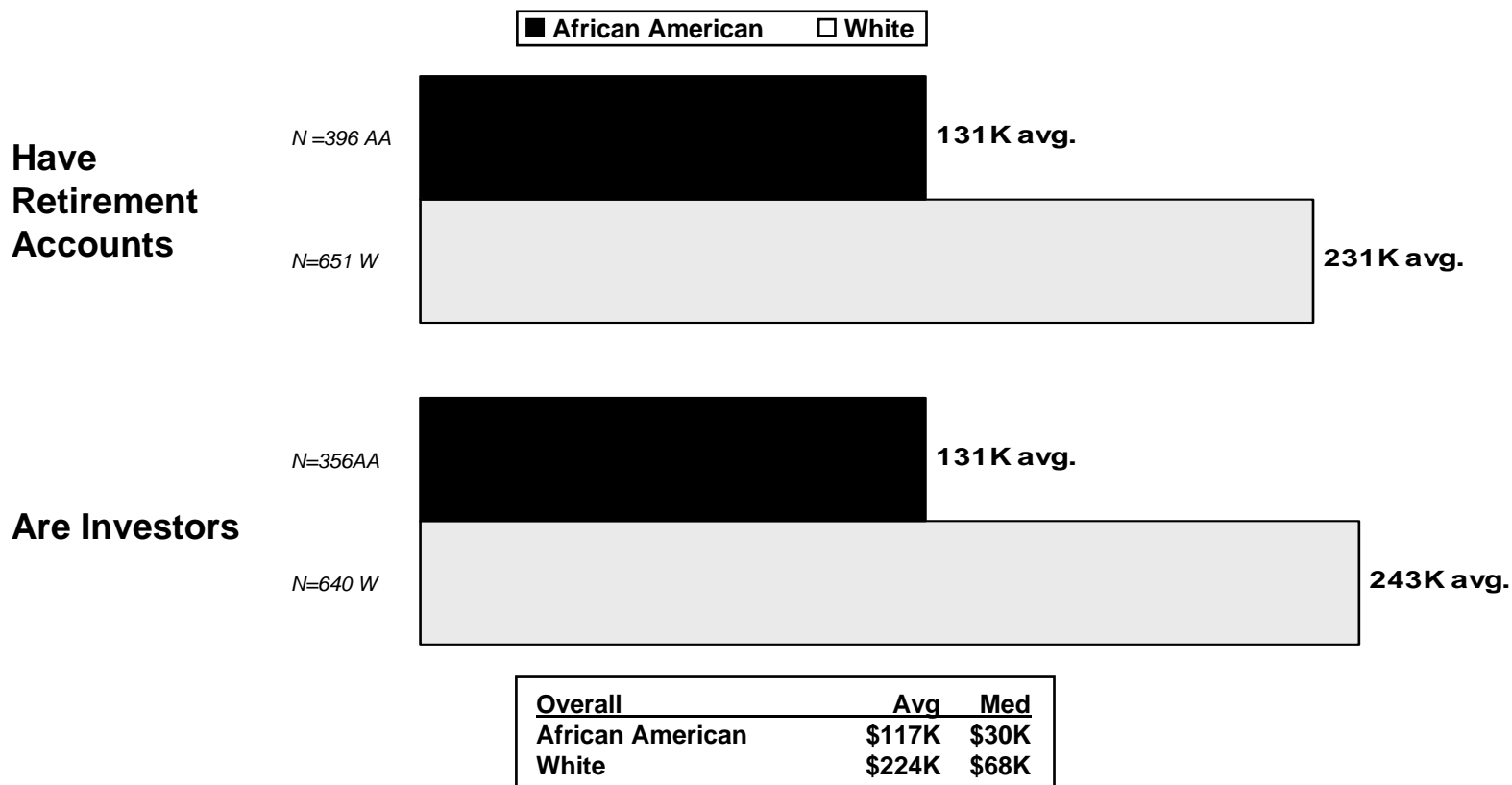


Savings/ Investments	Avg	Med
African American	\$117K	\$30K
White	\$224K	\$68K

Value of Savings and Investments

Although not as true for whites as African Americans, those who have retirement accounts or have investments in stocks or bonds tend to have even higher levels of total assets than those who do not.

Not counting real estate, what is the approximate value of your savings and investments, or any investments held jointly by you and your spouse, including any retirement accounts?



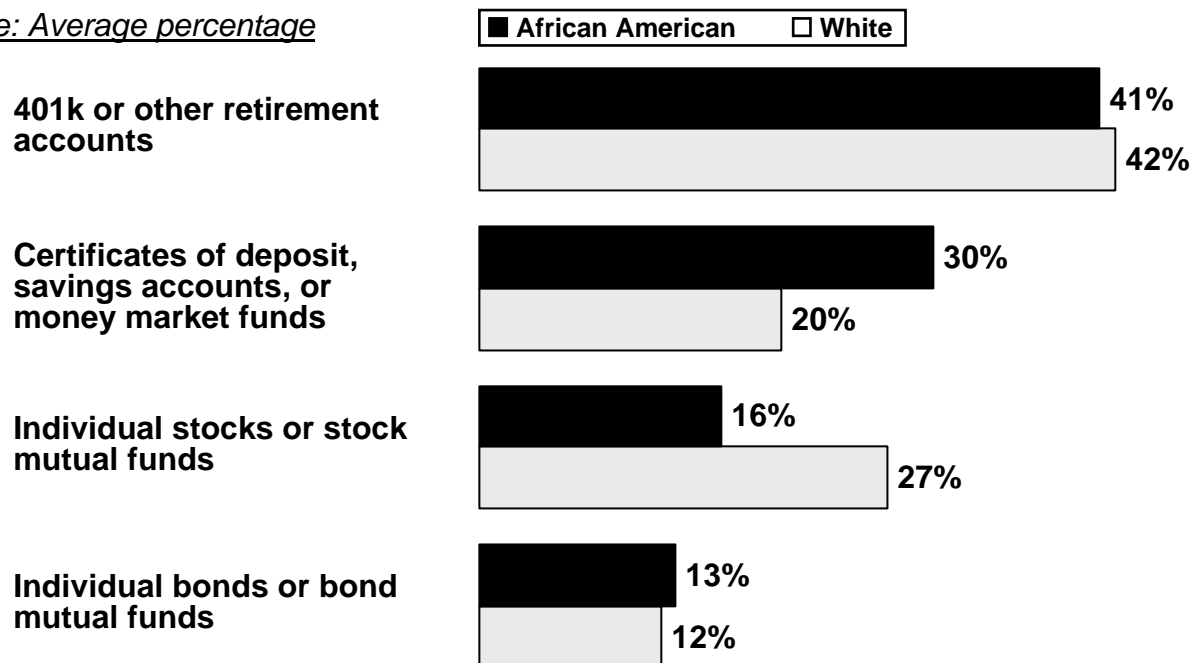
Retirement

Allocation of Savings and Investments

While African Americans save for retirement at about the same rate as whites, they are more inclined to favor conservative investments such as CD's and cash over stocks or mutual funds.

