

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

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

April, 2000



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

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BACKGROUND AND OBJECTIVES

- ❑ Ariel Mutual Funds and Charles Schwab & Co., Inc. commissioned Neuwirth Research Inc. to conduct primary research comparing and contrasting high income (household income of \$50,000 or more) African-Americans and Whites in terms of their savings and investment attitudes and behaviors. This study builds upon similar studies conducted in January 1998 and January 1999.
- ❑ The main objective of this research is the following:
 - To identify similarities and differences between high income African-Americans and Whites with regard to saving and investing.
- ❑ More specific objectives include:
 - To build upon previous research and identify any changing attitudes or behaviors.
 - To better understand how past influences and underlying beliefs may impact how African-Americans and Whites think about financial matters.
 - To better understand the expectations and issues that African-Americans and Whites face in their financial futures.

METHODOLOGY

- ❑ 605 African-Americans and 607 Whites were interviewed by phone during late November and early December, 1999.
- ❑ All respondents were over the age of 18 and had a household income of at least \$50,000. Additionally, all identified themselves as the primary or joint decision-maker in the household in terms of investment decisions.
- ❑ The sample, national in scope, was drawn via a random-digit dialing technique which ensured an equal probability of contacting individuals with unlisted as well as listed numbers within the target areas. These areas included census exchanges that have a median income of \$40,000 or more, as well as census exchanges that have, in addition, a 25% or above African American population.
- ❑ The survey ran for an average of 23 minutes.
- ❑ The margin of error for African-Americans (605 respondents) is $\pm 3.99\%$. For Whites (607 respondents) the margin of error is $\pm 3.98\%$.

HIGHLIGHTS OF JANUARY 1998 STUDY

- ❑ The 1998 study revealed a number of interesting differences between the two groups surveyed, such as how, relative to Whites, African-Americans:
 - Are underinvested in the stock market, due to several social and cultural reasons
 - Prefer more conservative investment vehicles, including life insurance; also regard real estate as the best investment overall
 - Have less wealth than Whites with similar incomes
 - Are less likely to rank retirement as their #1 goal in terms of savings and investing
 - Are less likely to trust financial advisors

HIGHLIGHTS OF JANUARY 1999 STUDY

- ❑ The 1999 study built on the previous year's findings to help identify why certain attitudes and behaviors are so divergent. The reasons for the differences were found to include:
 - African-Americans were introduced to savings and investing tools later in life
 - African-Americans are motivated to invest in more conservative investment vehicles because of the feeling of security those investments provide
 - African-Americans feel that brokers' greed may influence the advice they give
 - African-Americans say a lack of knowledge prevents them from making investments
 - Spending patterns, beyond paying for basic necessities, are different between Whites and African Americans

- ❑ At the same time, this study also uncovered heightened interest in investing among African-Americans relative to Whites:
 - African-Americans are more likely to have participated in a number of activities that increase one's knowledge of investing
 - African-Americans who do not yet invest are more likely to say they will begin investing in the next year

- ❑ Other areas explored included how women and men behave differently:
 - Women are more likely than men to consider themselves beginner investors
 - Women are relatively underinvested in comparison to men
 - Women are more likely to own conservative investments than men

HIGHLIGHTS OF THIS YEAR'S STUDY

- ❑ This year's study finds that African-American stock investing is on the rise.
 - Today, 64% of African-Americans are stock investors, compared to 57% two years ago.
 - Among Whites, the percentage who own stocks has held steady (81% in 1998 and 82% today).

- ❑ Family obligations, including children's education, are driving African-American savings.
 - Among African-Americans, 32% expect to support adult children, compared to 20% of Whites; 45% of African-Americans expect to support aging parents, compared to 29% of Whites.
 - African-Americans have considerably less saved for retirement than Whites (\$44K vs. \$69K), and fewer African-Americans (33% vs. 49%) cite "retirement" as their most important reason for saving. Just 41% of Blacks said they would spend more time on leisure activities during retirement, vs. 56% of Whites.
 - "Children's education" ranked as a somewhat higher reason for saving among African-Americans (22% vs. 16% of Whites). African-Americans are saving as much or even more for education than Whites: over \$12,200. More African-Americans than Whites (39% to 33%) cite education as the key to financial success.

HIGHLIGHTS OF THIS YEAR'S STUDY (CONTINUED)

- ❑ African-Americans and Whites support diversity programs for the financial services industry.
 - Eighty-one percent of African-Americans and 49% of Whites believe “racism continues to be a major obstacle for African-American wealth creation.”
 - Seventy-five percent of African-Americans and 52% of Whites believe African-Americans are at a disadvantage because they are “less likely to have a financial head-start.”
 - Overall, 75% of African-Americans and 61% of Whites agree that there are not enough African-American role models in the financial industry; 79% of African-Americans and 60% of Whites think that the industry should practice affirmative action to increase diversity.
 - Younger African-Americans are less concerned with racism as an obstacle for wealth creation as compared to those over 50 years of age (75% vs. 87%).

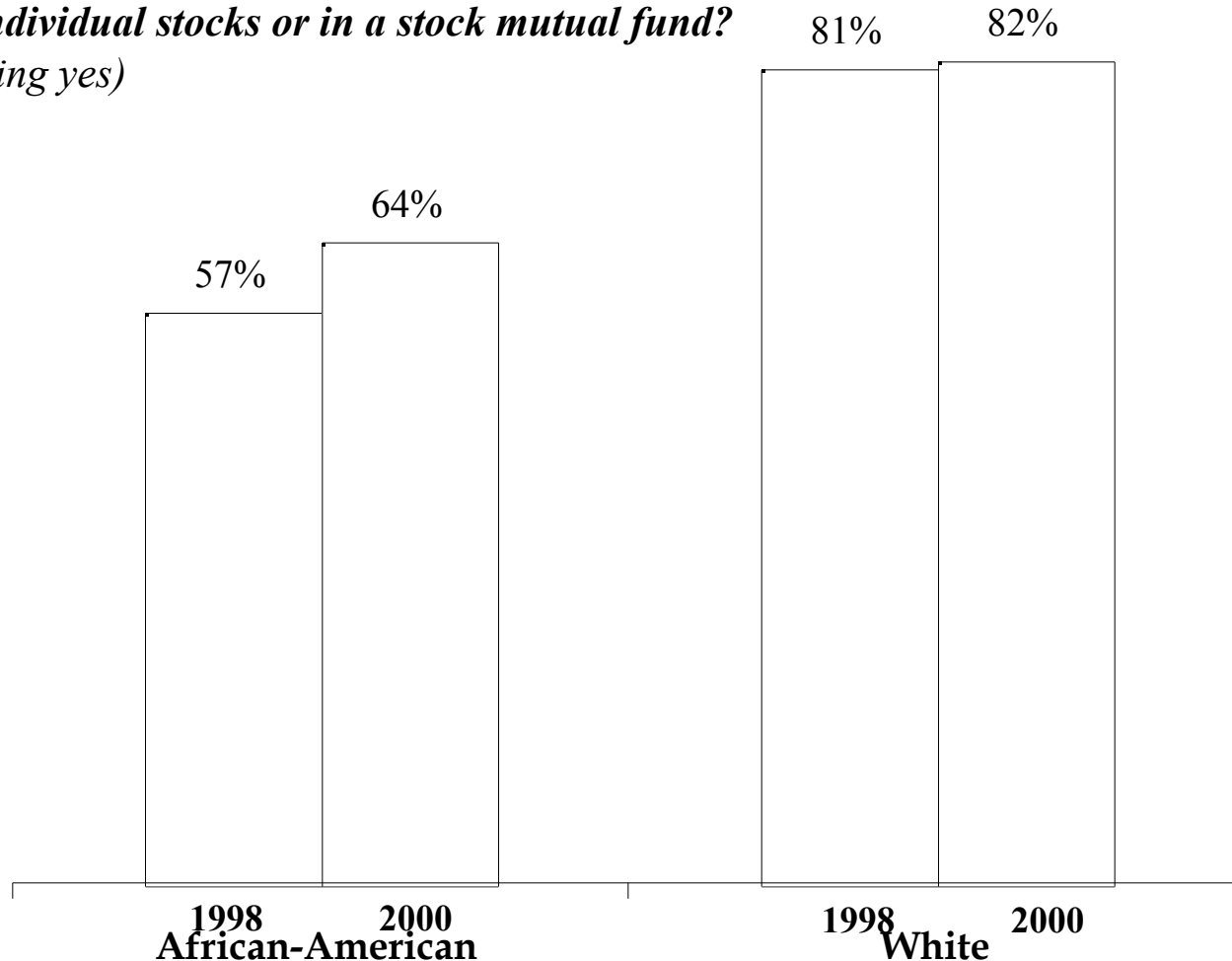
HIGHLIGHTS OF THIS YEAR'S STUDY (CONTINUED)

- ❑ The survey also uncovered some interesting differences between African-Americans and Whites in terms of their money management, spending habits, and attitudes about wealth-building.
 - By a 47% to 57% margin, African-Americans are less likely than Whites to describe someone who earns over \$100K annually as “affluent.”
 - On average, African-Americans annually spend more on vacations than Whites (\$7,038 vs. \$5,326).
 - By a 65% to 53% margin, more African-Americans agree that “This country would be better off if the wealthiest paid more taxes to help the poorest people.”
 - More African-Americans than Whites favor spending the federal budget surplus on domestic programs (45% vs. 30%) and saving Social Security (25% vs. 20%) instead of tax cuts (13% vs. 19%).
 - On average, African-Americans annually give less to charities (\$1,917 vs. \$2,352).

INVESTING HABITS

INVESTORS VS. NON-INVESTORS OVER LAST TWO YEARS

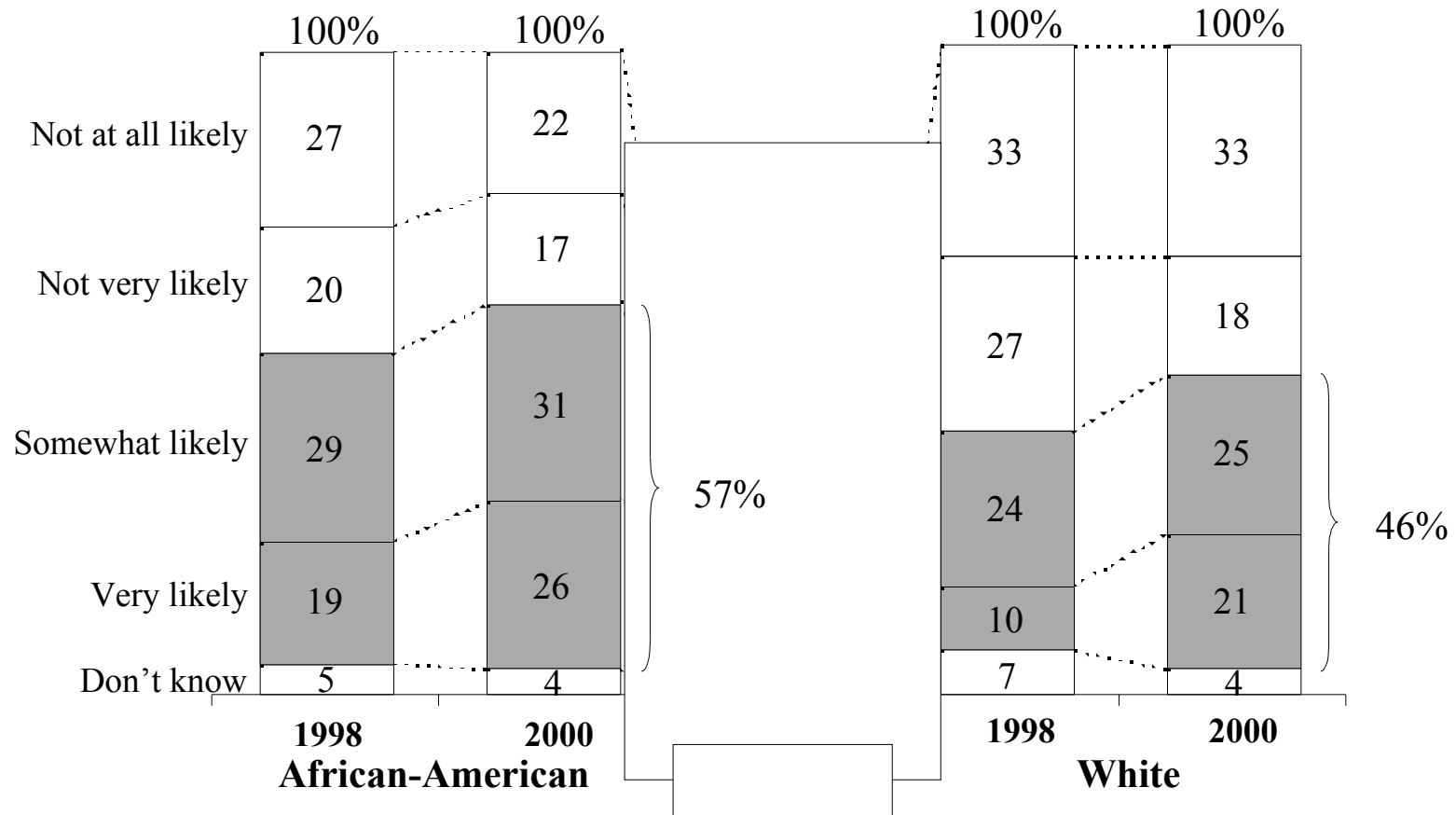
Do you personally, or with a spouse, have any money invested in the stock market right now, either in individual stocks or in a stock mutual fund?
(% answering yes)



LIKELIHOOD TO BEGIN INVESTING

Excluding 401(k) plans, how likely are you to begin investing in stocks or mutual funds during the next year?

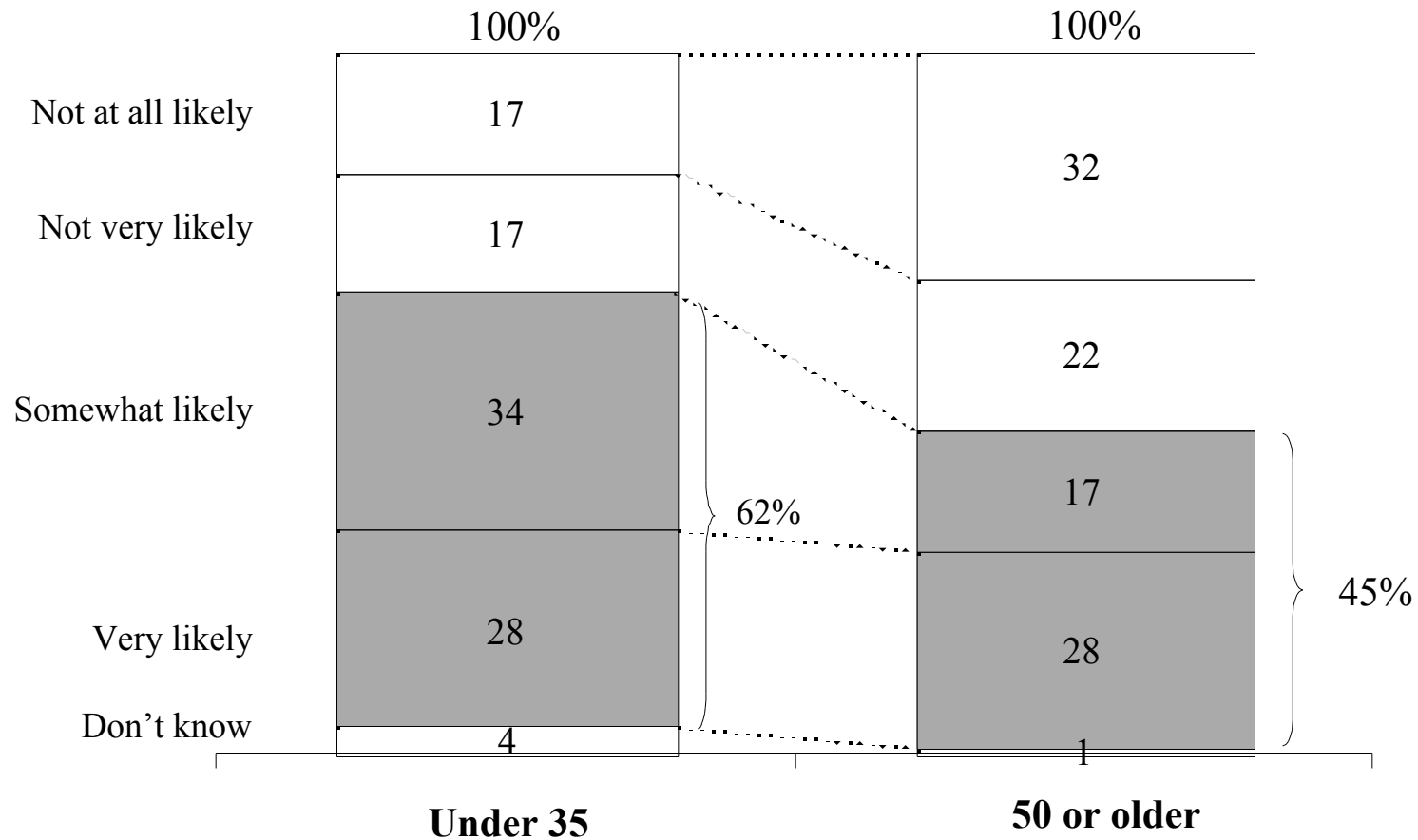
Base: Those who do not own individual stocks, or stock or bond mutual funds