Approximately what percentage of your total savings or investments would you say fall into each of the following four categories?

Base: Average percentage

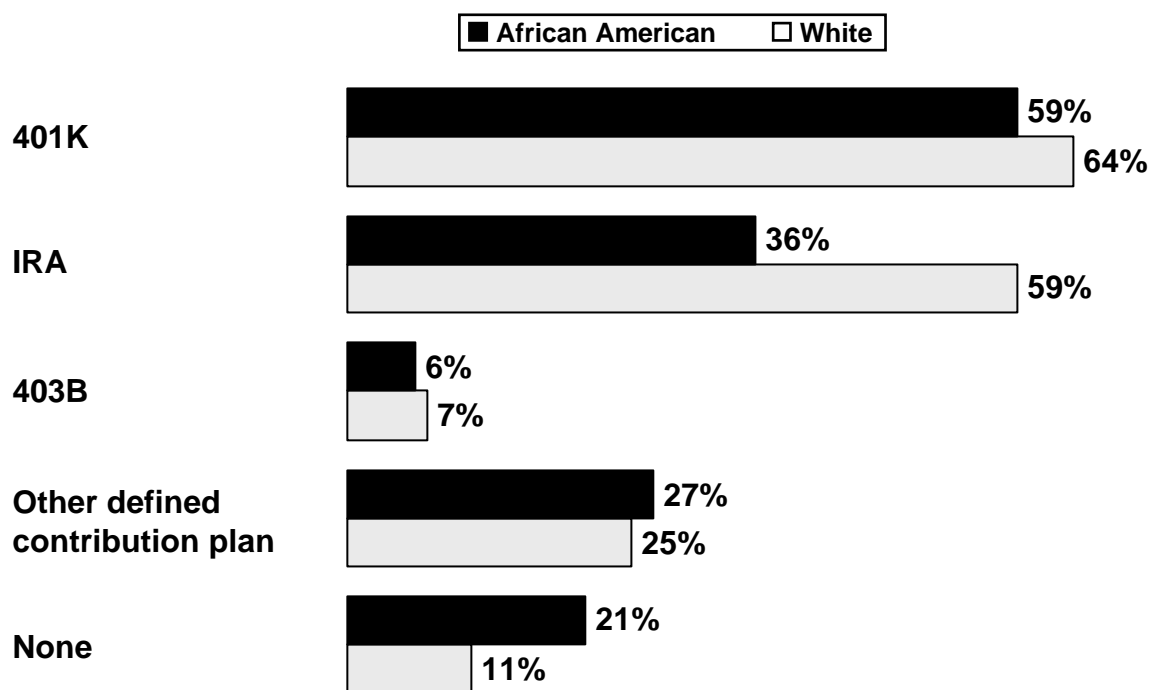


Retirement Programs

About one in five African Americans do not have money in any of the following retirement plans.

❖ This figure increases to one in four among African Americans ages 18-34

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

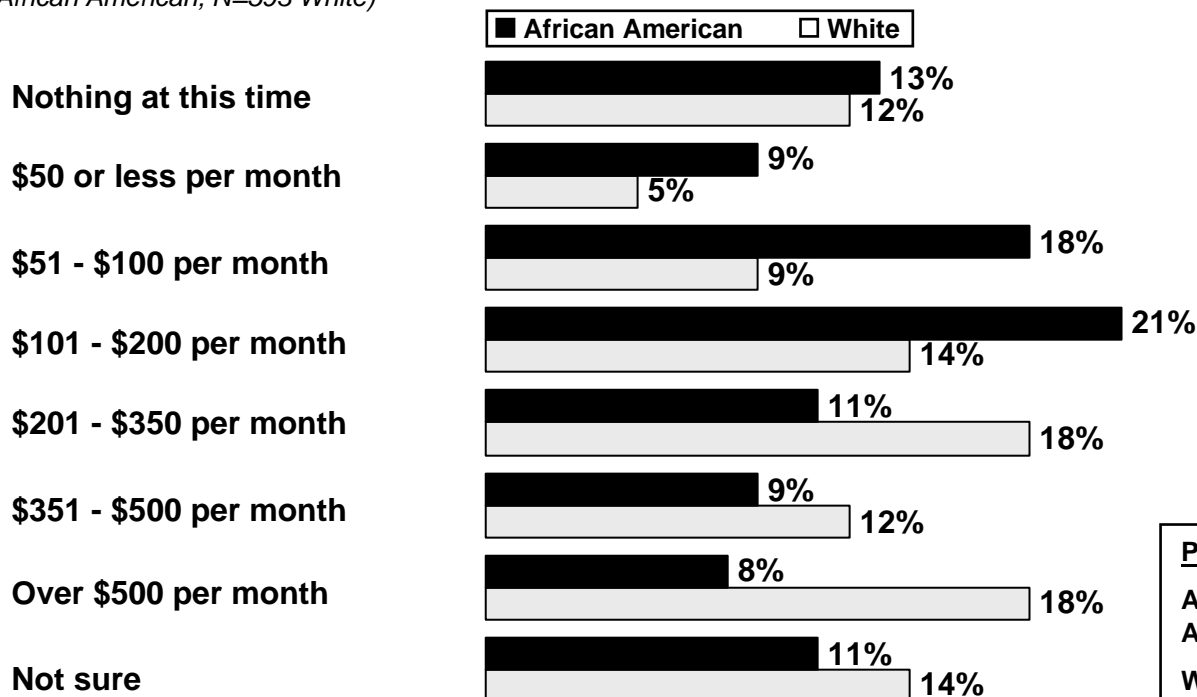


Amount Investing in Retirement Account

Whites save about one-third more than African Americans save for retirement.

How much money are you investing per month in any sort of retirement account?