LIKELIHOOD TO BEGIN INVESTING AMONG YOUNGER AFRICAN-AMERICANS

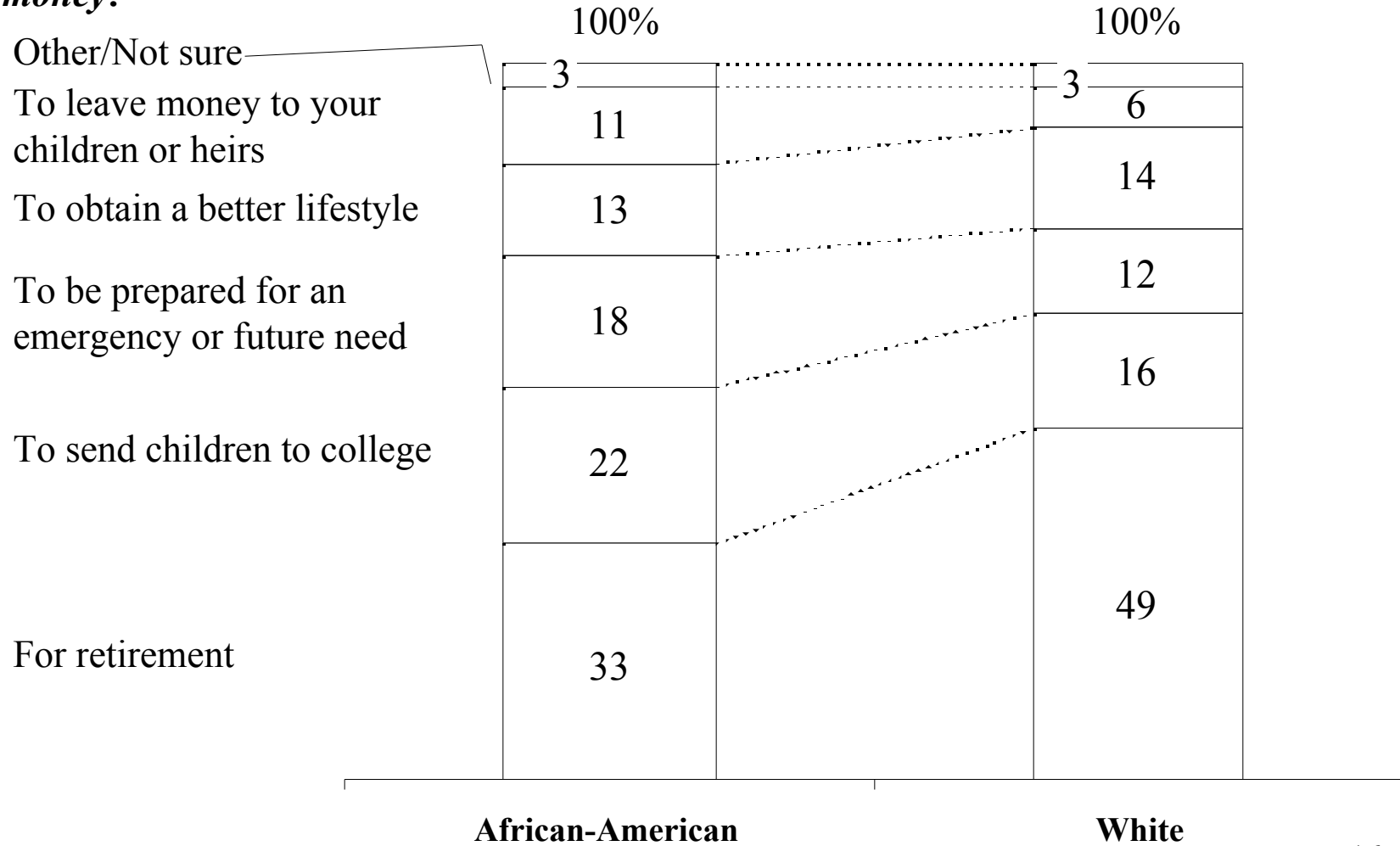
Excluding 401(k) plans, how likely are you to begin investing in stocks or mutual funds during the next year?

Base: African-Americans who do not own individual stocks, or stock or bond mutual funds



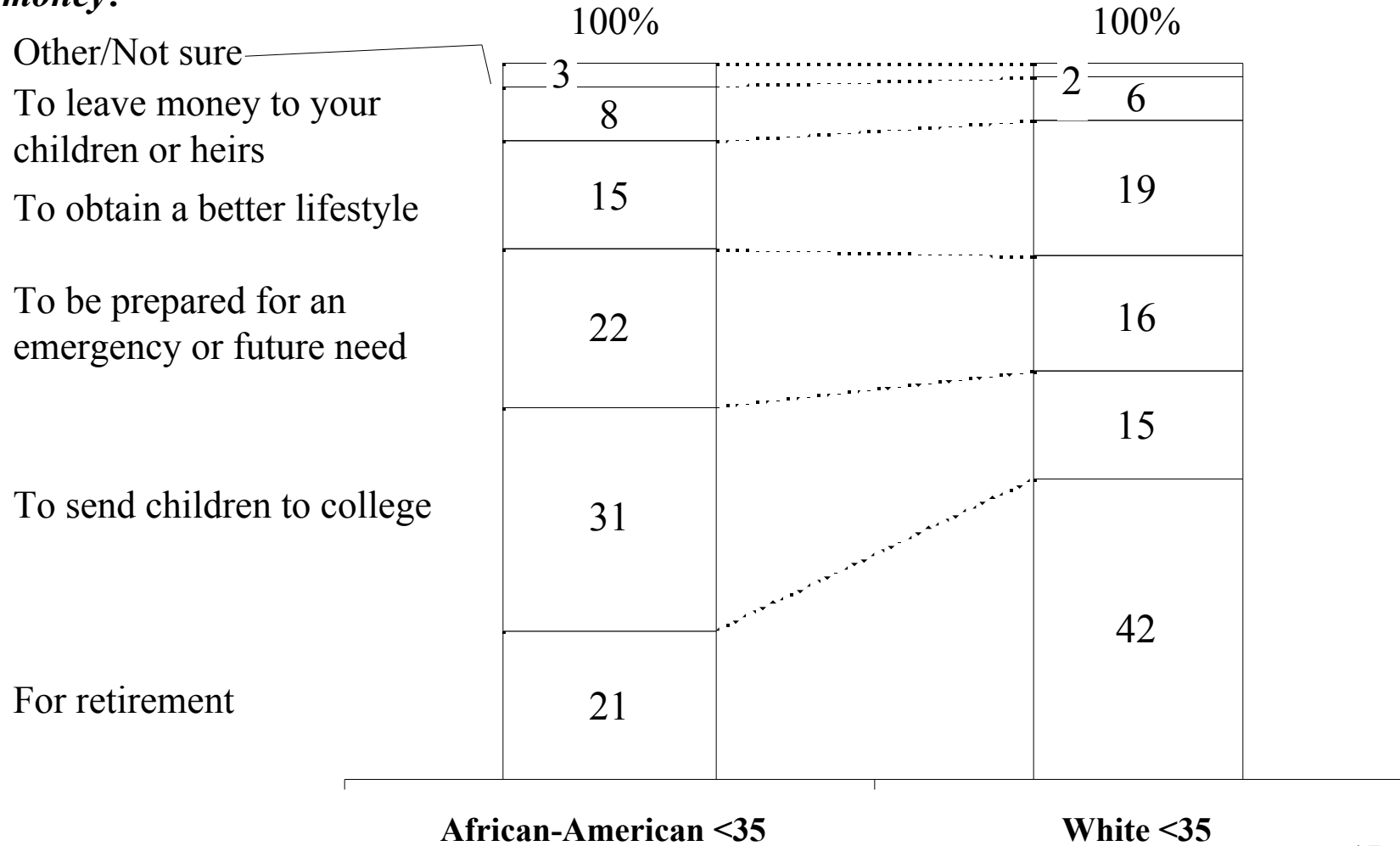
GOAL FOR SAVINGS AND INVESTING

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



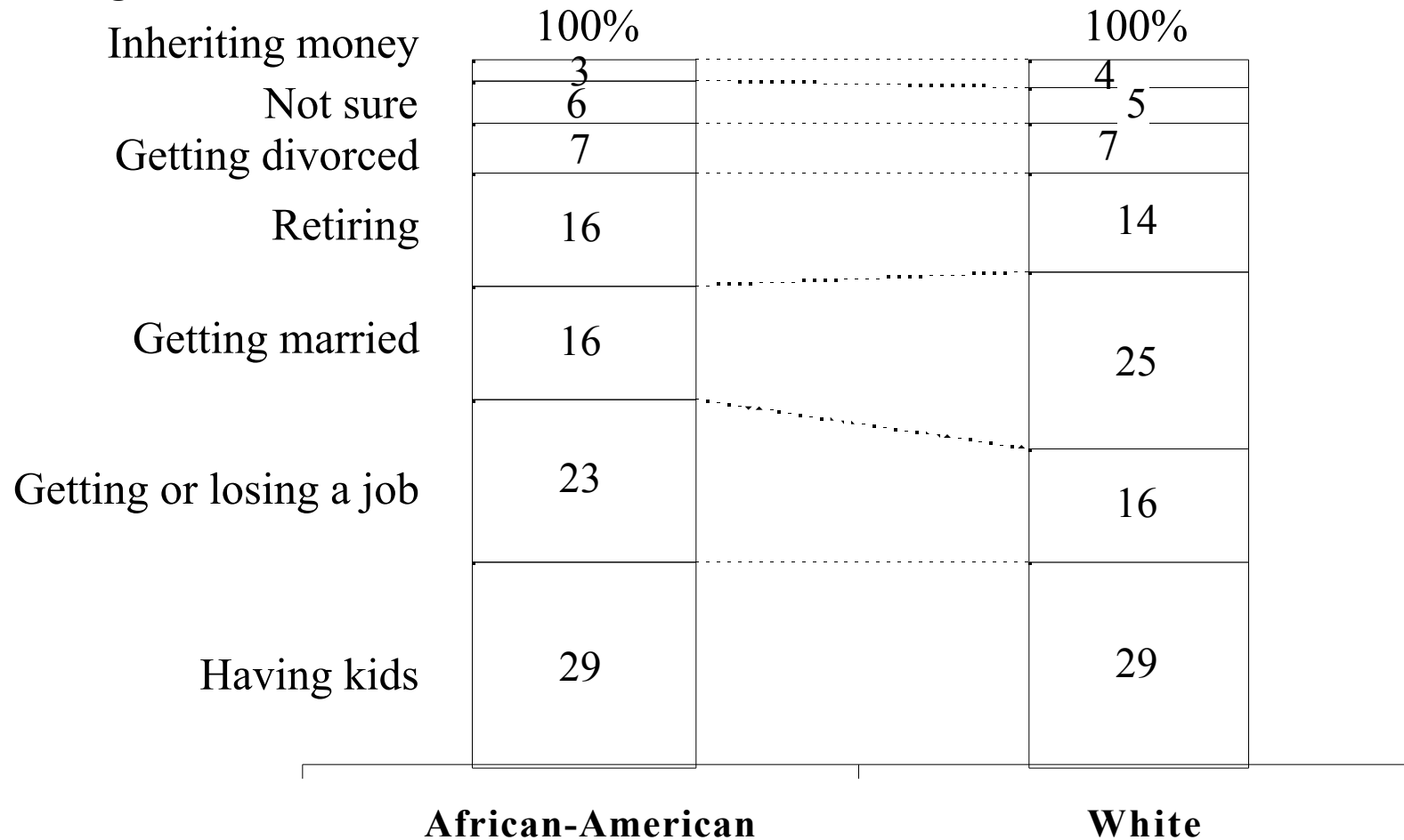
GOAL FOR SAVINGS AND INVESTING AMONG THOSE UNDER 35 YEARS OLD

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



LIFE EVENT MOST IMPACTING INVESTING HABITS

Which one of the following life events would you say has most impacted your savings and investing habits?

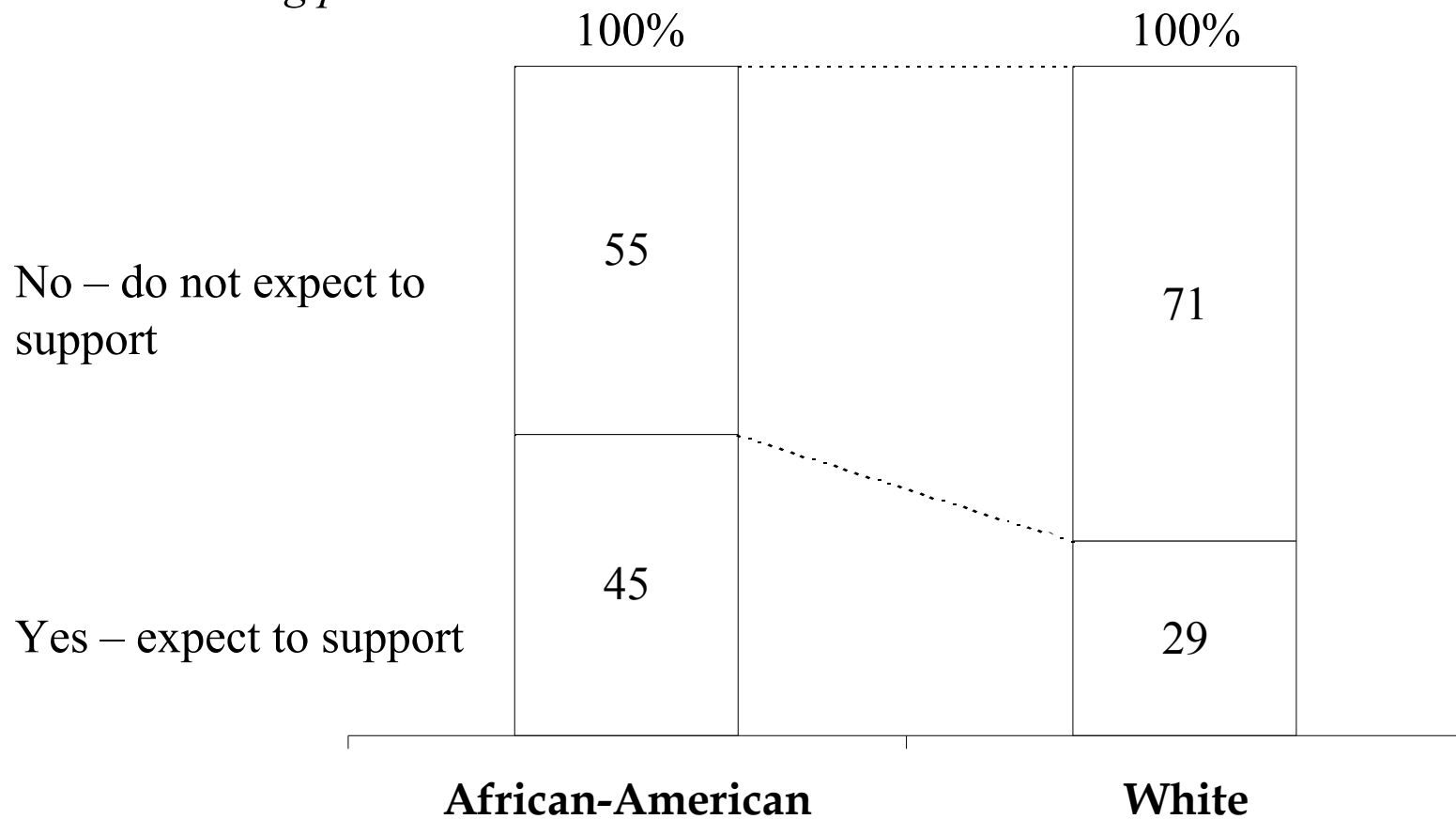


FAMILY FINANCIAL SUPPORT

FINANCIAL SUPPORT OF PARENTS

If your parents are living, do you now, or do you expect in the future to support them financially?

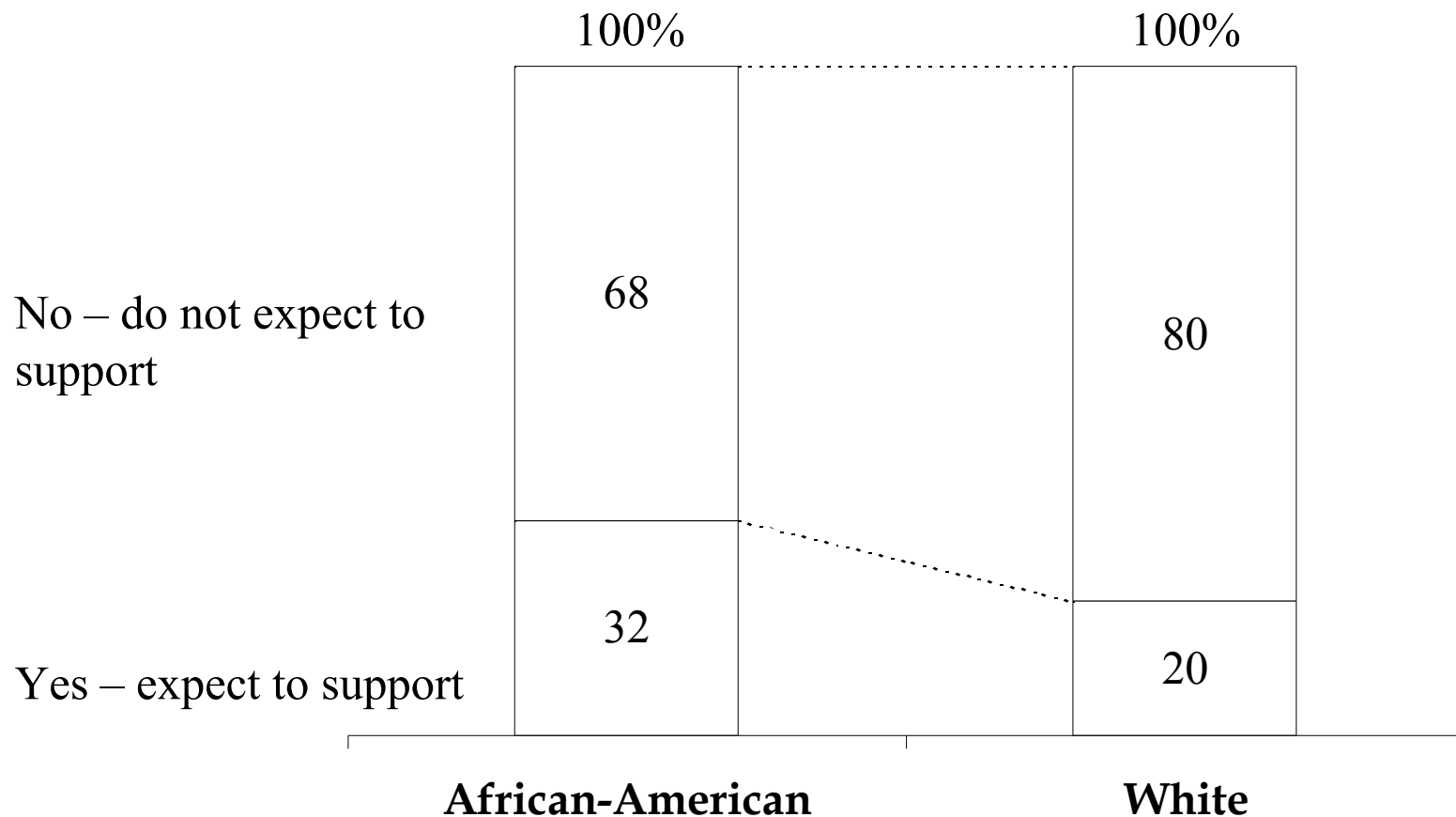
Base: Have living parents



FINANCIAL SUPPORT OF ADULT CHILDREN

Do you now, or do you expect in the future to support your children financially in their adult lives?

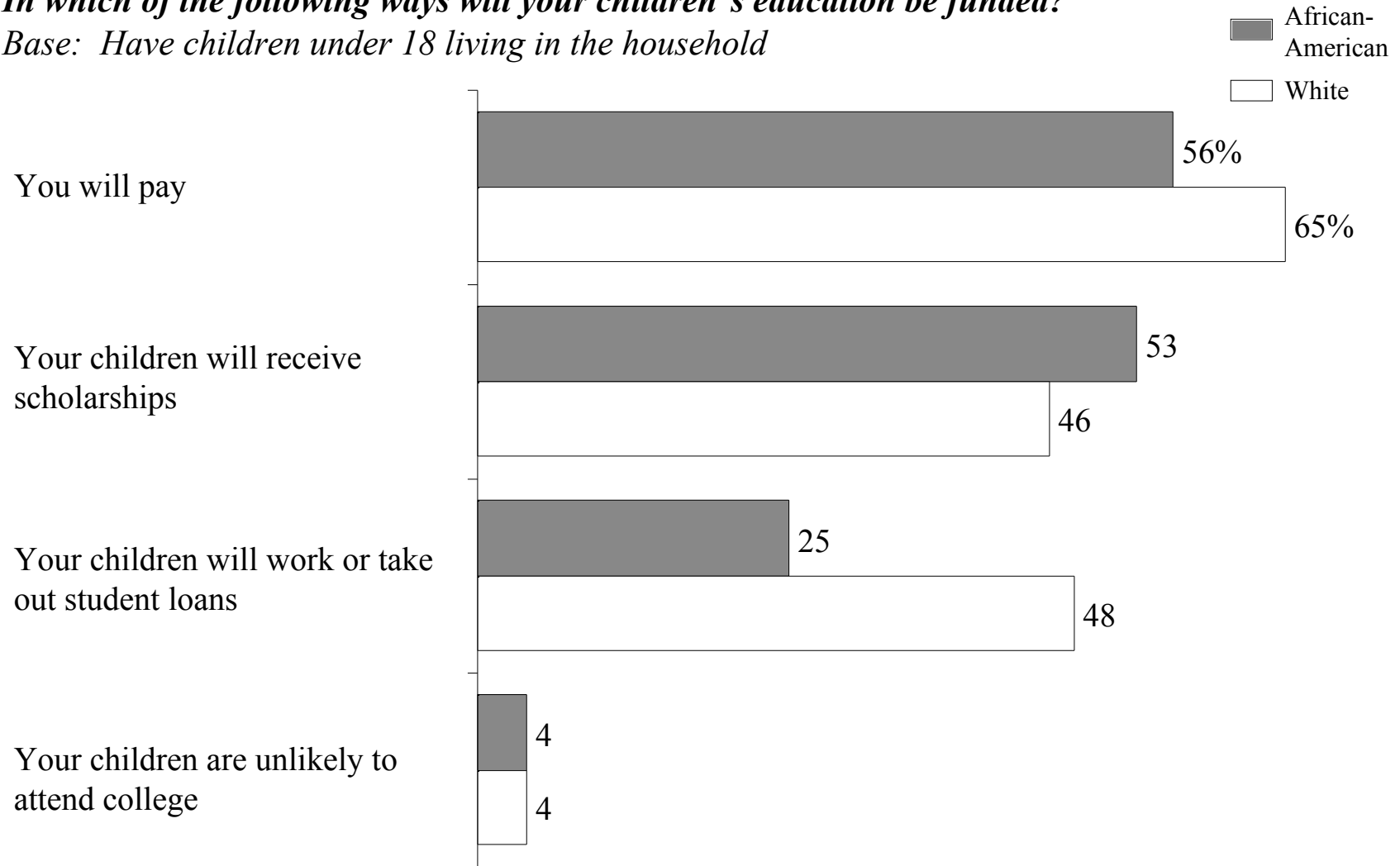
Base: Have children



FUNDING OF CHILDREN'S EDUCATION

In which of the following ways will your children's education be funded?

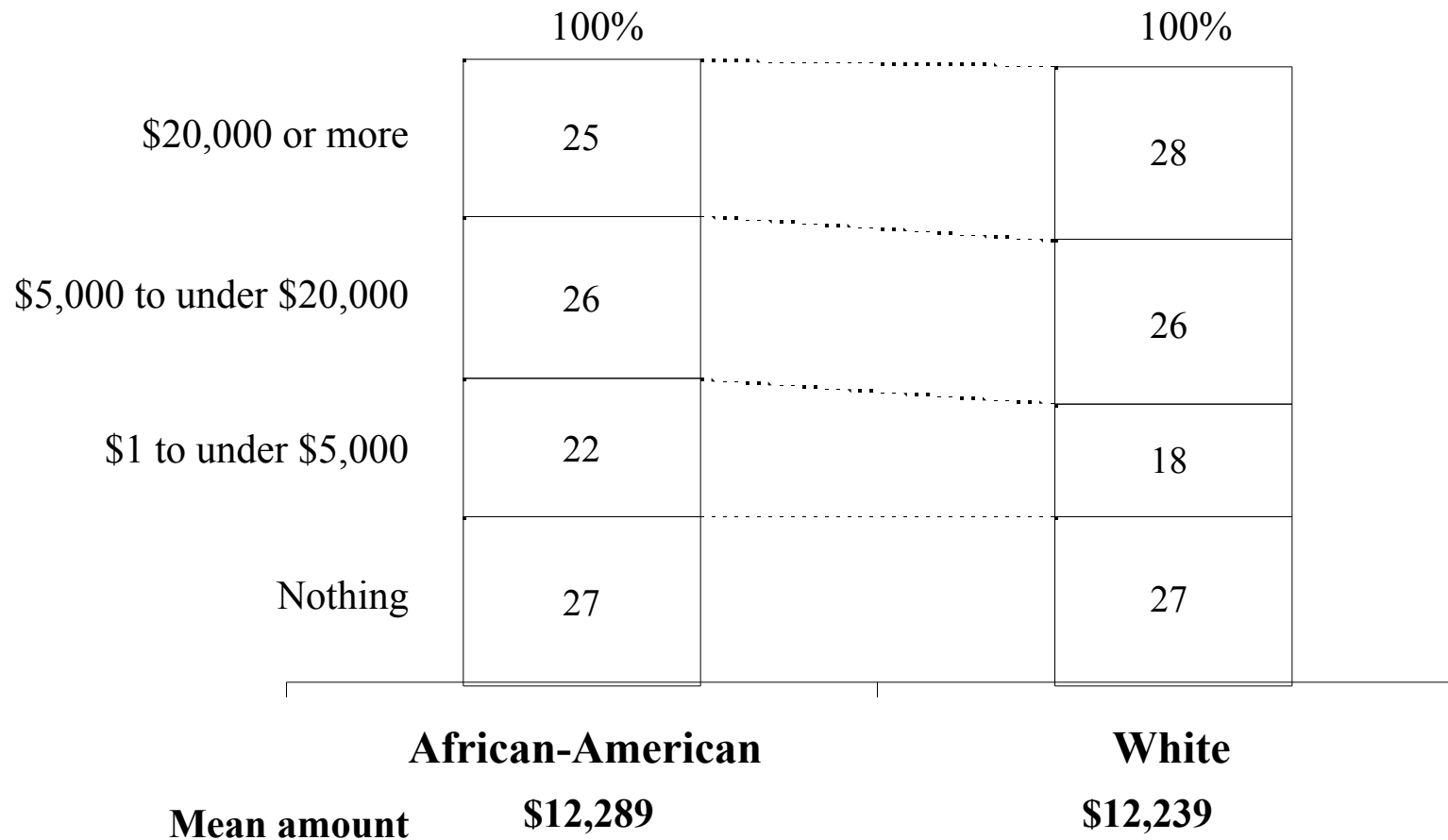
Base: Have children under 18 living in the household



AMOUNT SAVED FOR CHILDREN'S EDUCATION

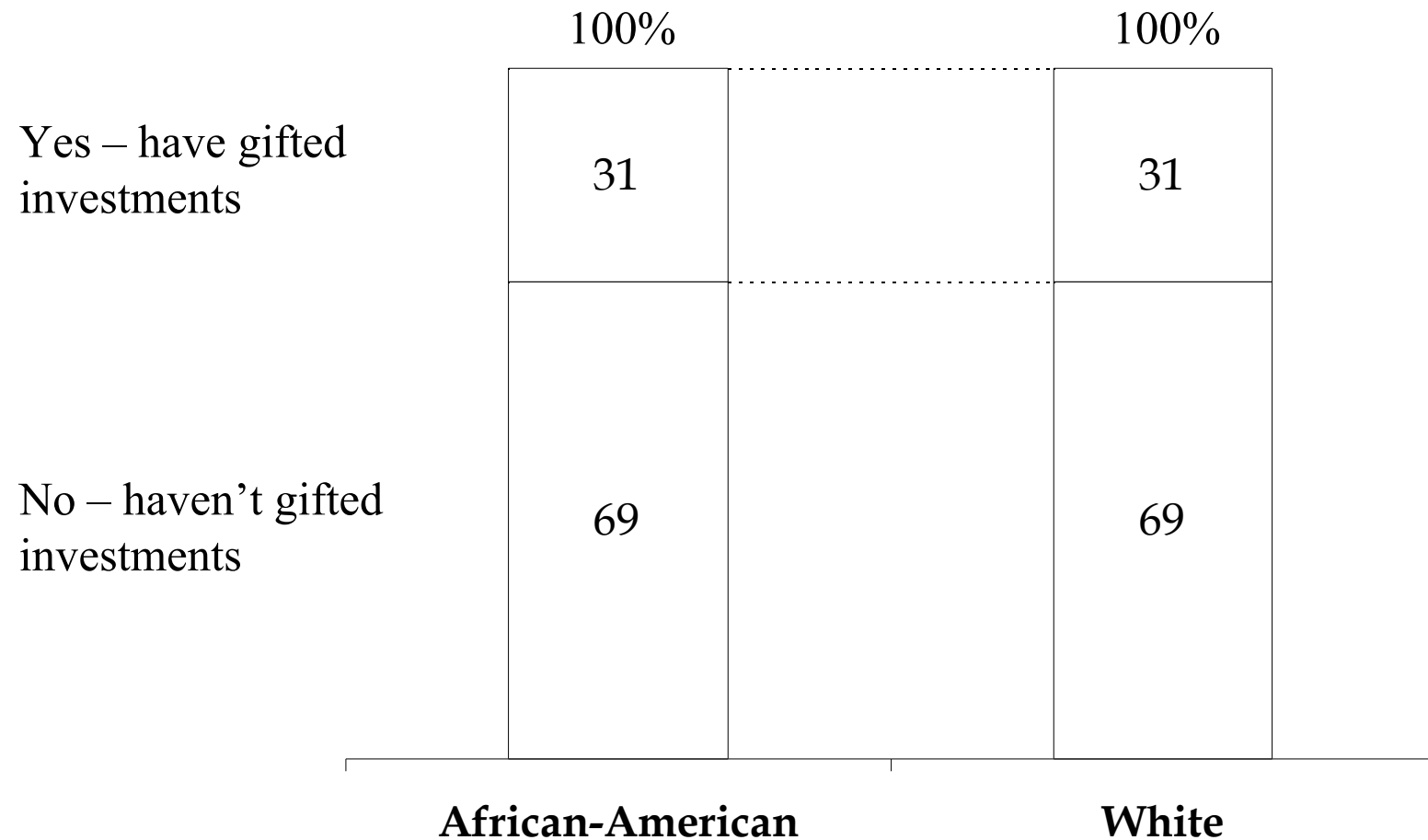
How much have you saved so far, in total, for your children's education?

Base: Will pay for children's college education



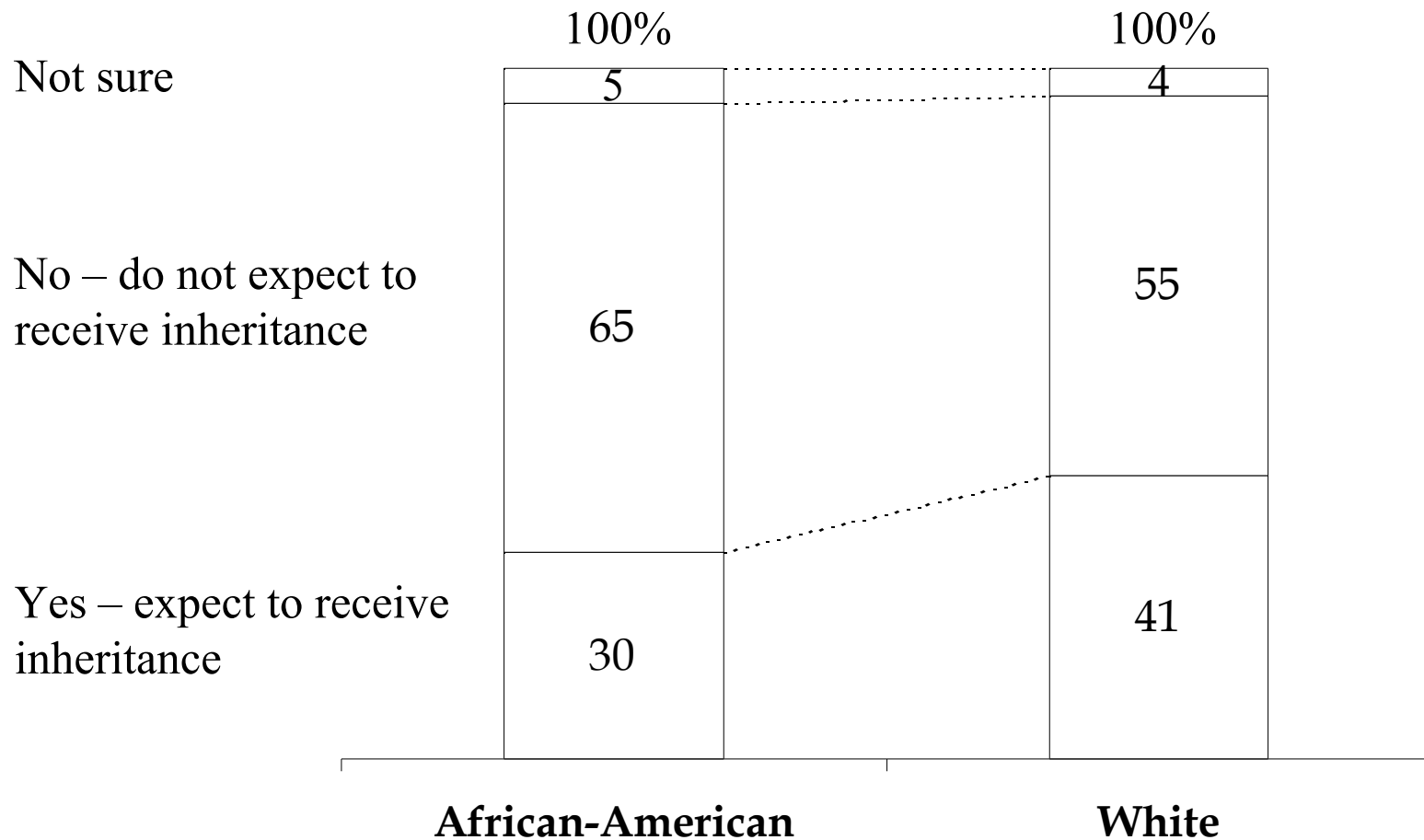
INVESTMENTS AS A GIFT

Have you ever given stocks, bonds, mutual funds or other investments as a gift?



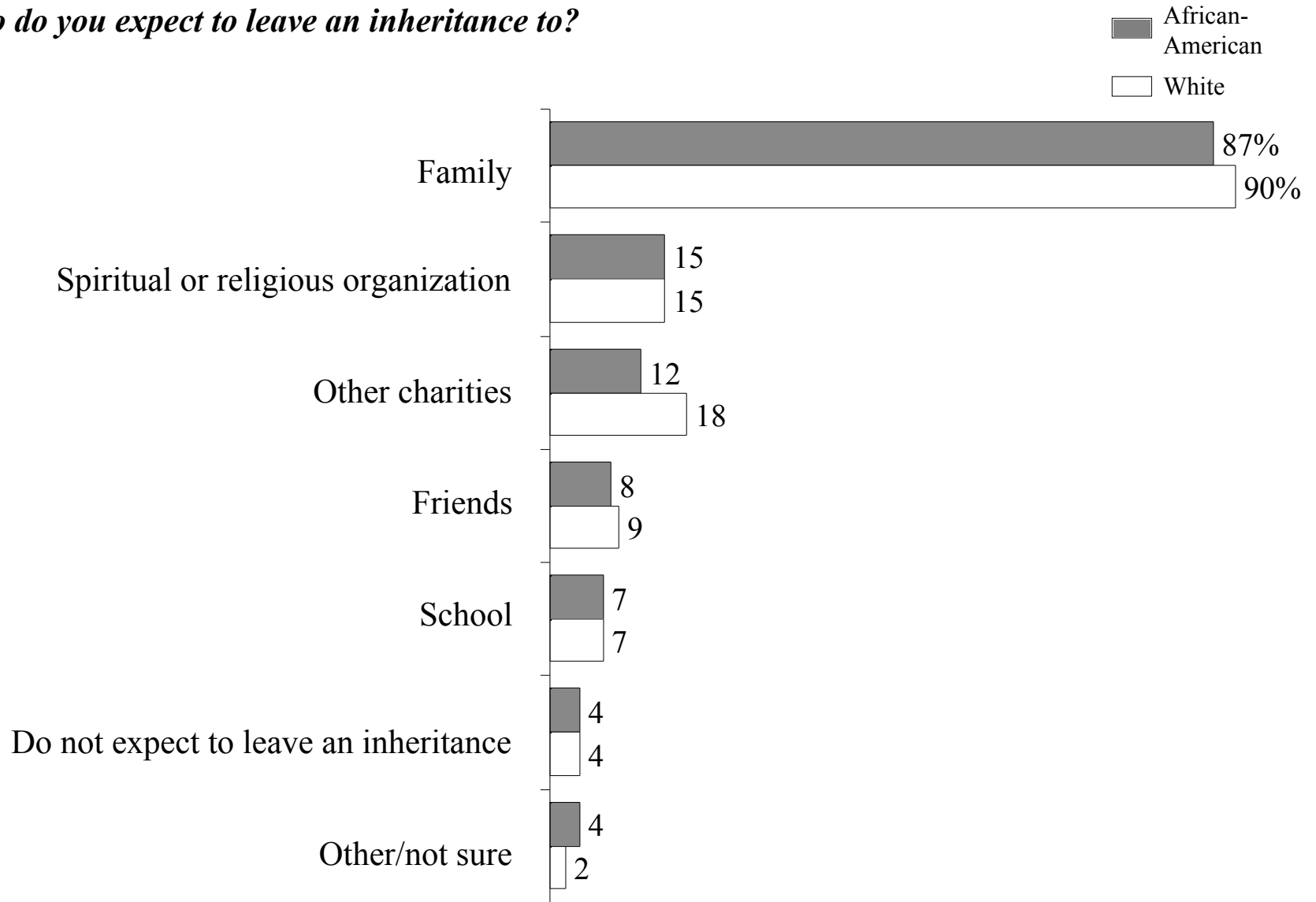
EXPECTATION OF INHERITANCE

Do you expect to receive an inheritance in the future?