Base: have funds in 401K, 403B, or defined contribution plan and are not currently retired
(N=380 African American; N=593 White)

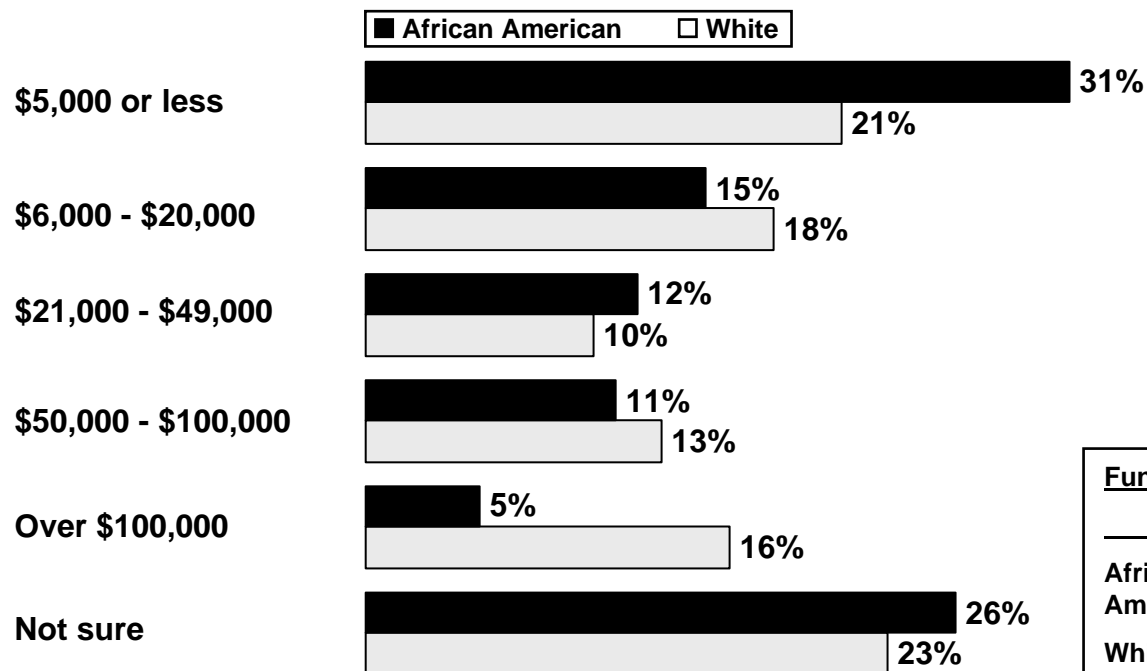


Per Month	Avg	Med
African American	\$184.0	\$120.6
White	\$274.3	\$240.5

Value of Retirement Savings and Investments

Proportionately, each group has approximately the same amount invested in retirement accounts (36% of total savings and investments for African Americans, 39% for whites)

Of this amount, how much money do you have in accounts specifically for retirement, such as IRAs, 401Ks, or any other type of defined contribution plan such as 403Bs?



Funds in retirement accounts

	Avg	Med
African American	\$42K	\$20K
White	\$88K	\$30K

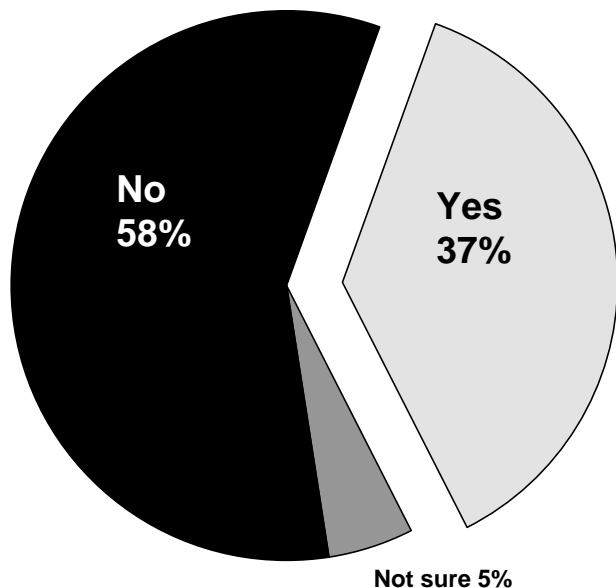
Own Life Insurance Policies for Retirement

About 4 in 10 life insurance holders intend to use their whole or universal policies as part of their retirement income.

Do you or your spouse have any whole or universal life insurance policies that you intend to use as part of your retirement income?

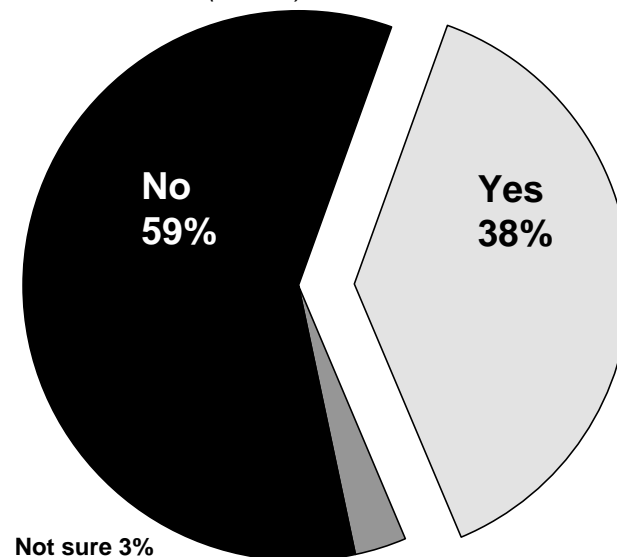
African American

Base: have life insurance (N=353)



White

Base: have life insurance (N=473)

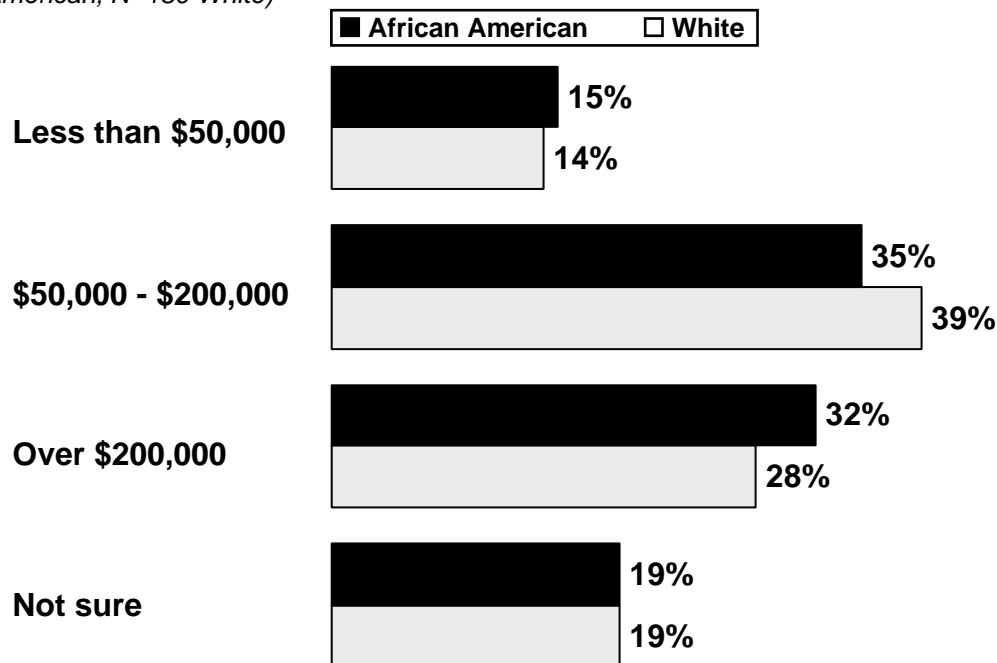


Face Value of Life Policies for Retirement

Each group of life policy holders has about the same policy value on average, but it is noteworthy that these amounts represent a higher relative contribution to retirement funds for African Americans than for whites.