LEAVING AN INHERITANCE

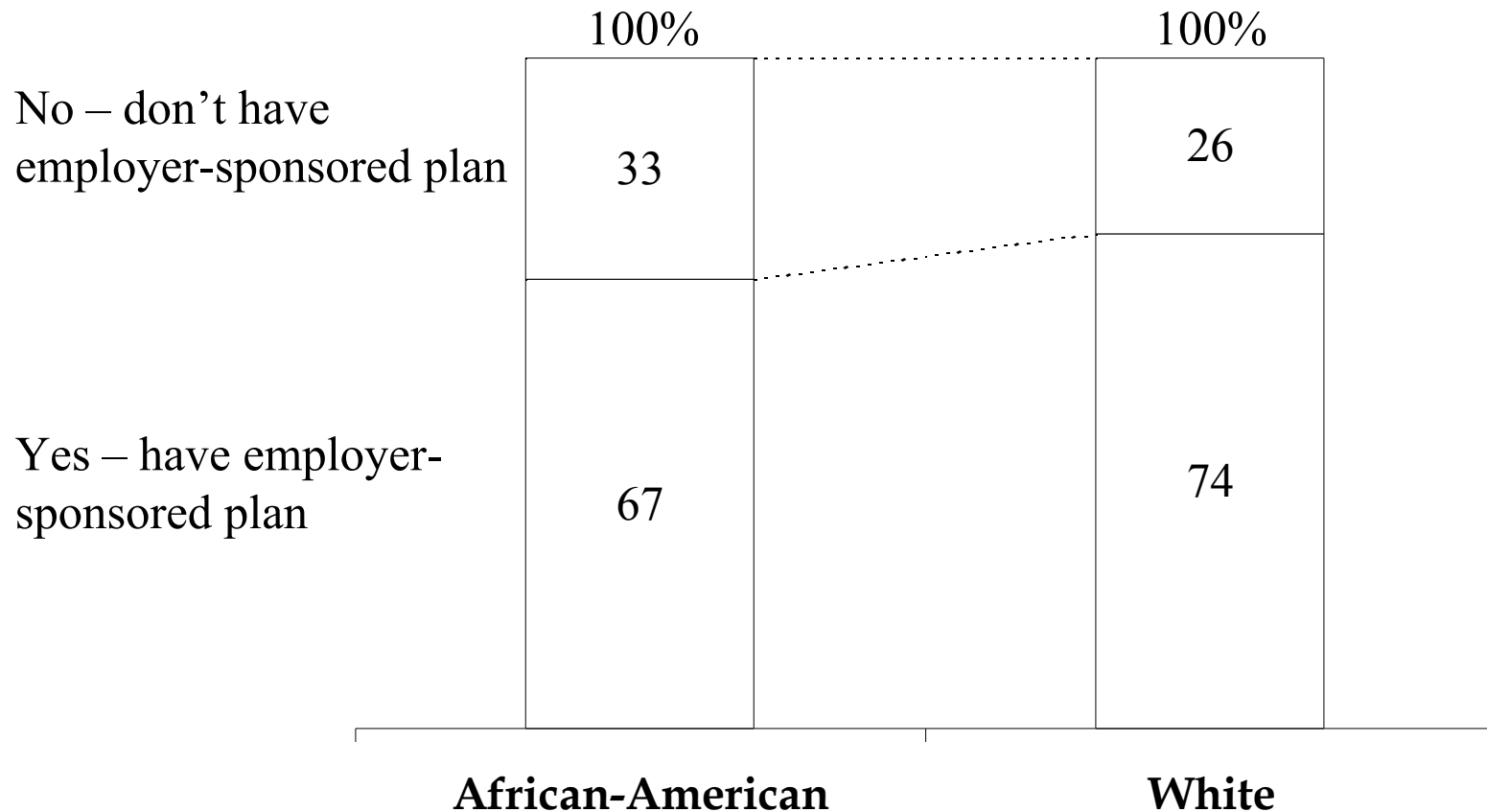
Who do you expect to leave an inheritance to?



PREPARING FOR RETIREMENT

INVESTMENTS IN EMPLOYER-SPONSORED RETIREMENT PROGRAMS

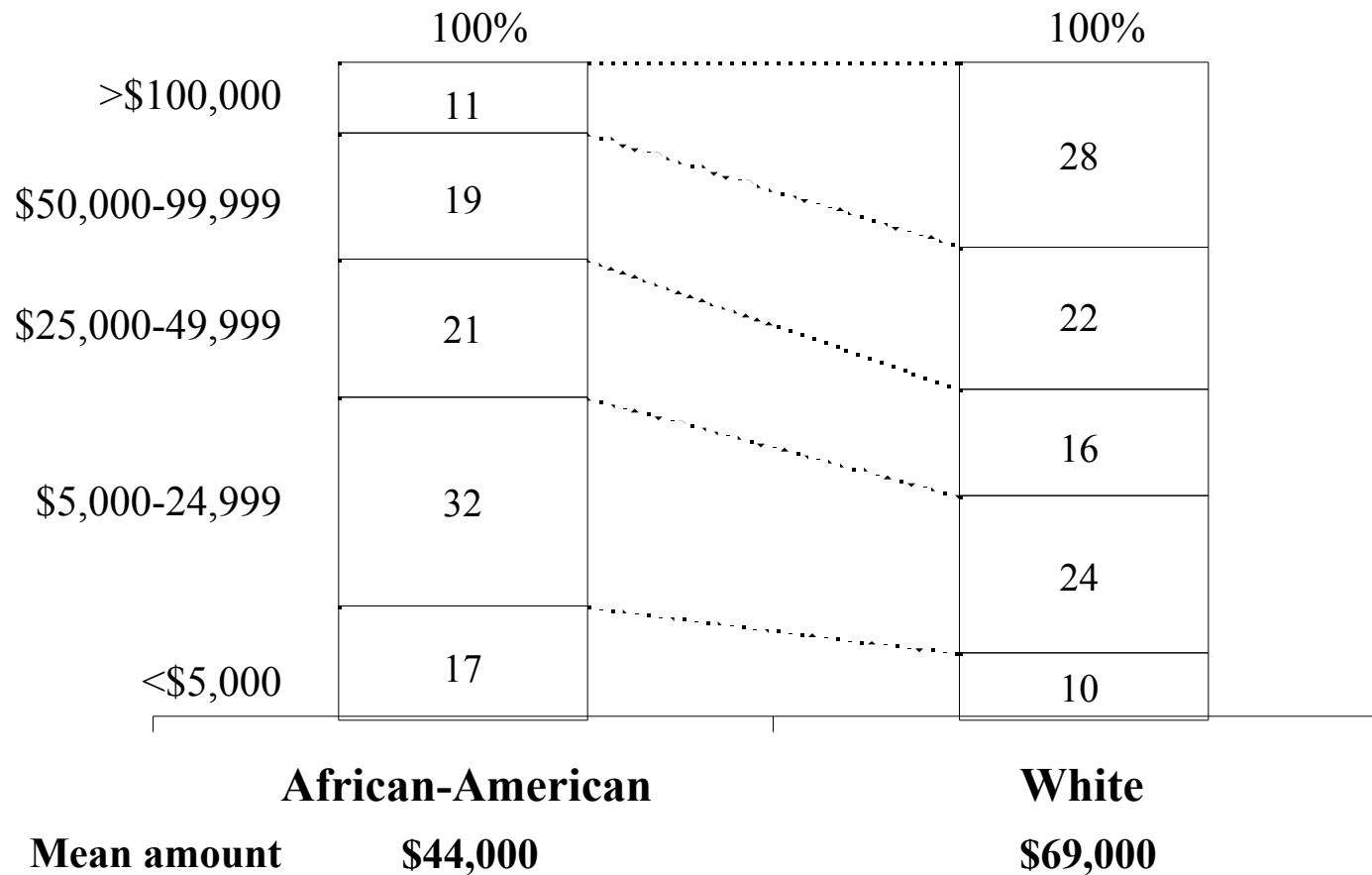
Do you or your spouse have money invested in employer-sponsored retirement programs, such as 401(k), 403(b), or Keough?



RETIREMENT ACCOUNT SAVINGS

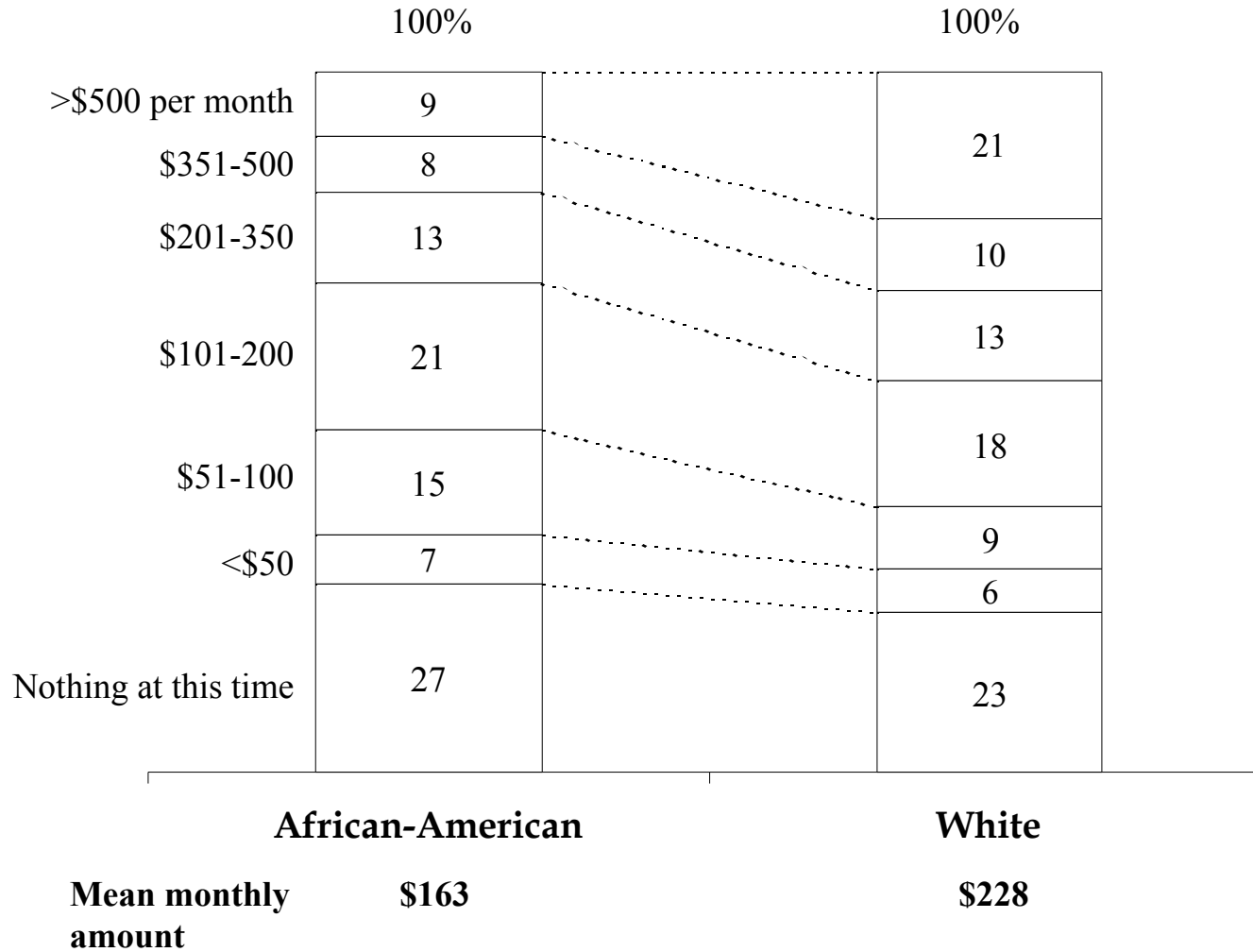
How much money do you have in accounts specifically for retirement, such as 401(k)s or any other type of employer-sponsored retirement plan, such as Keoughs, 457s or 403(b)s?

Base: Have investments in employer-sponsored retirement programs



MONTHLY RETIREMENT ACCOUNT CONTRIBUTIONS

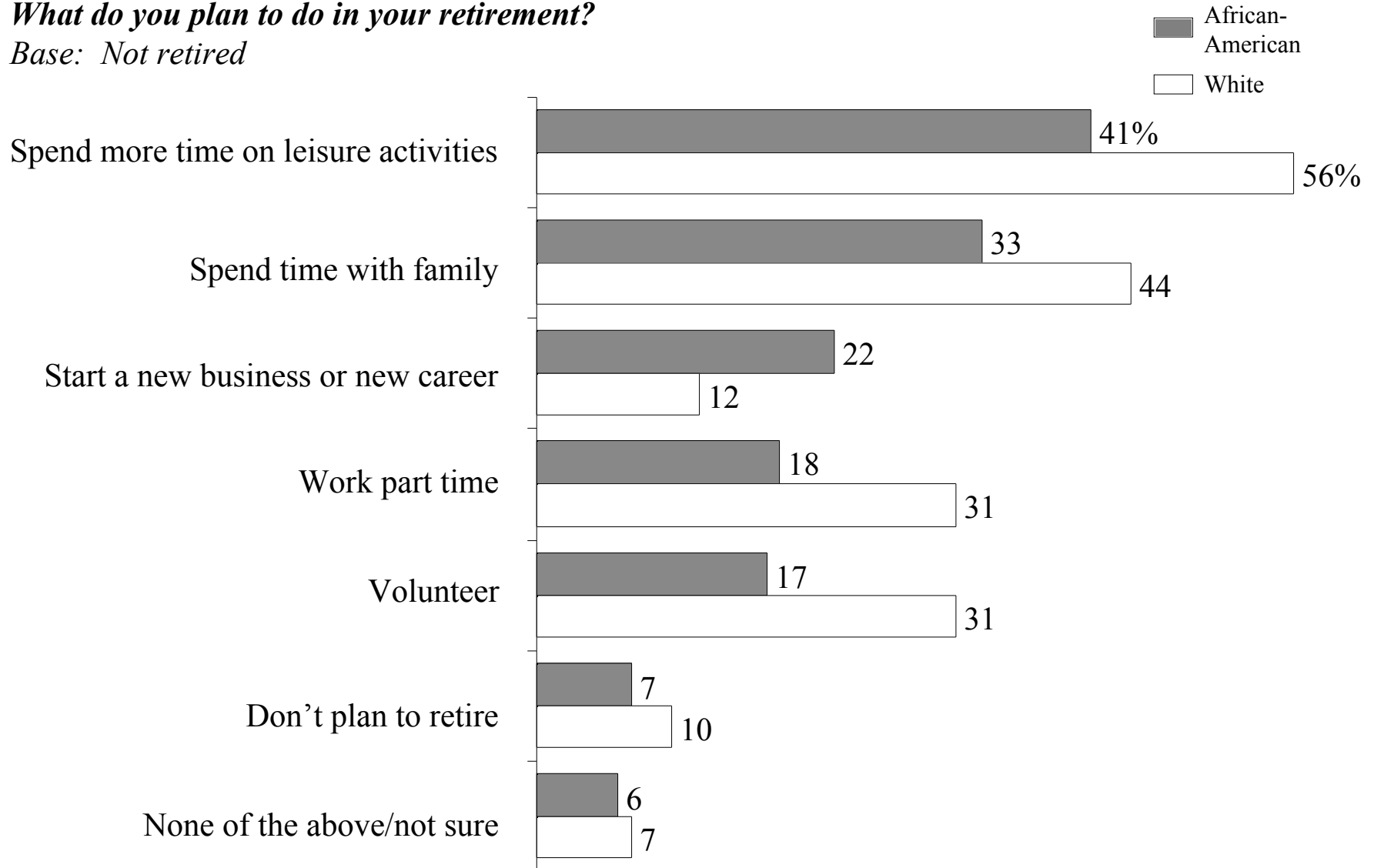
How much money are you investing per month in any sort of retirement account, including an employer-sponsored retirement plan?



RETIREMENT PLANS

What do you plan to do in your retirement?

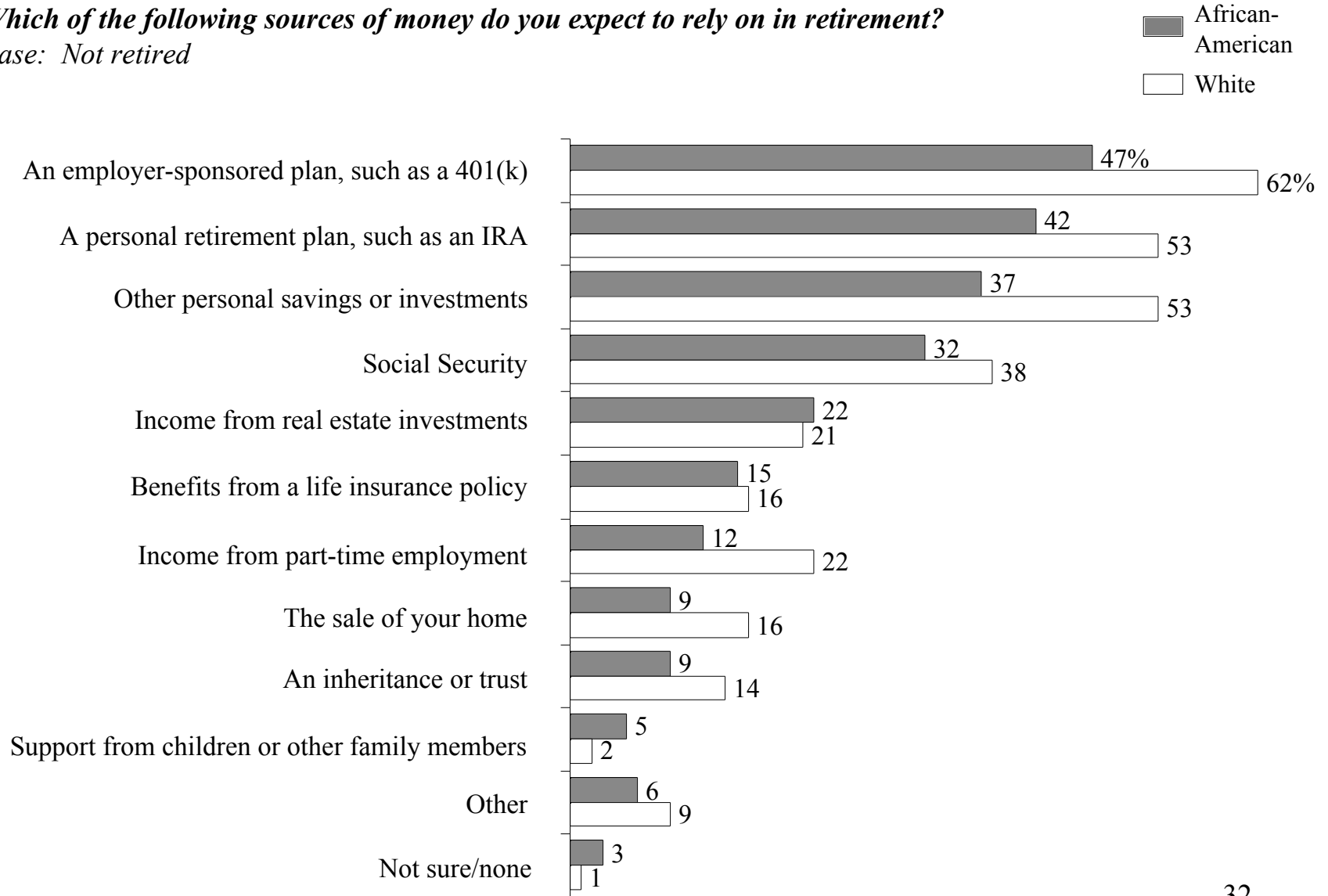
Base: Not retired



SOURCES OF RETIREMENT INCOME

Which of the following sources of money do you expect to rely on in retirement?

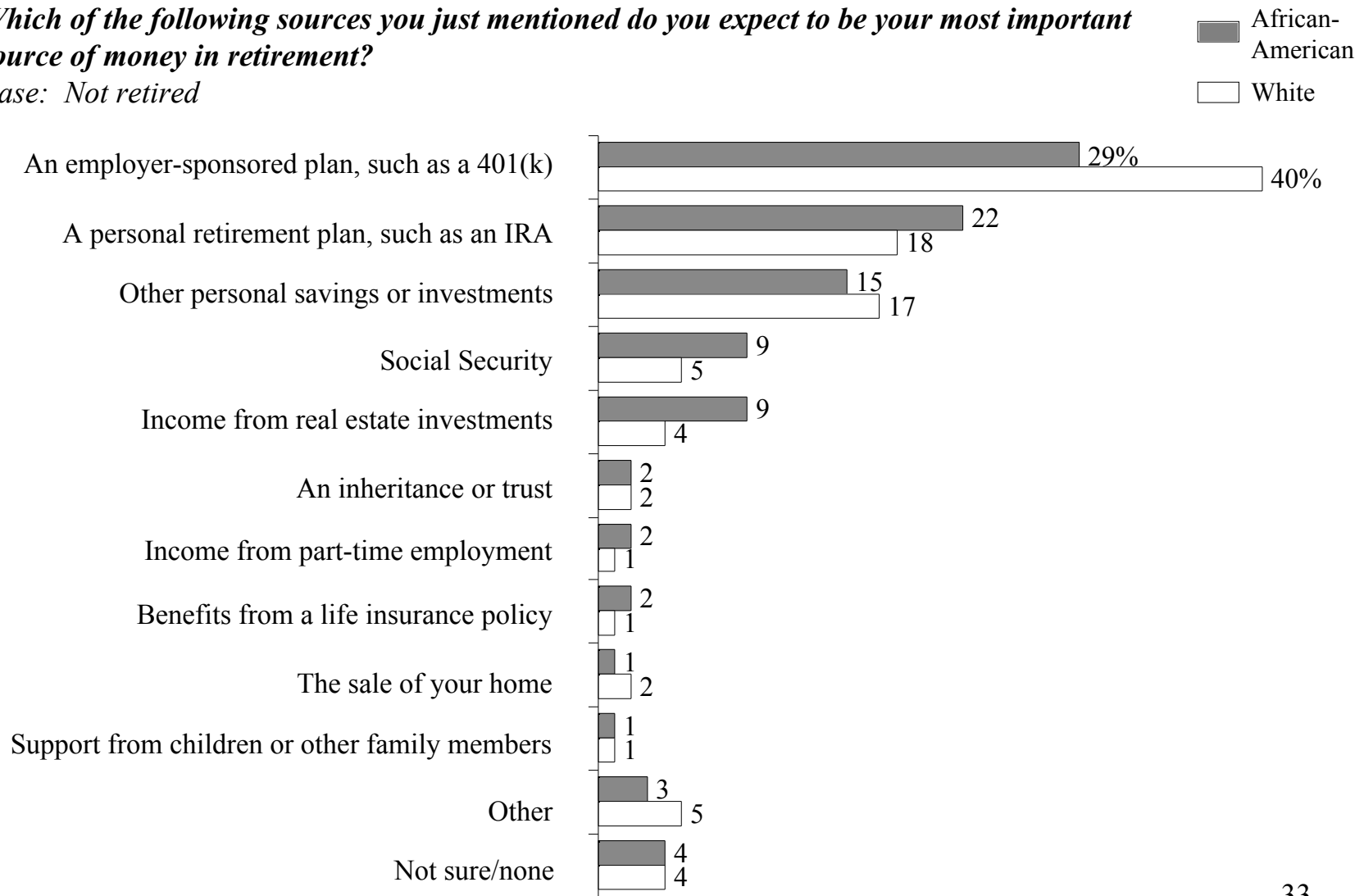
Base: Not retired



MOST IMPORTANT SOURCE OF RETIREMENT INCOME

Which of the following sources you just mentioned do you expect to be your most important source of money in retirement?