What is the total face value of this policy or policies? That is, what would the beneficiaries get if the person or people covered by the policy or policies died?

Base: have life insurance policies plan to use as retirement income
(N=130 African American; N=180 White)



Policy value	Avg	Med
African American	\$288K	\$125K
White	\$252K	\$100K

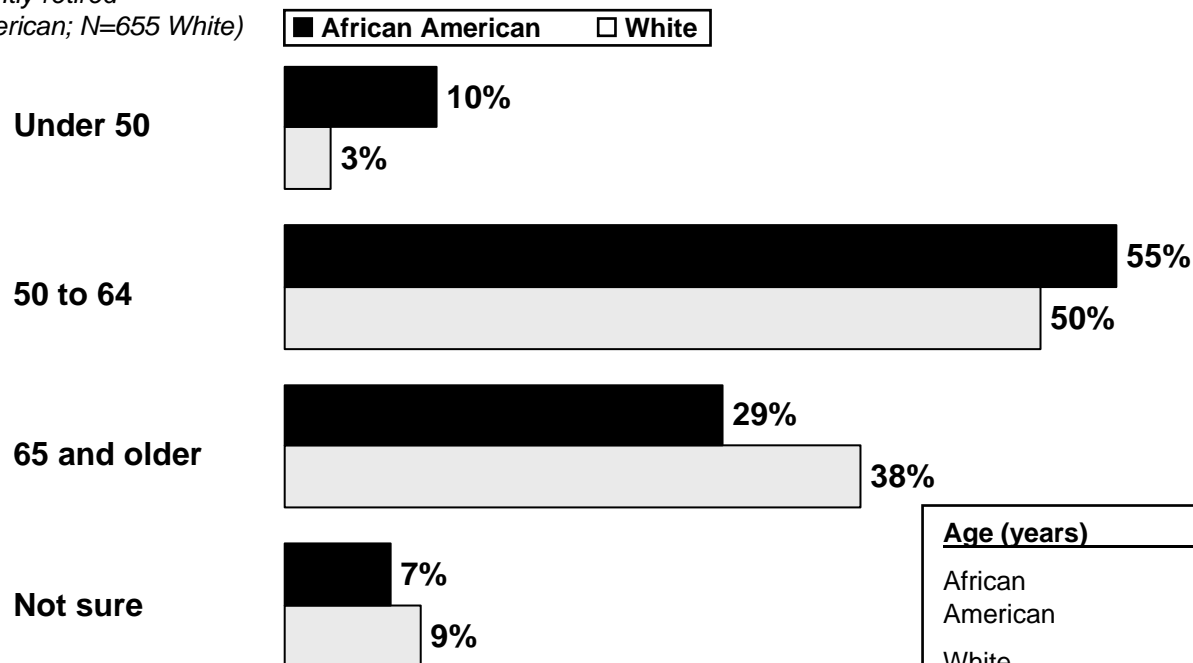
Age Plan to Retire

African Americans and whites plan on retiring at about the age of 60.

Thinking about retirement, at what age do you plan to retire?

Base: are not currently retired

(N=476 African American; N=655 White)



Age (years)	Avg	Med
African American	58	60
White	61	62

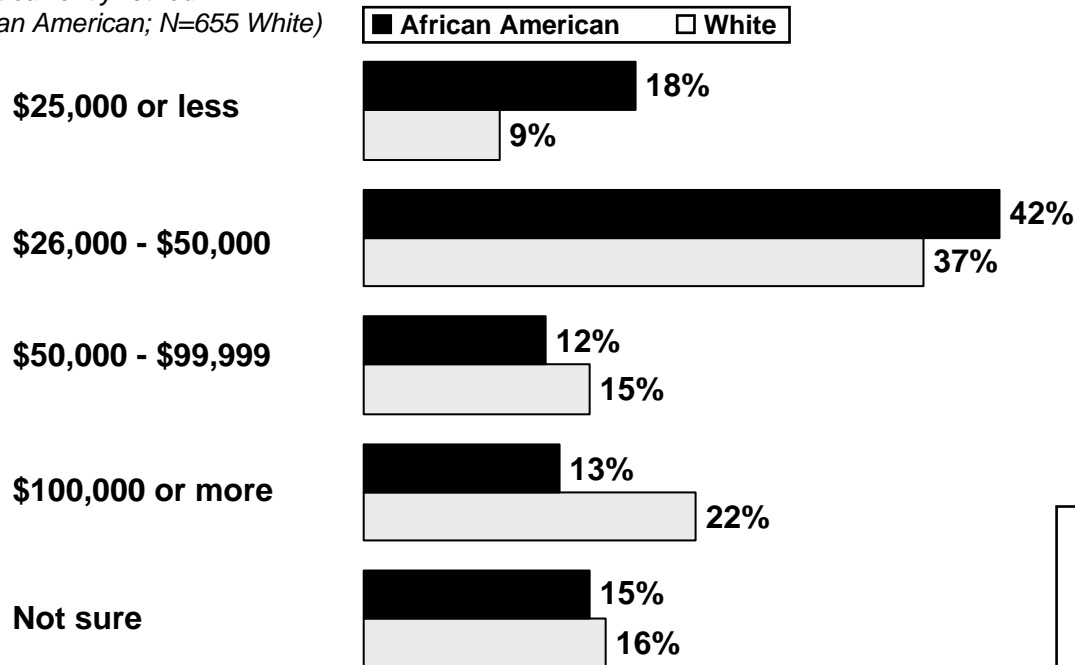
Funds Needed During Retirement

African Americans estimate their financial needs during retirement to be much lower than those of whites.

How much money do you think you will need per year when you retire?