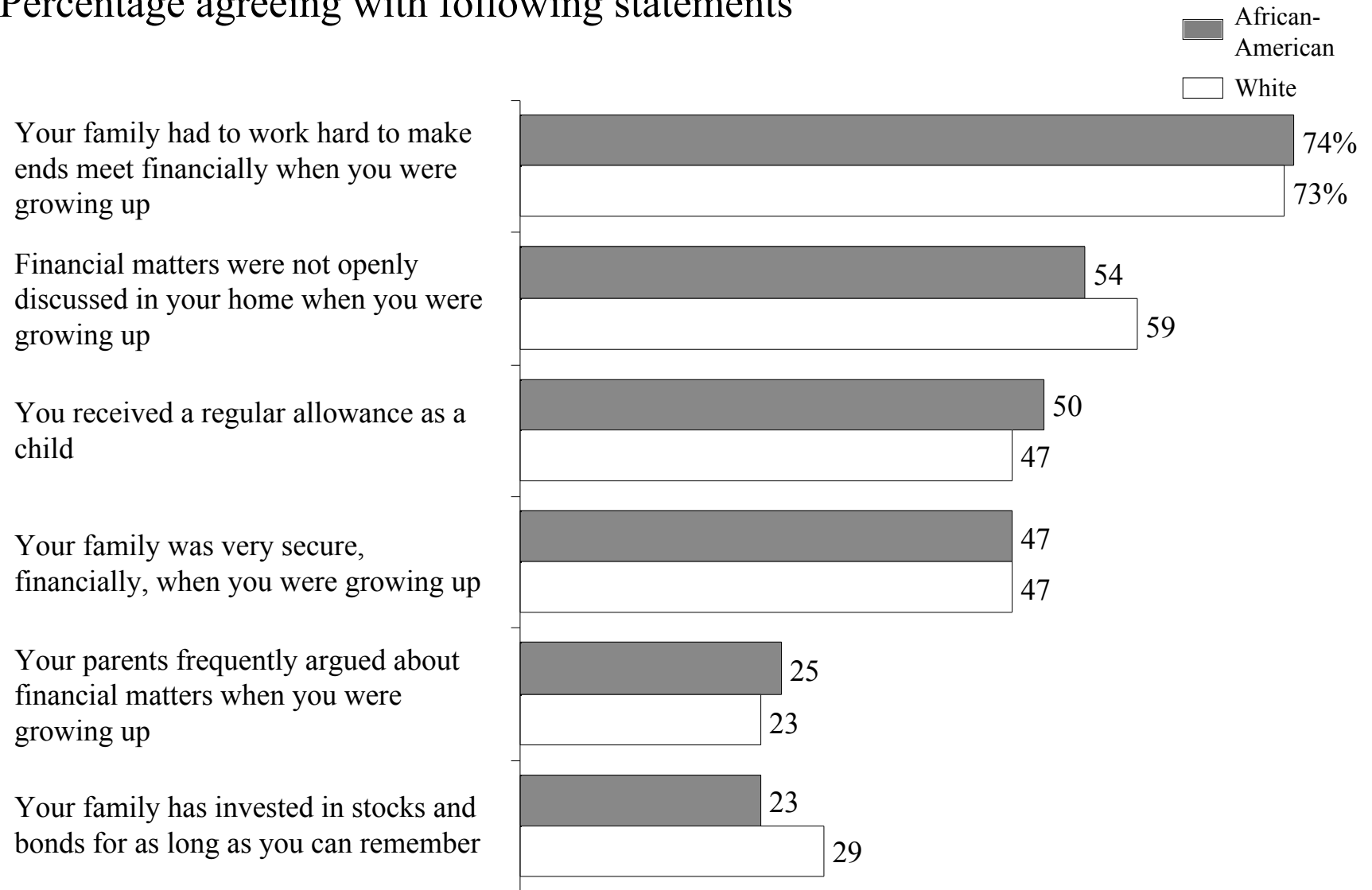
Base: Not retired



ATTITUDES ABOUT MONEY, WEALTH AND INVESTING

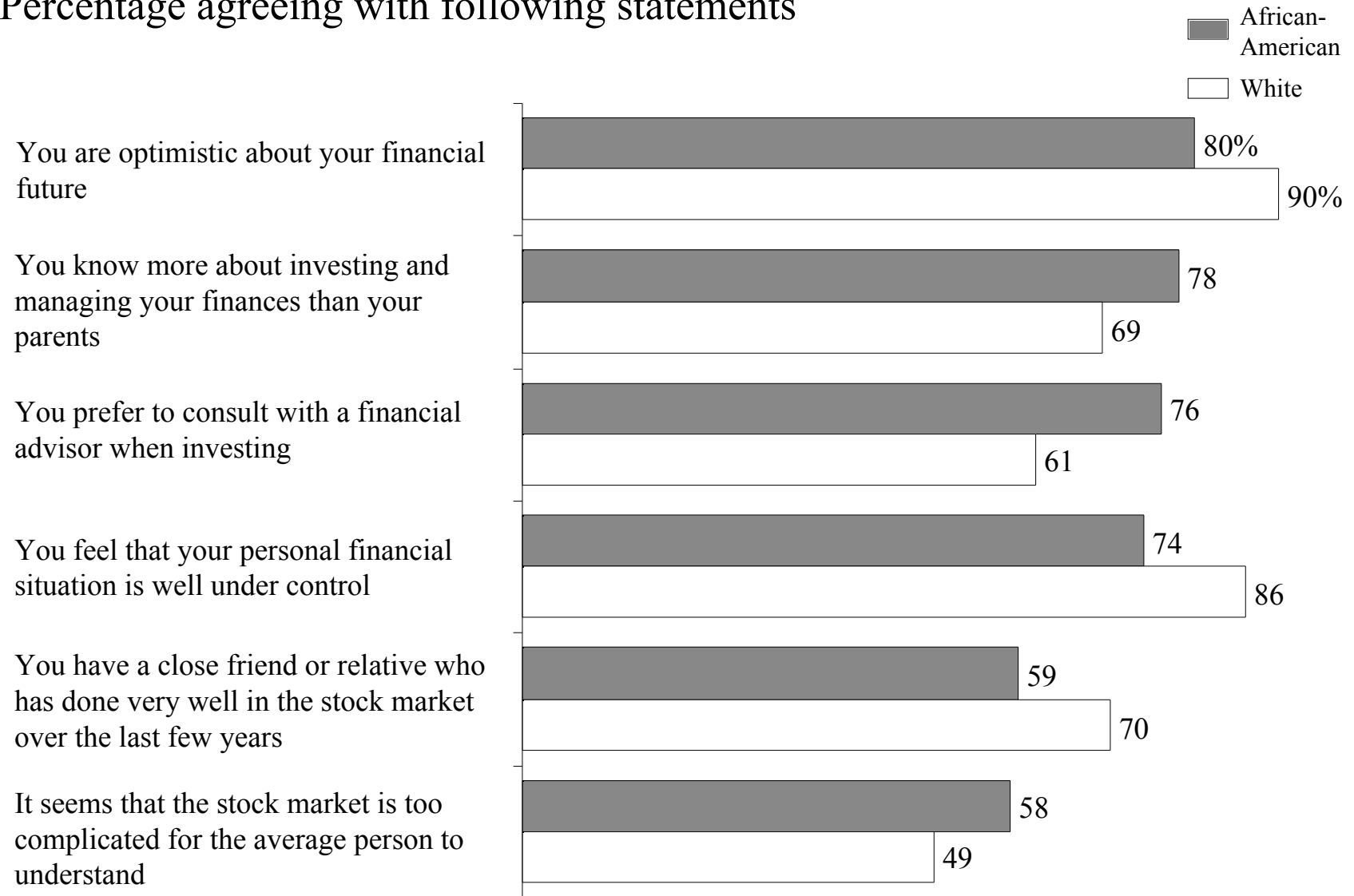
FINANCIAL BACKGROUND

Percentage agreeing with following statements



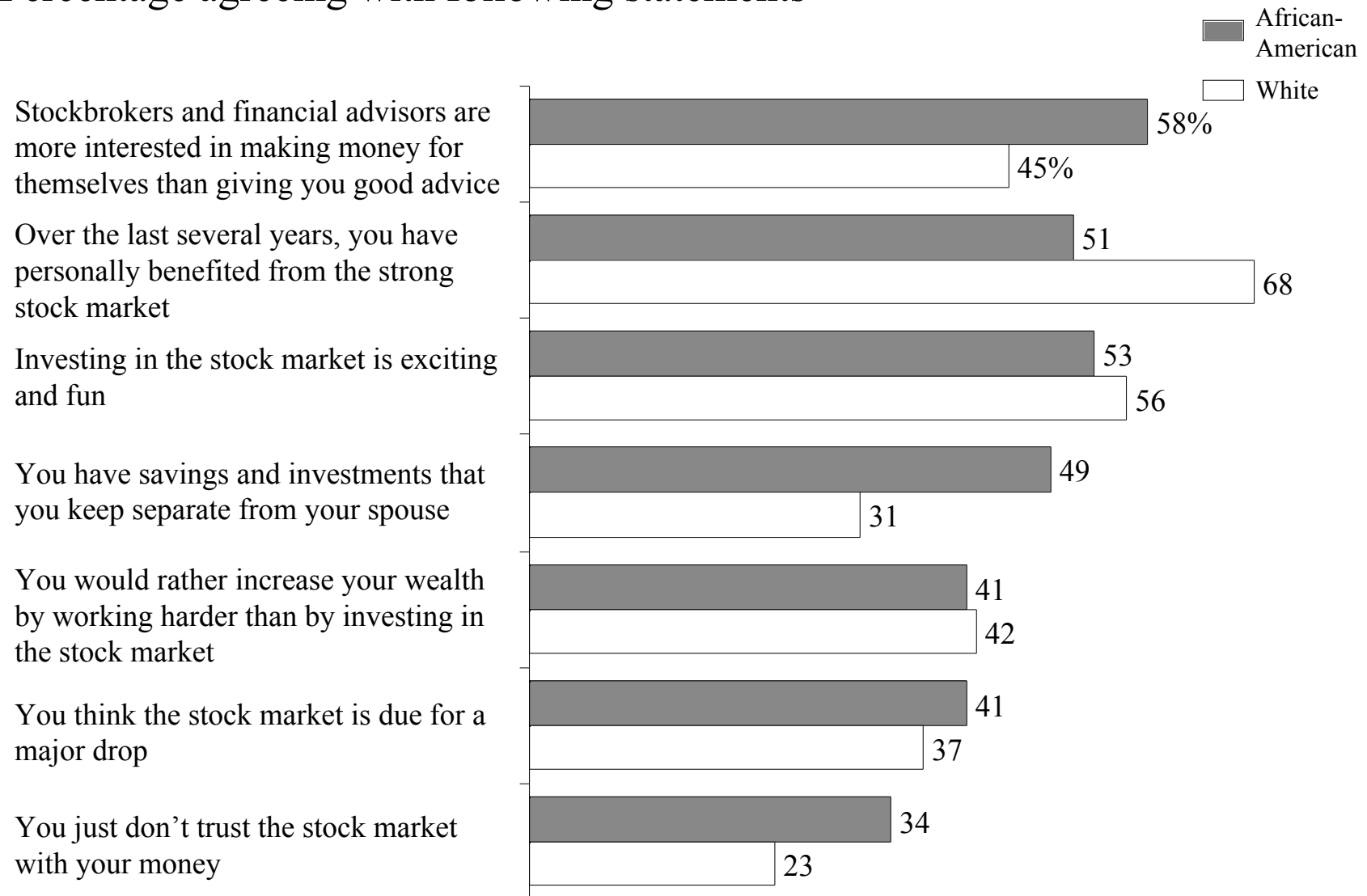
ATTITUDES ABOUT INVESTING

Percentage agreeing with following statements



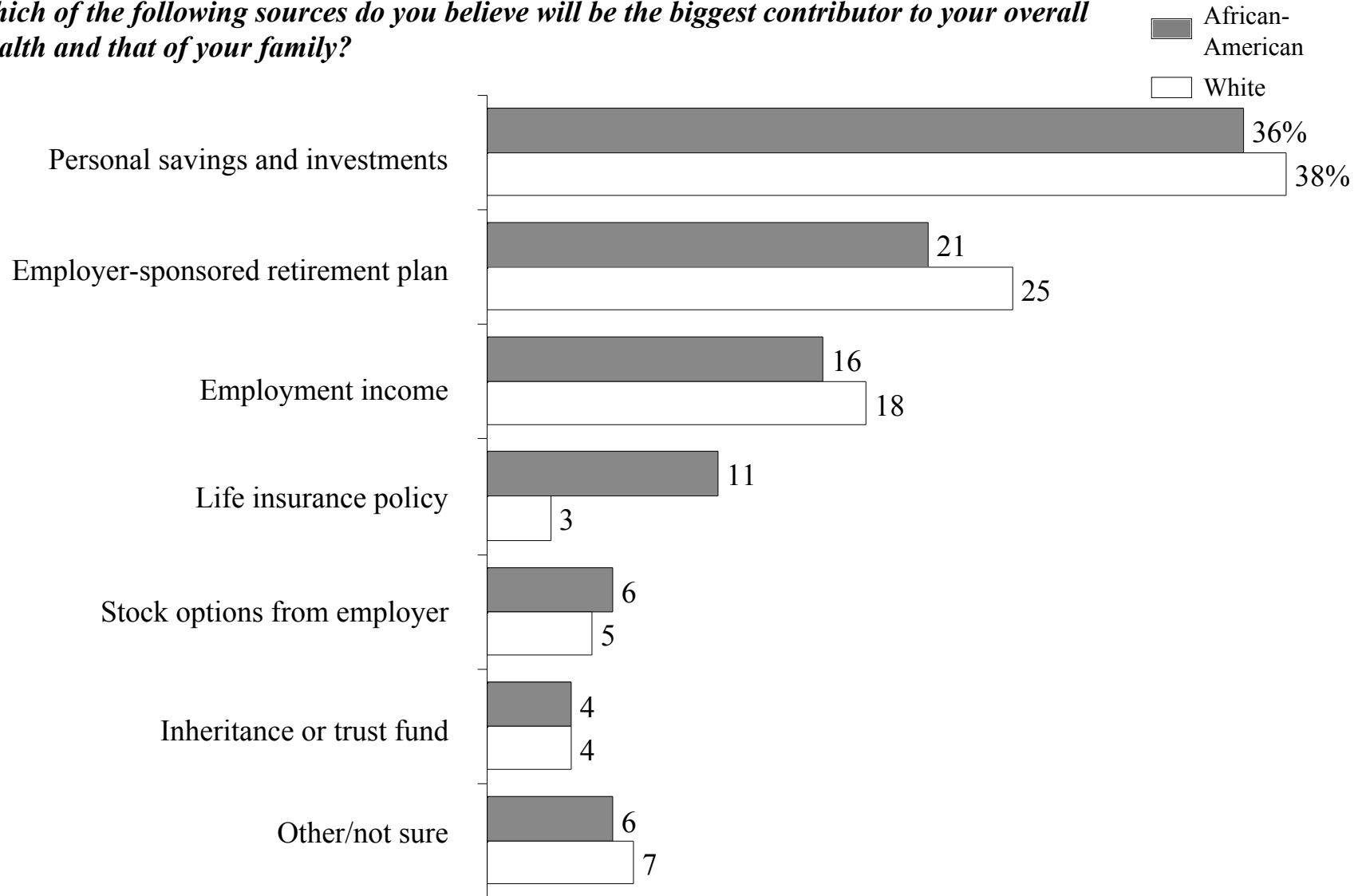
ATTITUDES ABOUT INVESTING (CONTINUED)

Percentage agreeing with following statements



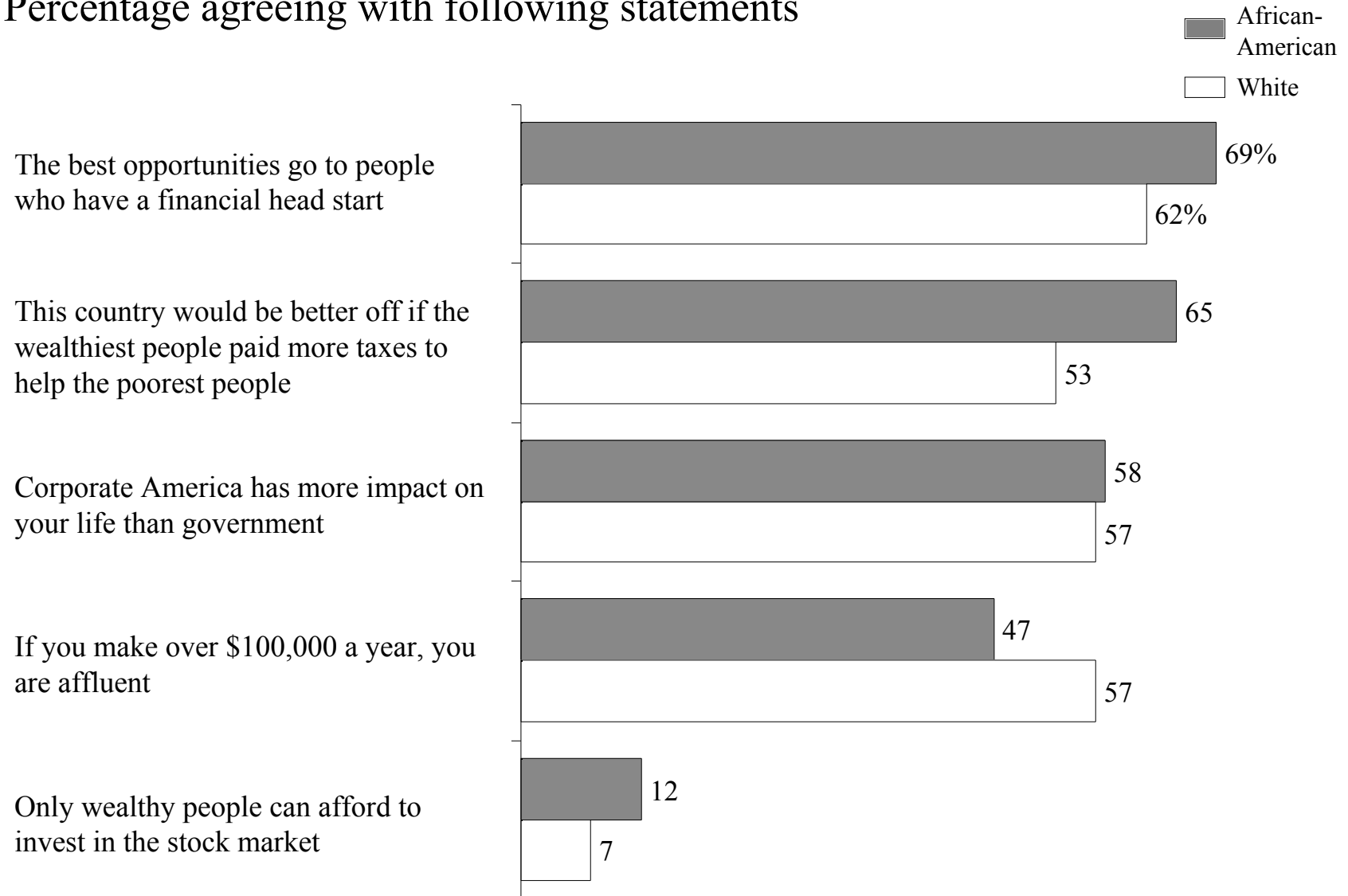
CONTRIBUTORS TO OVERALL WEALTH

Which of the following sources do you believe will be the biggest contributor to your overall wealth and that of your family?