Base: are not currently retired

(N=476 African American; N=655 White)



Estimate	Avg	Med
African American	\$87K	\$50K
White	\$107K	\$50K

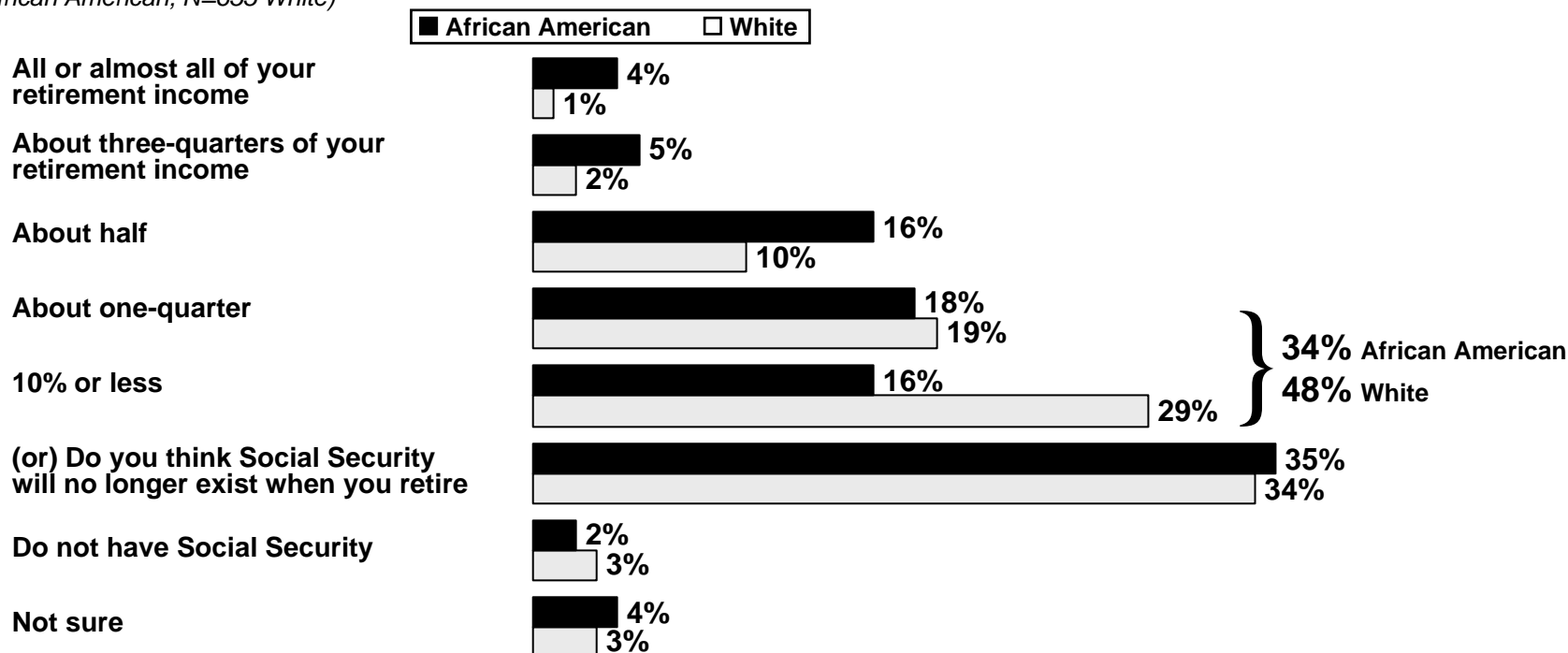
Reliance on Social Security During Retirement

About as many African Americans as whites feel that they will not have the option of using Social Security to contribute to their retirement income.

❖ Whites are less likely than African Americans to depend upon Social Security overall

To what extent do you think you will rely on Social Security when you retire? Do you think you will rely on Social Security for:

Base: are not currently retired
(N=476 African American; N=655 White)



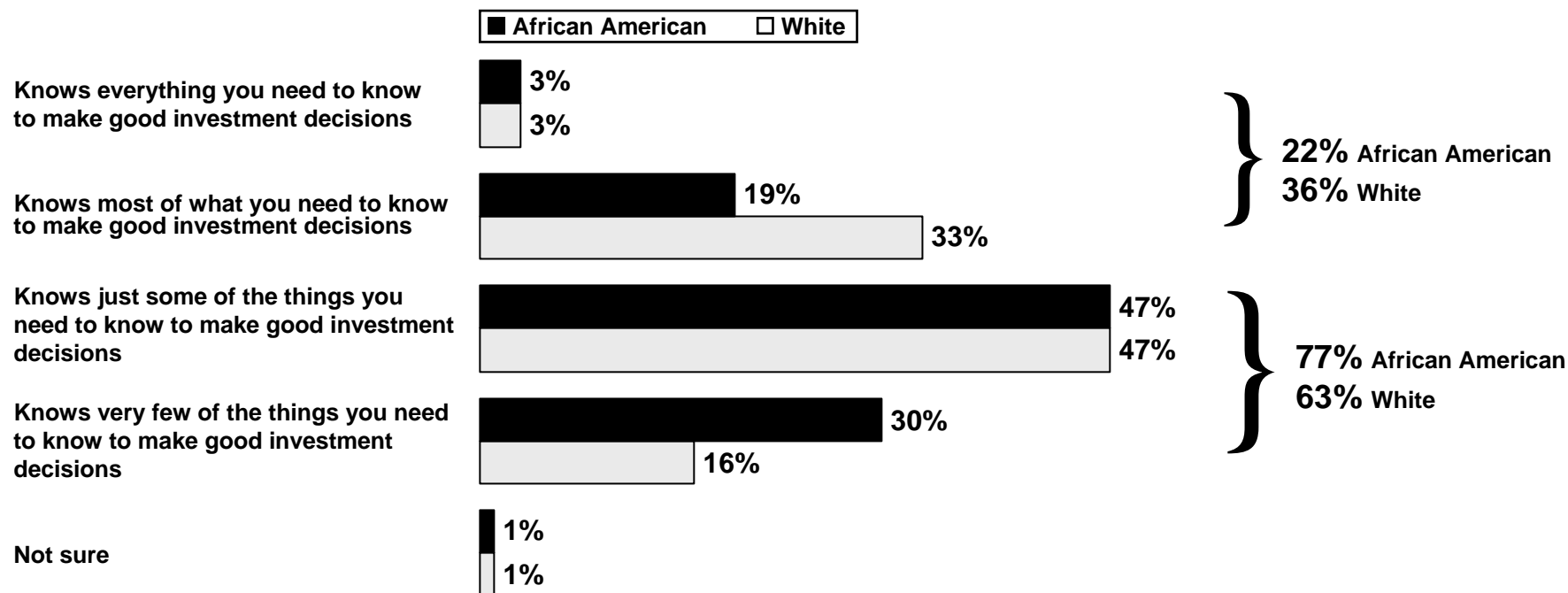
Investment Knowledge

Investing Knowledge

Almost half of all the individuals surveyed describe themselves as knowing some of the things necessary to make good investment decisions, but about one-third of the African Americans feel that they know less than that. Women in both groups tend to be less confident in their skills than men.