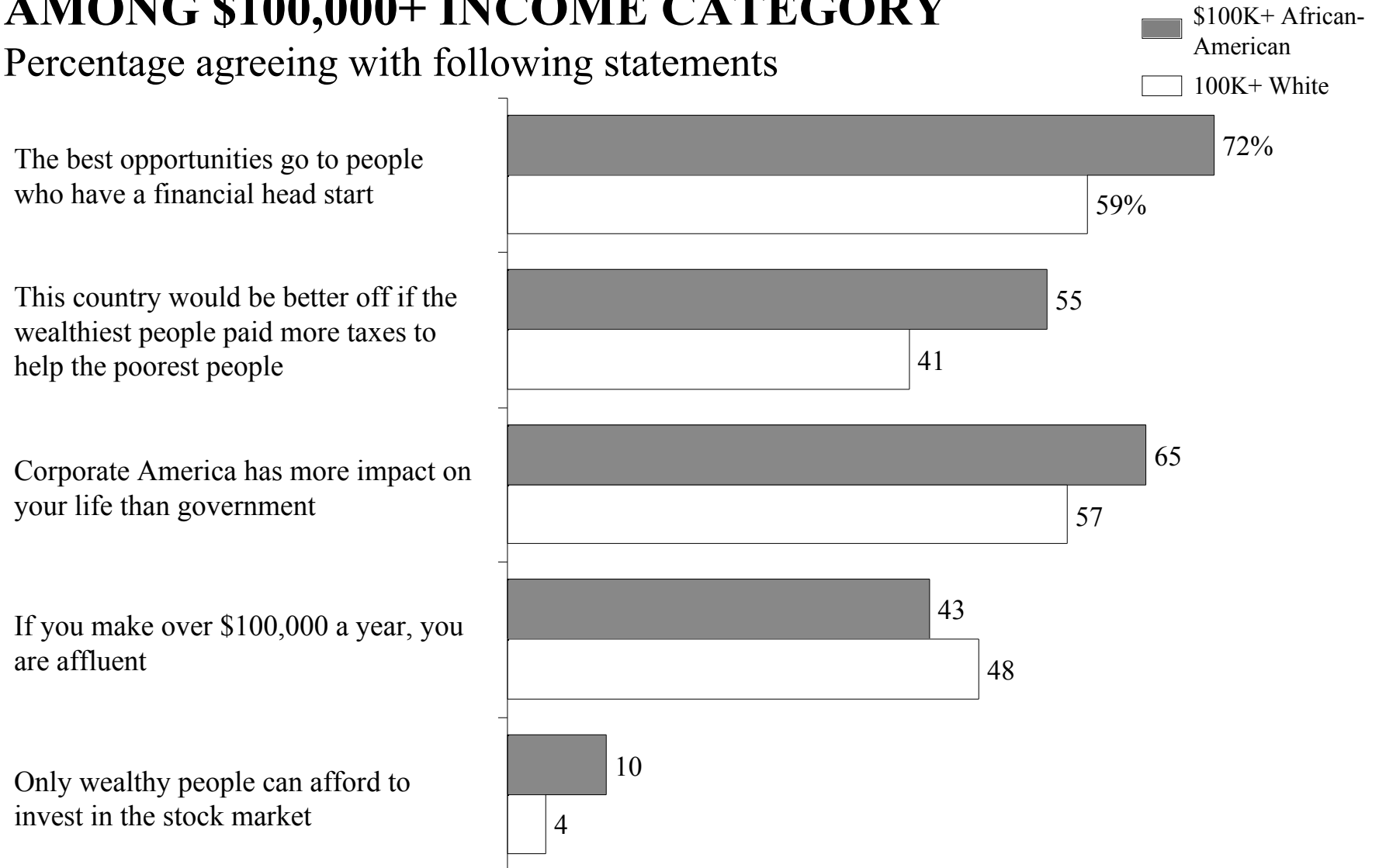
ATTITUDES ABOUT MAKING MONEY IN AMERICA

Percentage agreeing with following statements



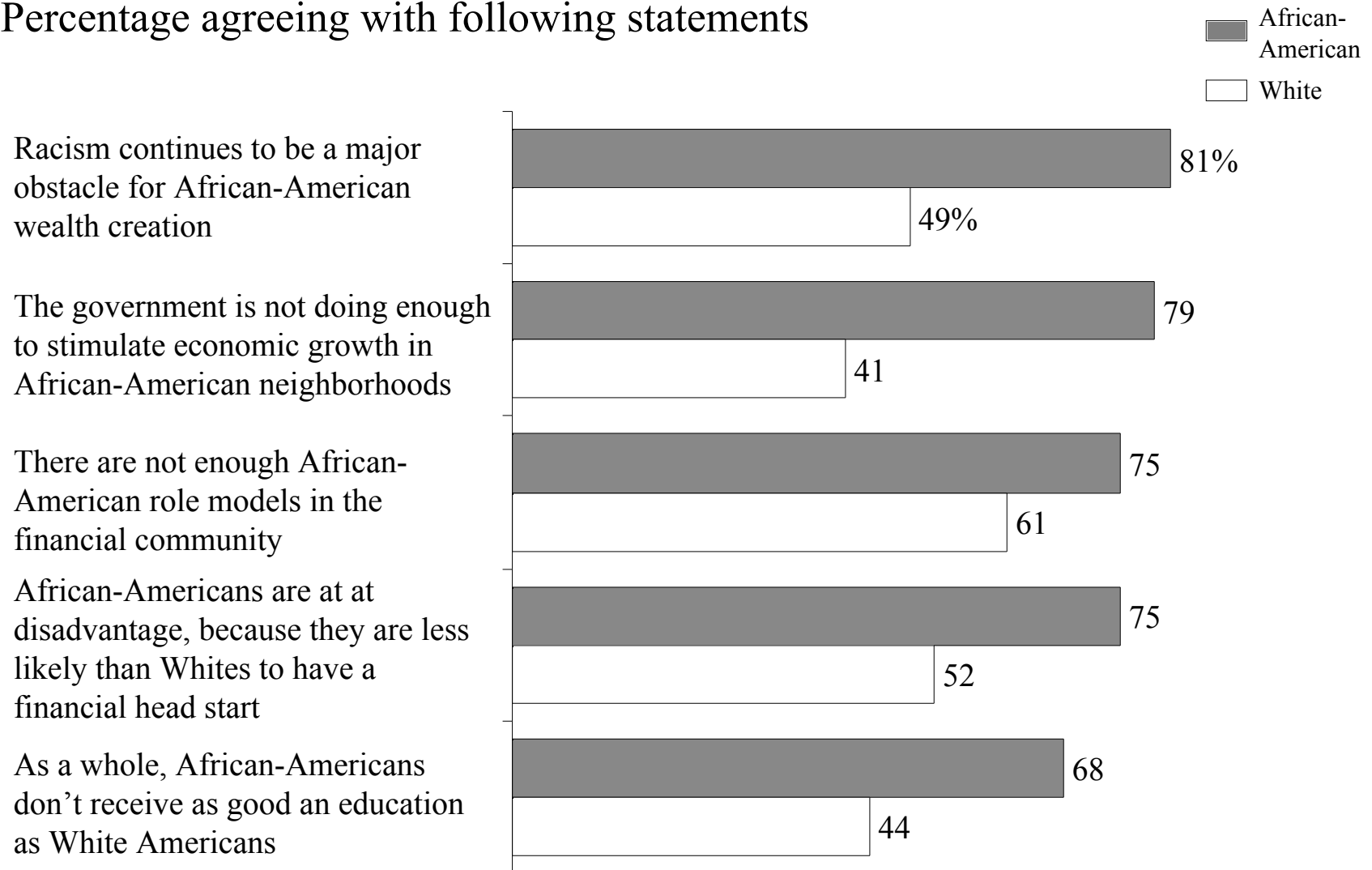
ATTITUDES ABOUT MAKING MONEY IN AMERICA AMONG \$100,000+ INCOME CATEGORY

Percentage agreeing with following statements



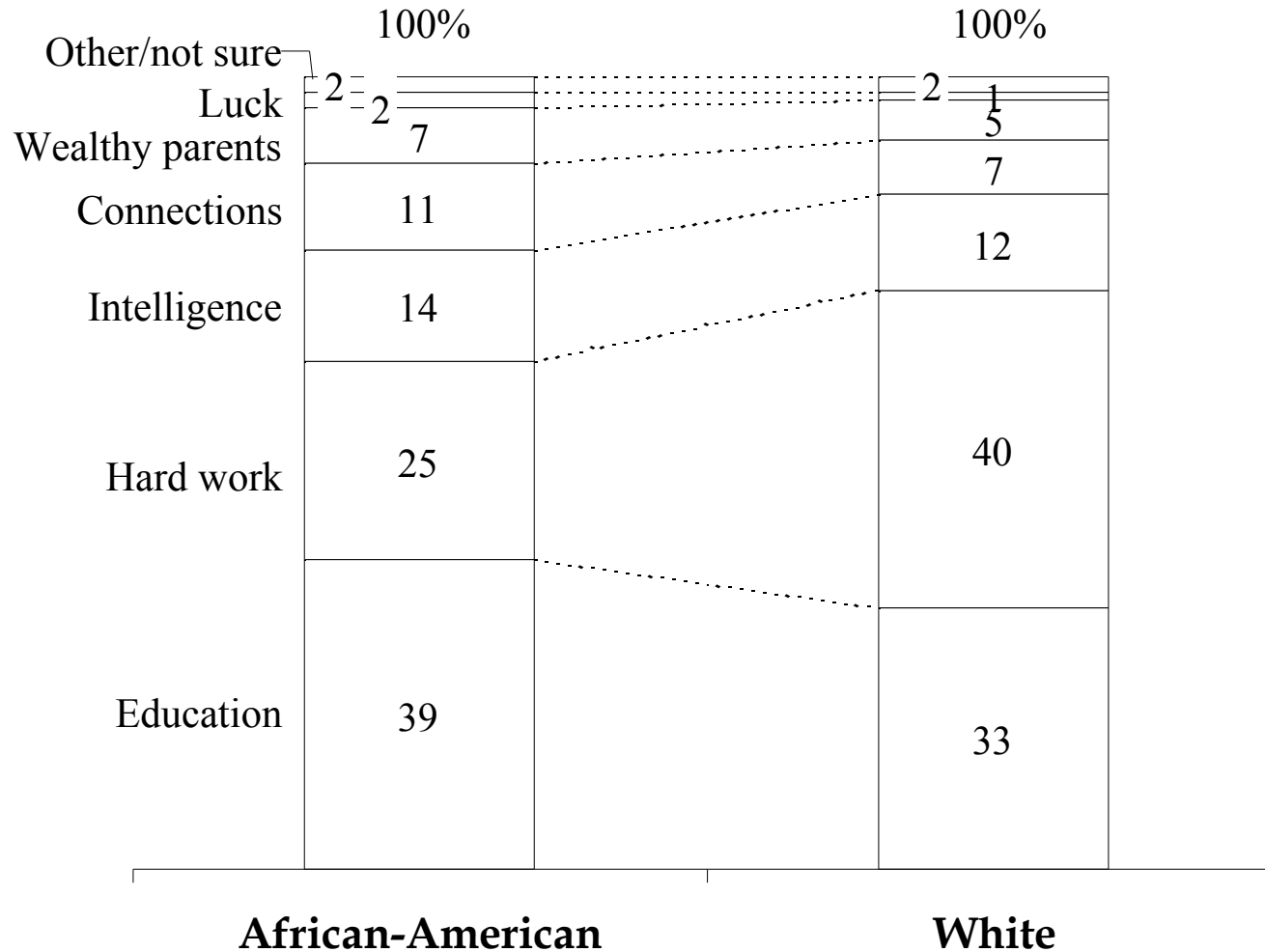
ATTITUDES ABOUT AFRICAN-AMERICAN WEALTH CREATION

Percentage agreeing with following statements



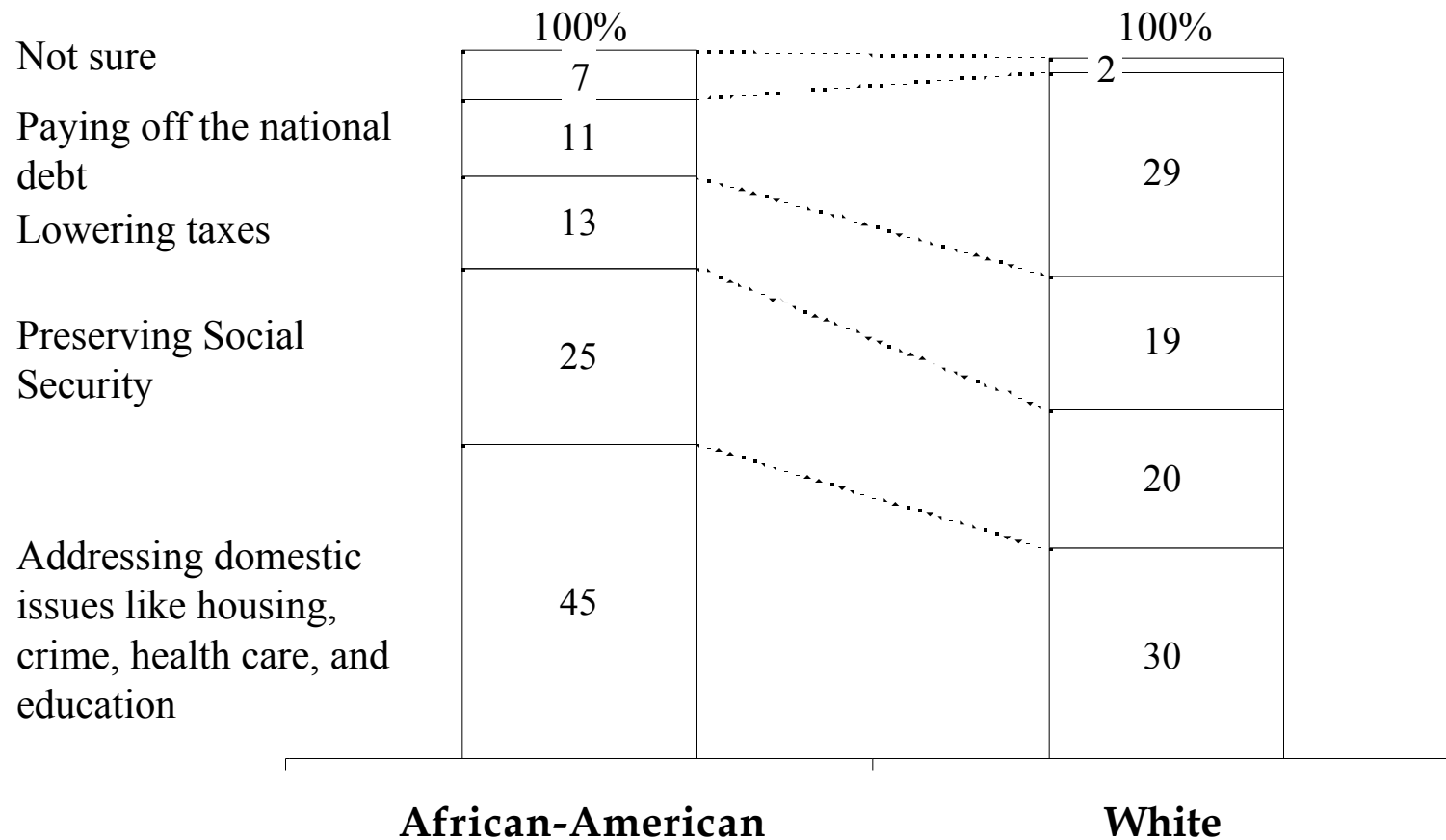
MOST IMPORTANT COMPONENT OF SUCCESS

Which one of the following items do you believe is the most important component of financial success?



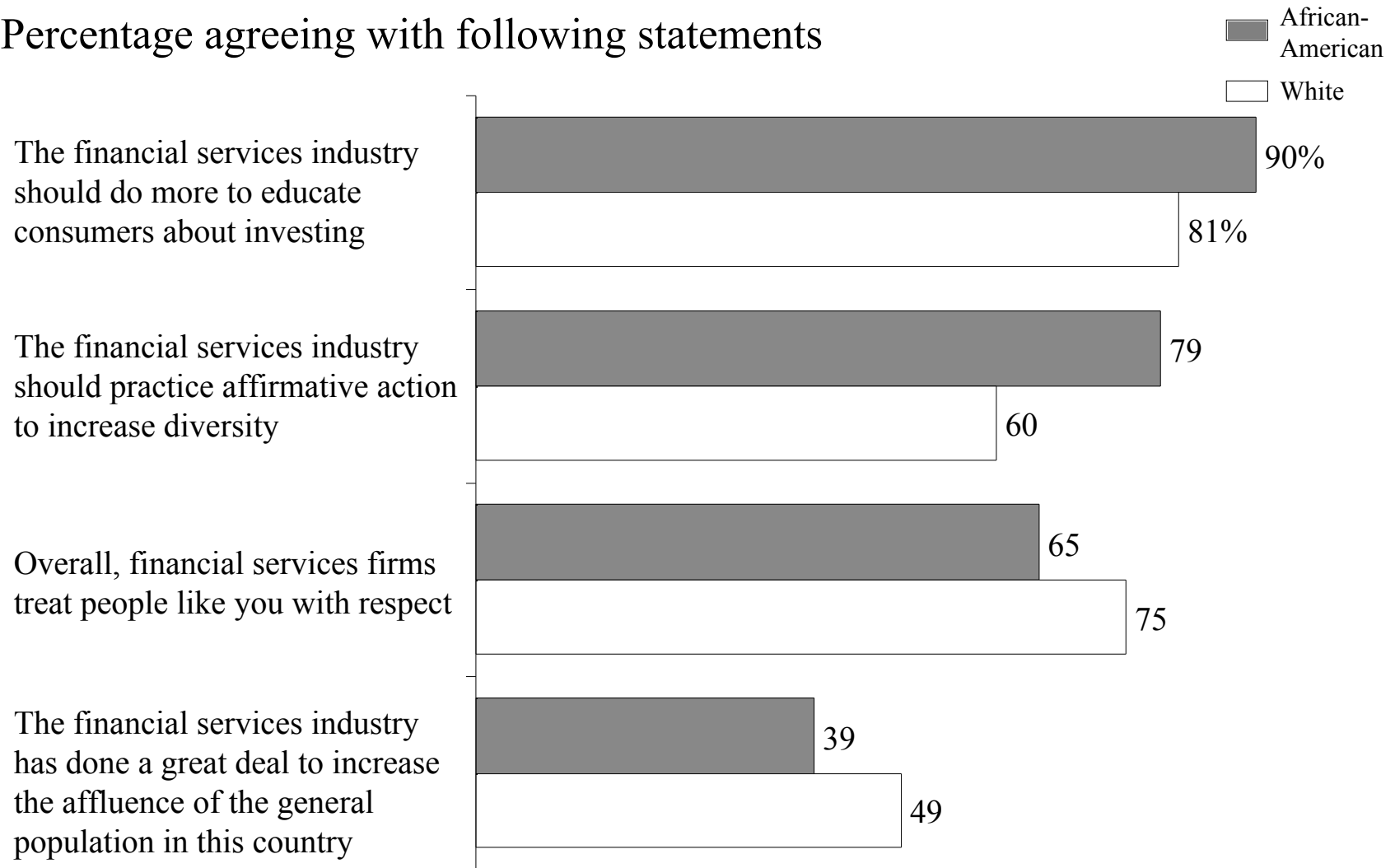
BEST USE OF FEDERAL BUDGET SURPLUSES

Over the next 10 years, the federal government is projected to have budgetary surpluses of \$1 trillion. In your opinion, which one of the following options would be the government's best use of these budget surpluses?



ATTITUDES ABOUT THE FINANCIAL SERVICES INDUSTRY

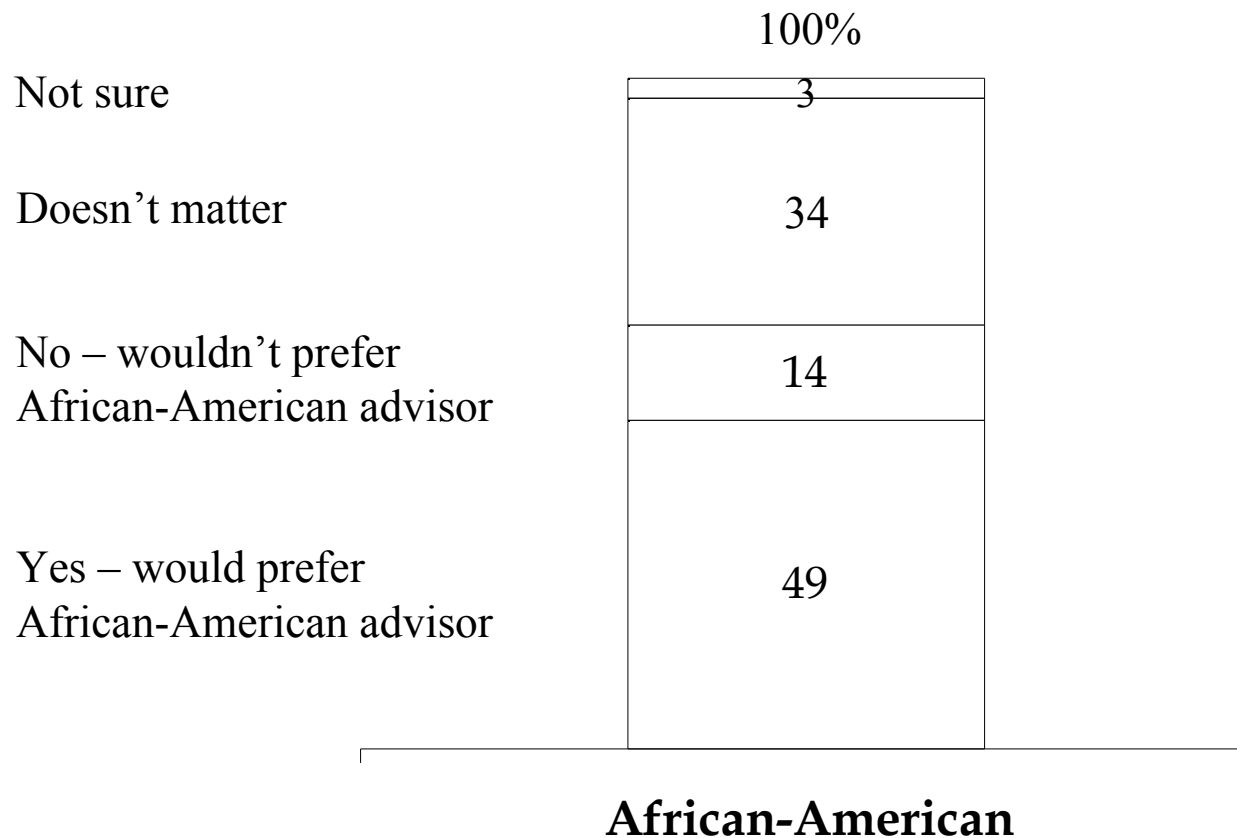
Percentage agreeing with following statements



PREFERENCE FOR AFRICAN-AMERICAN FINANCIAL ADVISORS

Would you prefer to work with an African-American financial advisor?

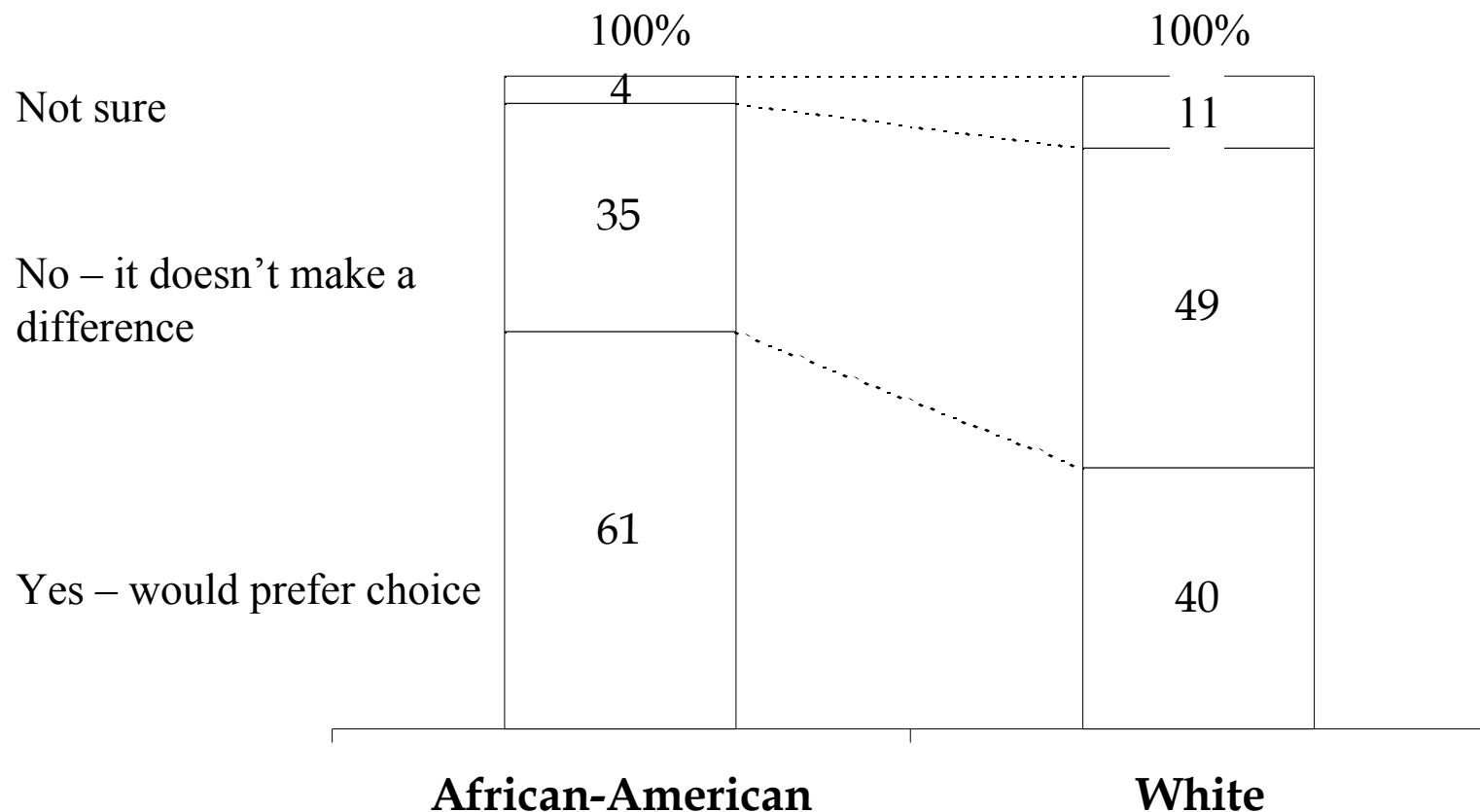
Base: African-American respondents



CHOICE OF BLACK-OWNED OR MANAGED MUTUAL FUND AS PART OF 401(K) PLAN

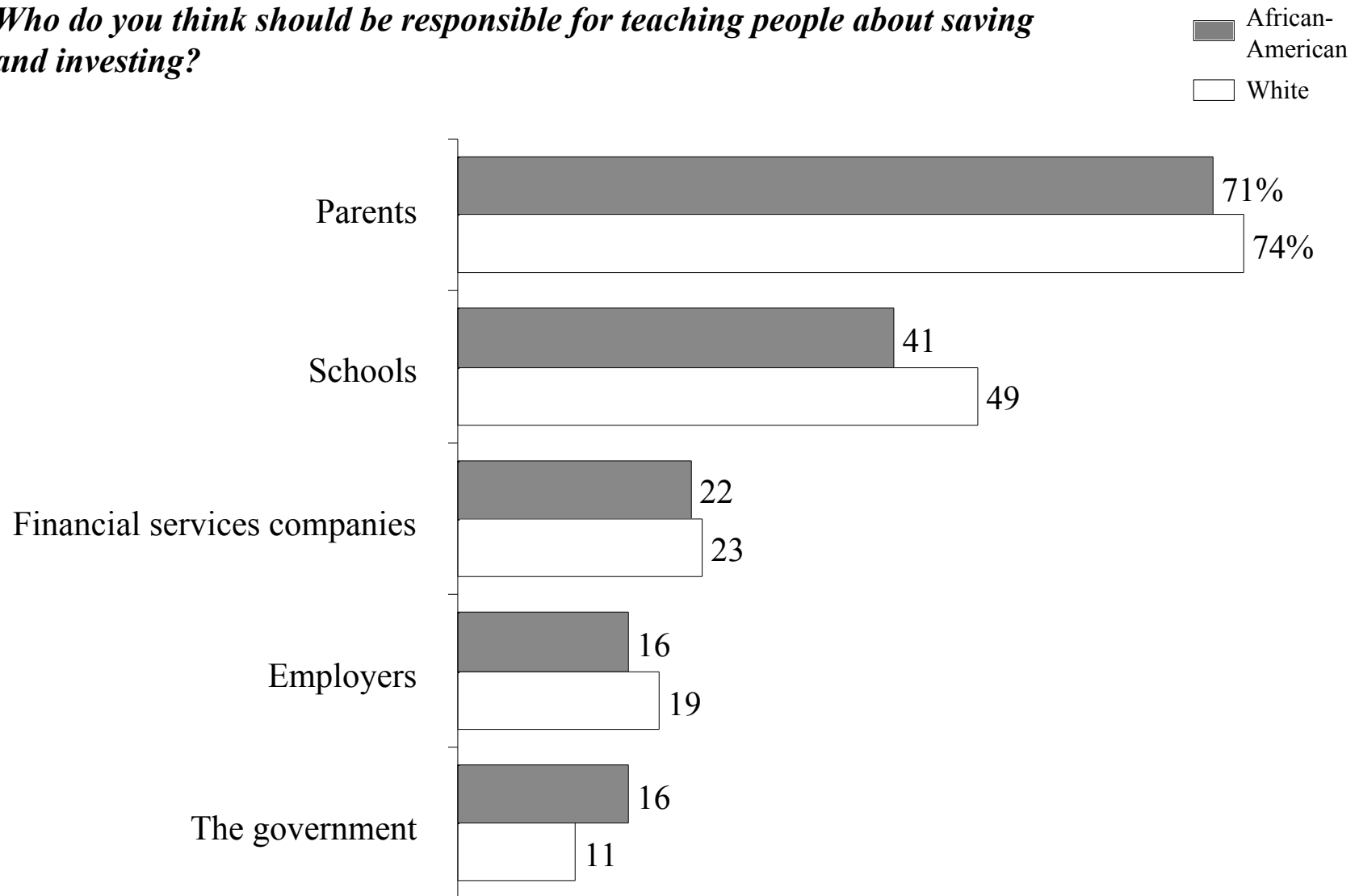
Would you prefer to have a choice of investing in a black-owned or managed mutual fund as part of your 401(k) or other employer-sponsored retirement plan?