❖ About one in five African Americans feel that they know most or all of what they need to know about making good investment decisions

Thinking about the kinds of information people need to make good investment decisions, would you describe yourself as someone who:

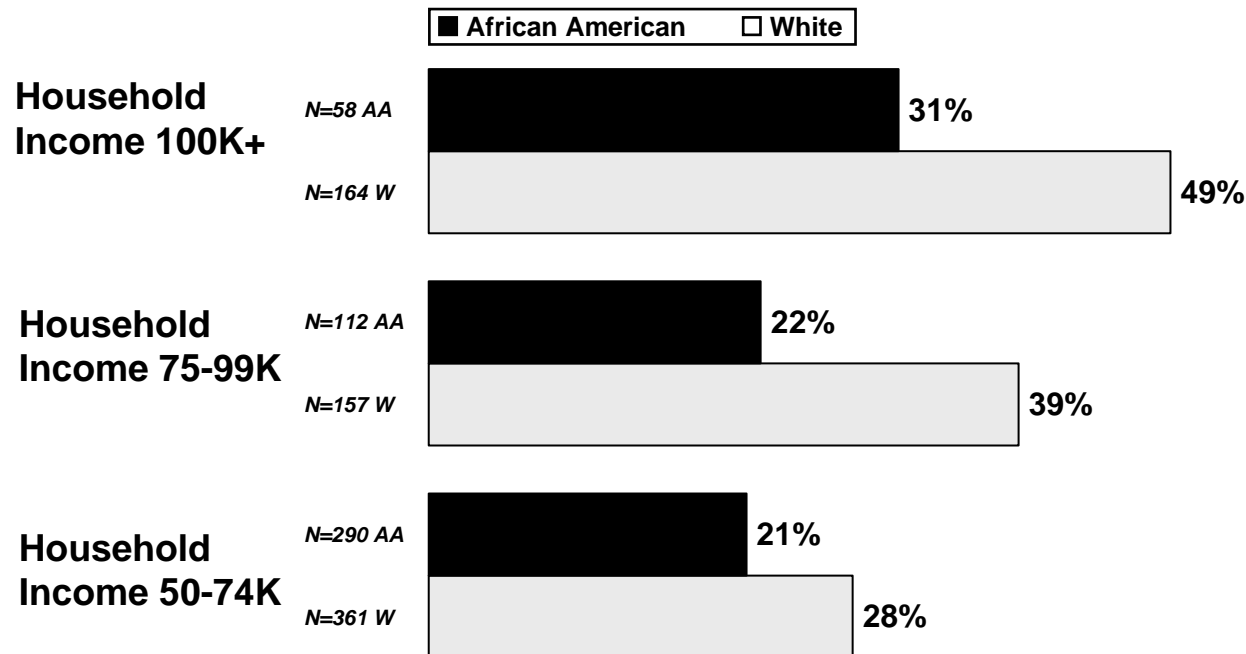


Investing Knowledge

Perhaps rightfully so, confidence in investing skills increases with income.

❖ Still, less than one third of the highest-income African Americans agree that they have all or most of the knowledge to make good investment decisions

Describe yourself as someone who knows everything or most of what you need to know to make good investment decisions:
(percent saying “yes”)

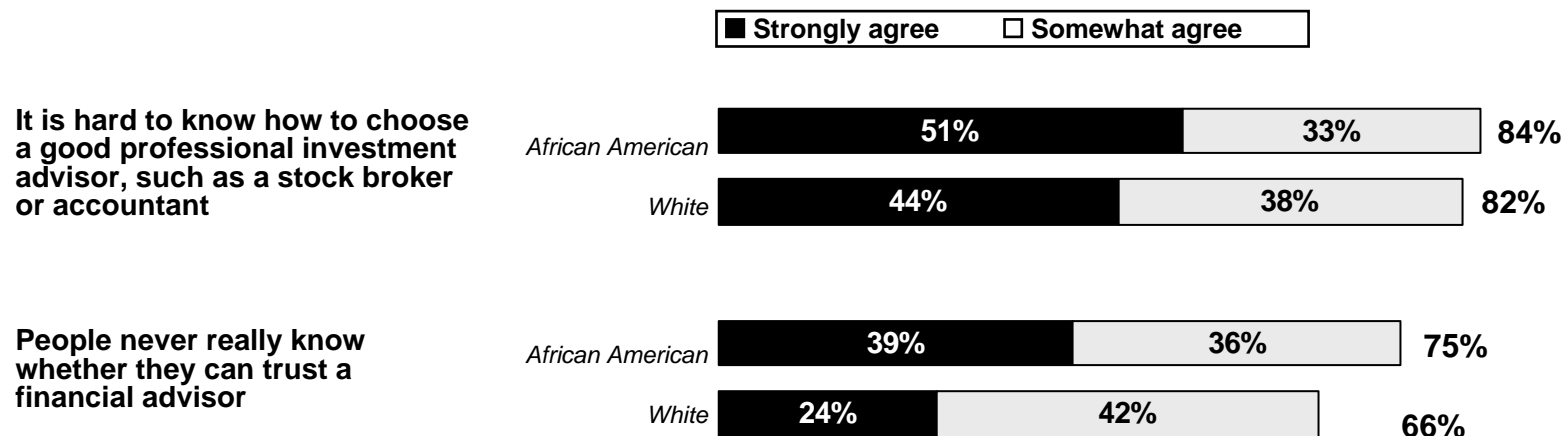


Thoughts on Investment Advisors

Large numbers of African Americans and whites agree that choosing an investment advisor is difficult. So too, is establishing an adequate level of trust.

- ❖ **And, while most whites agree that they would be better off using a financial advisor, even more African Americans share that sentiment. This feeling is strong among African Americans of all ages and incomes**

Now, I'm going to read some statements about investment advisors, such as stockbrokers, financial planners, and accountants or CPAs. Regardless of whether you use advisors like these, I'd like to know your opinions about them. As I read each statement, please tell me whether you strongly agree, somewhat agree, somewhat disagree or strongly disagree with the statement.



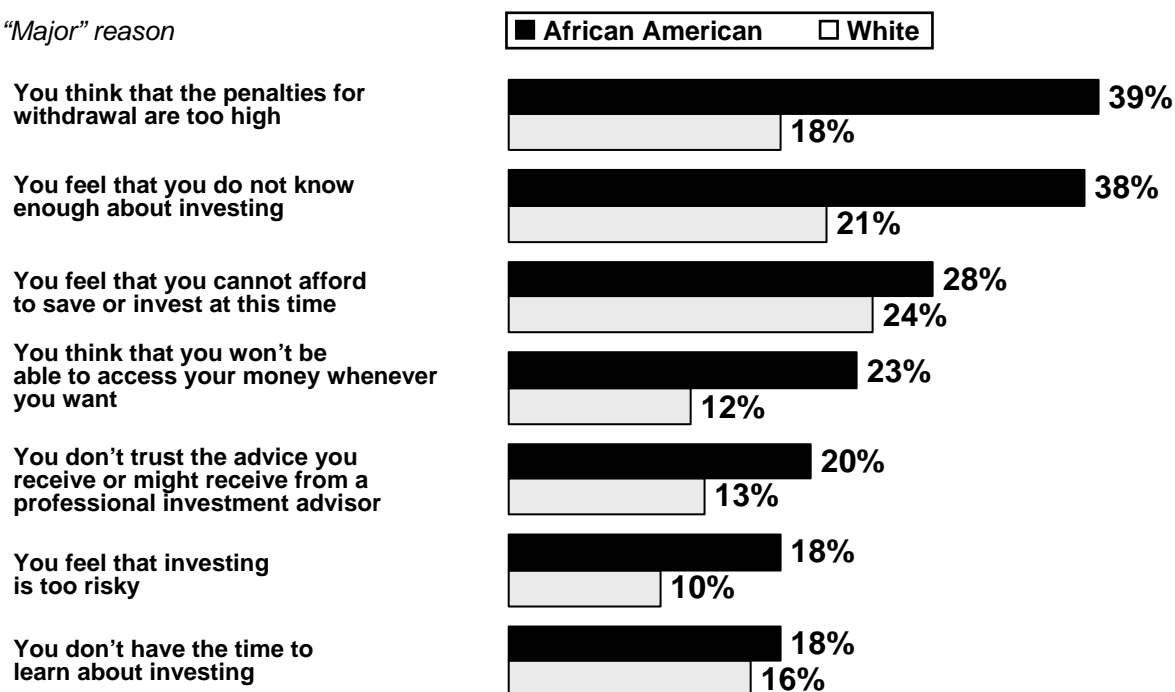
Saving/Investing Obstacles

African Americans relate more strongly to all of the following reasons for not saving or investing more money in comparison to whites.

- ❖ Especially important reasons for African Americans are feelings about penalties and lack of knowledge, whereas whites are most likely to cite not being able to afford to invest at the current time

Next I'd like to read a list of reasons people sometime give for not saving or investing more money. As I read each, please tell me whether it is a major reason for your not saving or investing more, a minor reason, or not a reason at all.

% saying "Major" reason

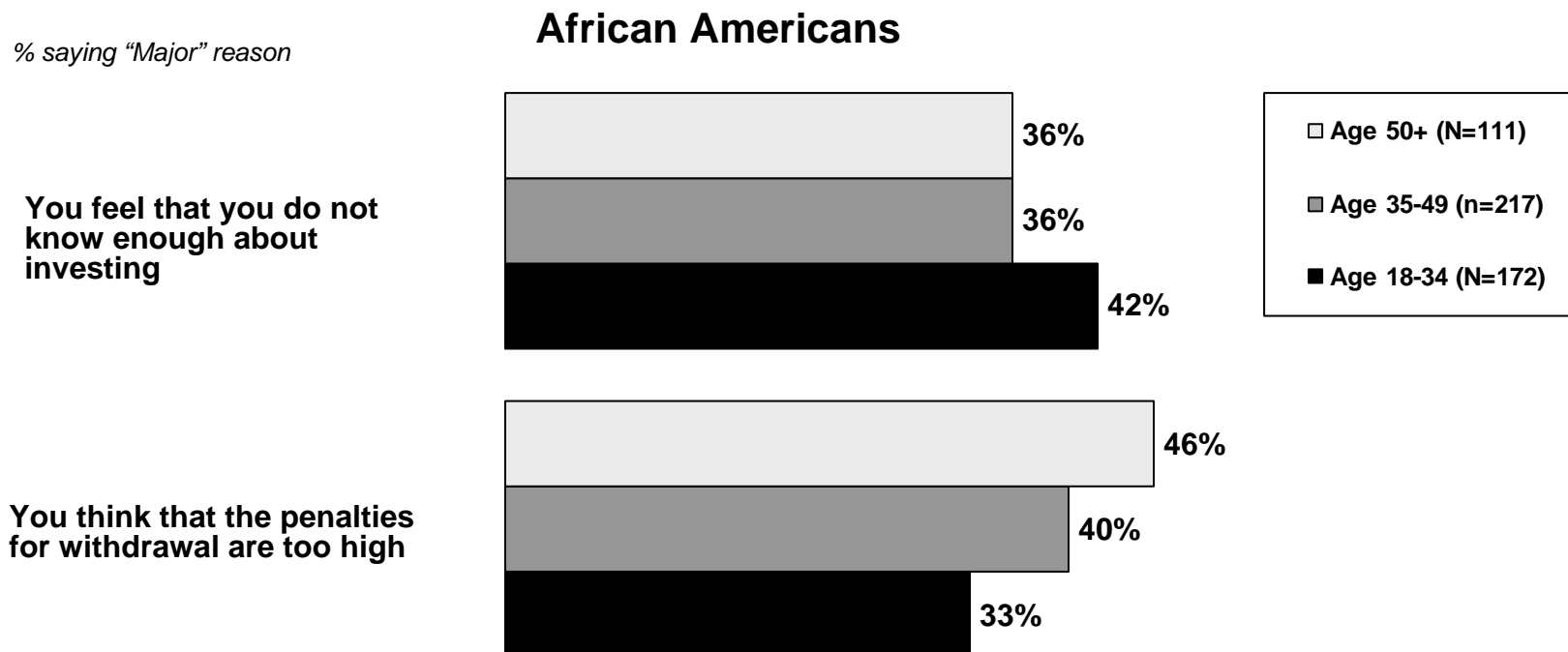


Saving/Investing Obstacles

Among older African Americans, the most commonly-cited reason for not investing more money is due to perceptions of high penalties for withdrawal. Among younger African Americans (who, as noted earlier, are more aggressive investors) lack of knowledge is the most important reason.

❖ **Both of these issues can be addressed through better informing African Americans about investments**

Next I'd like to read a list of reasons people sometime give for not saving or investing more money. As I read each, please tell me whether it is a major reason for your not saving or investing more, a minor reason, or not a reason at all.



Benefits Investors Seek

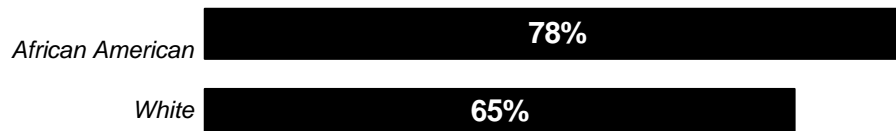
Desirable Company Attributes

African Americans demonstrate more interest in both socially beneficial traits as well as the convenience-oriented benefits investment companies can offer.

As I read each of the following statements, please tell me whether it would make you more likely to have an account with a company, less likely, or whether it wouldn't make any difference to you at all.

■ More likely to have an account

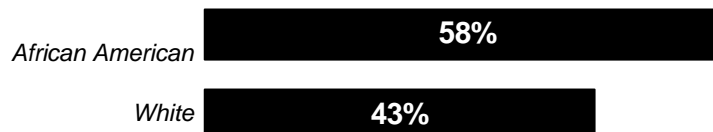
The company is involved in programs that positively impact the community



The company offers a low minimum investment of as little as \$50



The company's management or ownership and workforce is racially diverse



Desirable Company Attributes

(Continued . . .)

As I read each of the following statements, please tell me whether it would make you more likely to have an account with a company, less likely, or whether it wouldn't make any difference to you at all.

■ More likely to have an account

The company is an investment firm or mutual fund company owned or managed by African Americans

African American

57%

White

10%

The company does not invest in businesses that harm the environment

African American

56%

White

50%

The company does not invest in tobacco companies

African American

34%

White

33%

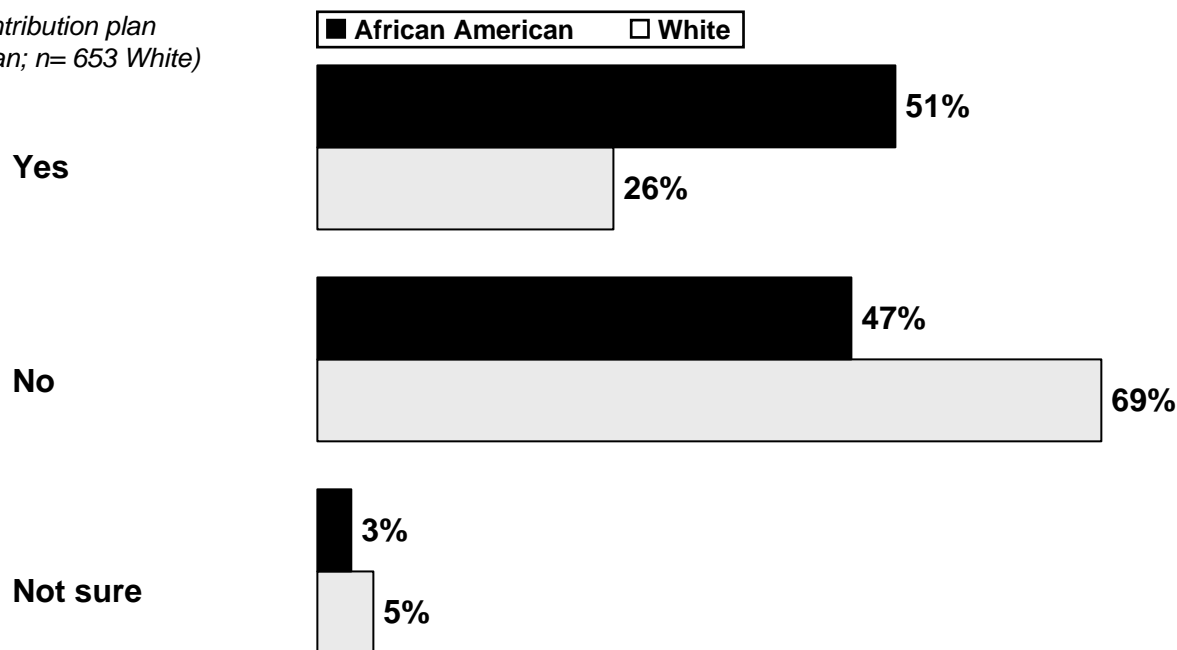
Black Owned/Managed Mutual Fund

Just over one-half of African Americans feel that a choice of a black owned or managed mutual fund as part of their 401K options is important. One quarter of whites feel that this choice is important.

❖ **About one half of African Americans of all ages, incomes and education levels agree that this choice is important as well**

Is it important for you to have a choice of investing in a black owned or managed mutual fund as part of your 401K or other defined contribution plan?

Base: have defined contribution plan
(n=396 African American; n= 653 White)



Demographic Data

Demographic Data

	Black %	White %
<u>Education</u>		
8th grade or less	1	1
Some high school	2	1
High school graduate	19	14
Some college	30	21
College graduate	27	31
Postgraduate study	16	31
Refused	4	2

<u>HH Description</u>	Black %	White %
Husband and wife, with children	50	53
Husband and wife, without children	14	27
Single parent and children, no other adults present	9	3
Single parent and children, other adults present	6	1
Live alone	12	11
Live with non-relative	3	4
Refused/No answer	5	2

	Black %	White %
<u># of People in HH</u>		
1	12	11
2	24	33
3	20	18
4	21	24
5	12	10
6 or more	7	3
Refused/No answer	4	2
Average	3.2	3.0

	Black %	White %
<i>Base: More than one person in HH</i>		
<u># Kids Under 18 in HH</u>		
0	41	53
1	26	17
2	20	20
3	8	8
4	1	1
5	1	1
6 or more	2	1
Refuse/No answer	2	1

	Black %	White %
<u>Family Income</u>		
\$50,000 - \$74,999	58	49
\$75,000 - \$99,999	22	21
\$100,000 or more	12	22
Refused/No answer	8	7
Average (000's)	\$75.8	\$82.1

	Black %	White %
<u>Region</u>		
Northeast	27	23
North Central	17	26
South	54	37
West	2	14

Demographic Data

	Black %	White %
<u>Age</u>		
18-24	7	2
25-29	12	8
30-34	16	12
35-39	16	18
40-49	27	30
50-64	19	22
65+	3	8
Mean	41	45
Median	40	43

	Black %	White %
<u>Gender</u>		
Male	50	54
Female	50	46