Base: Have investments in employer-sponsored retirement programs



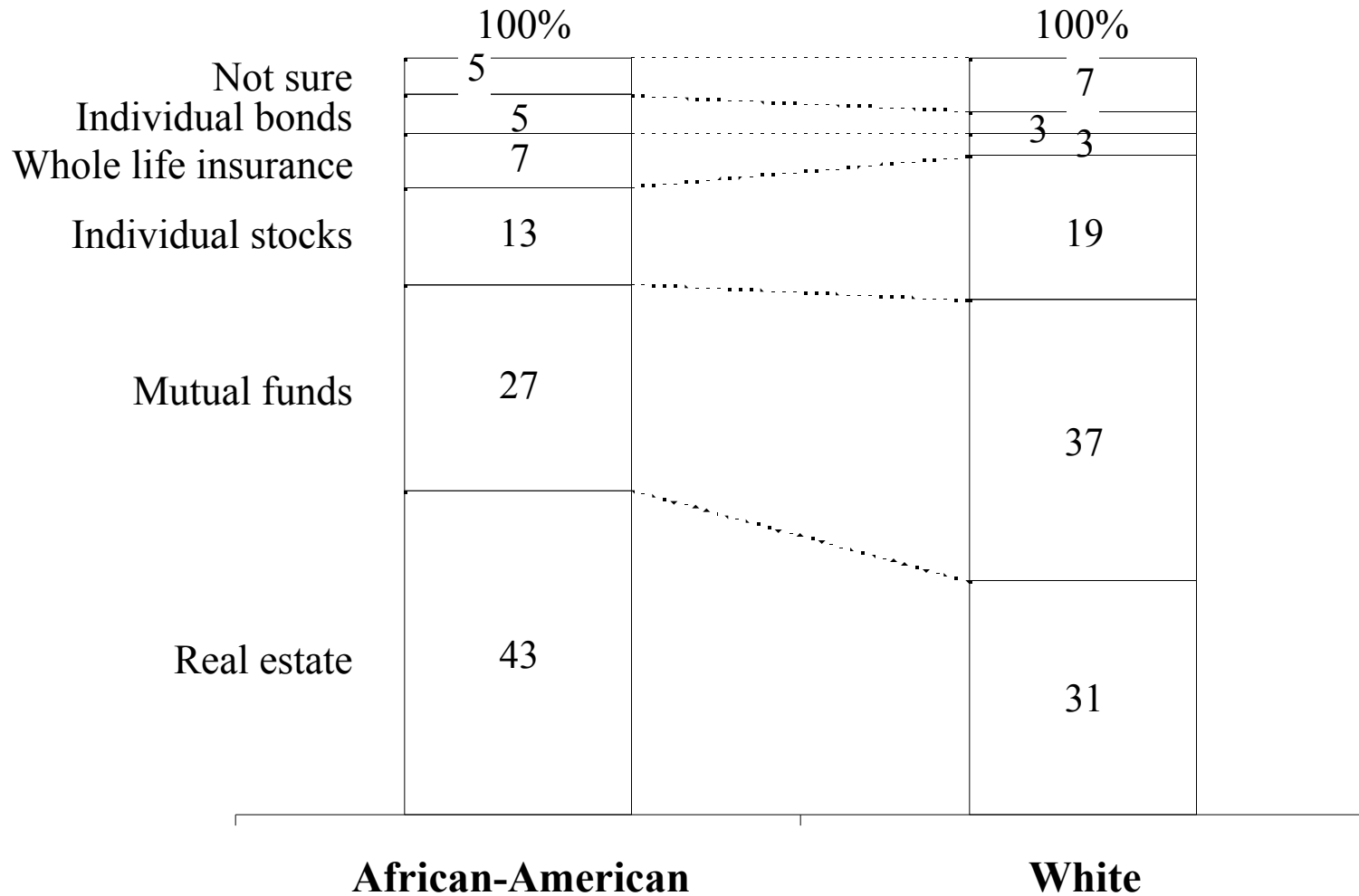
RESPONSIBILITY FOR TEACHING ABOUT INVESTING

Who do you think should be responsible for teaching people about saving and investing?



PERCEPTIONS OF BEST INVESTMENTS OVERALL

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



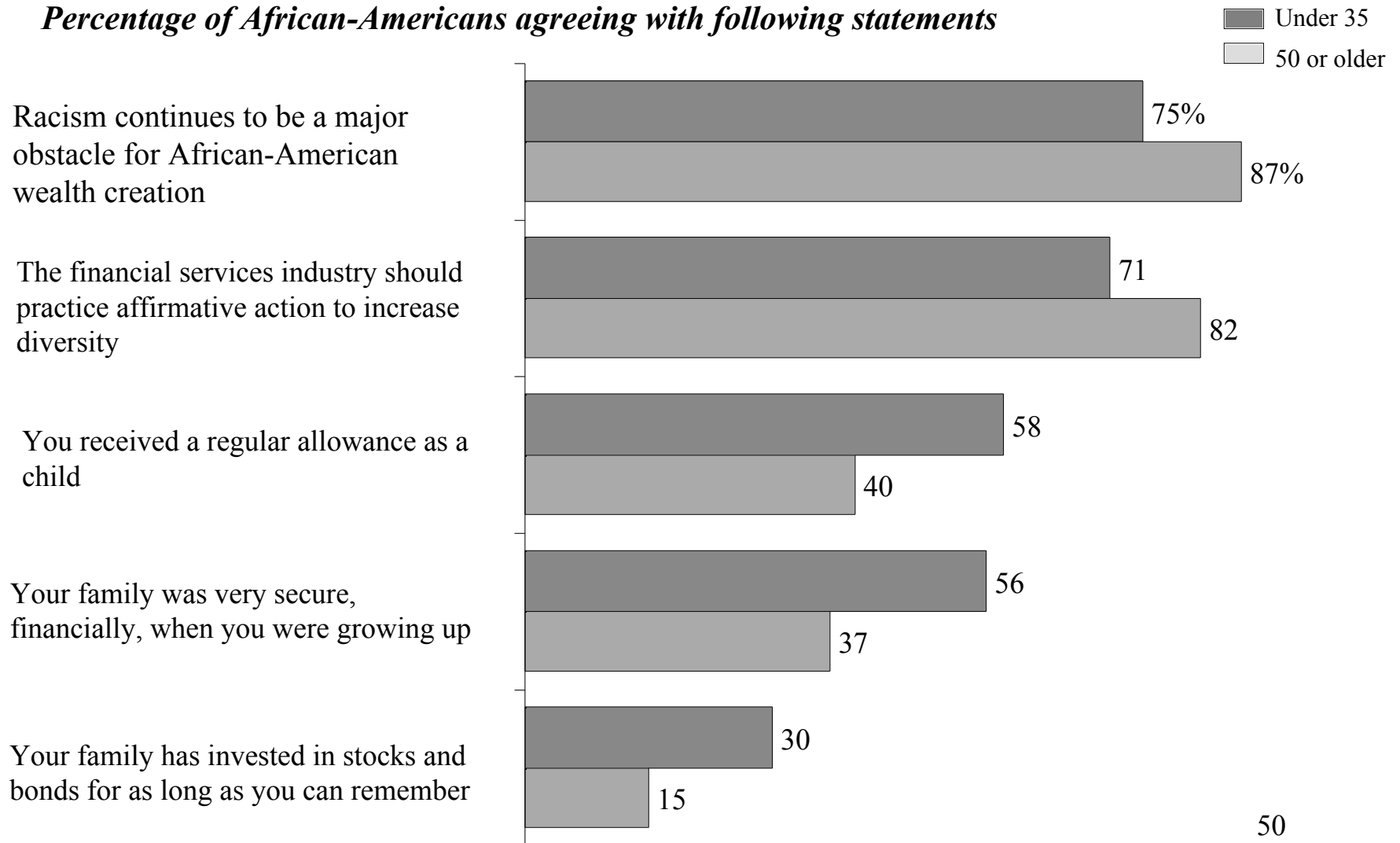
PREFERENCE FOR INDEX FUNDS VS. ACTIVELY MANAGED FUNDS

Do you prefer actively managed funds, where a portfolio manager makes buy and sell decisions on the fund holdings, OR index funds, where the fund simply tracks a general stock market index such as the S&P 500?

	100%	100%
Not sure	21	20
Prefer index funds	35	32
Prefer actively managed funds	44	48
	African-American	White

KEY ATTITUDINAL DIFFERENCES BETWEEN YOUNGER AND OLDER AFRICAN-AMERICANS

Percentage of African-Americans agreeing with following statements

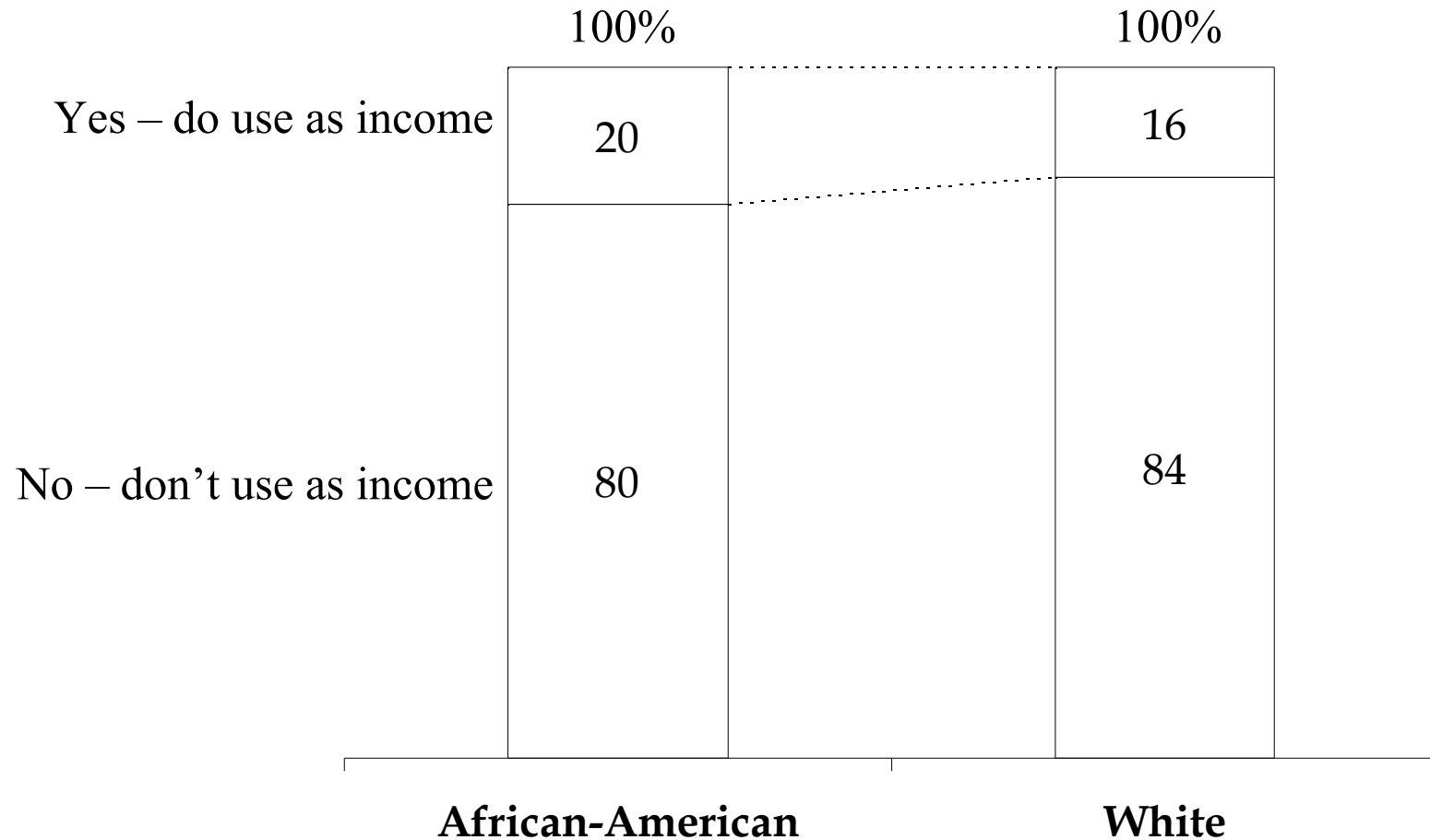


50

SAVINGS AND SPENDING HABITS

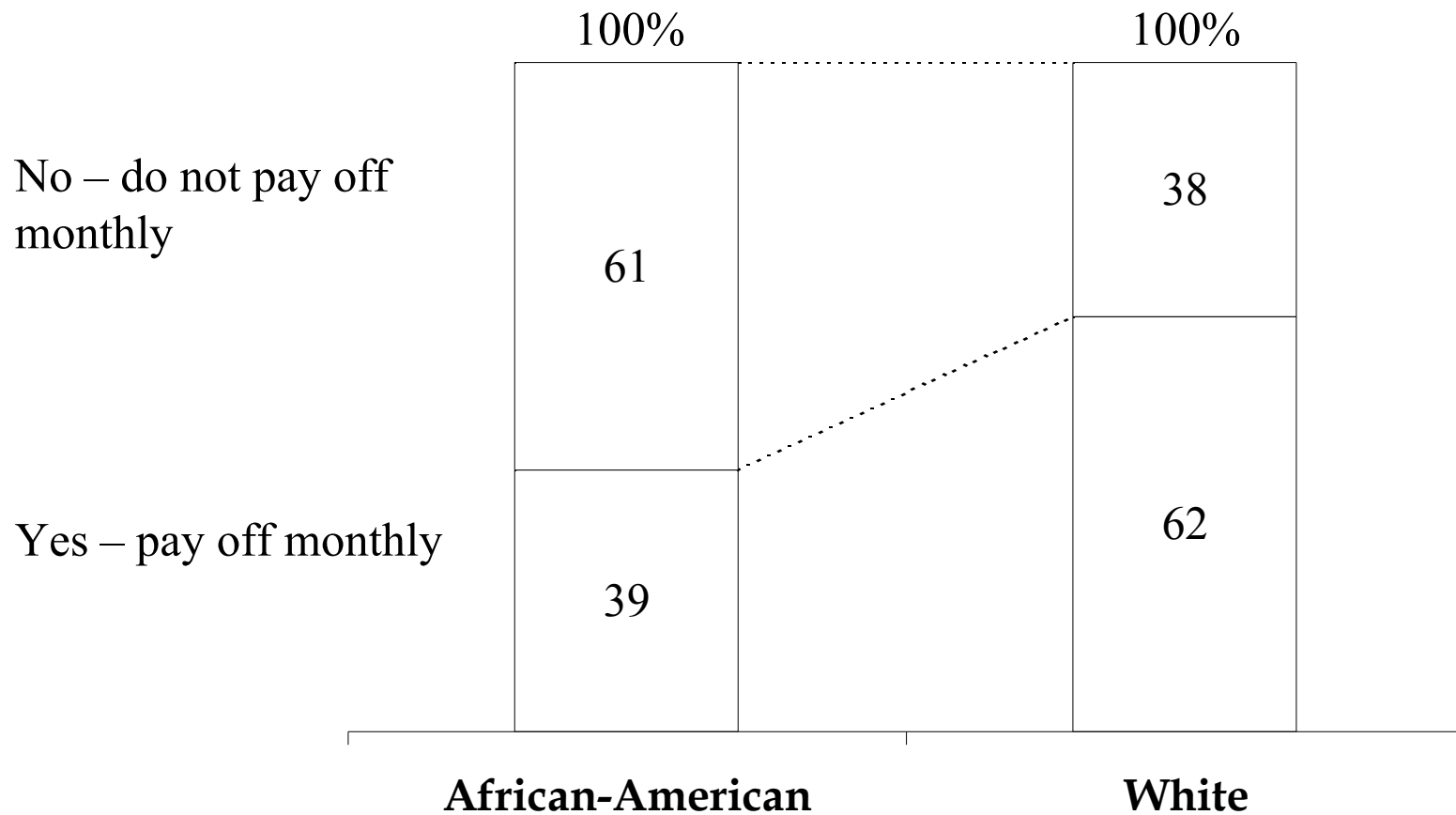
INVESTING AS A SOURCE OF CURRENT INCOME

Do you use any of your investments as income to support your current lifestyle?



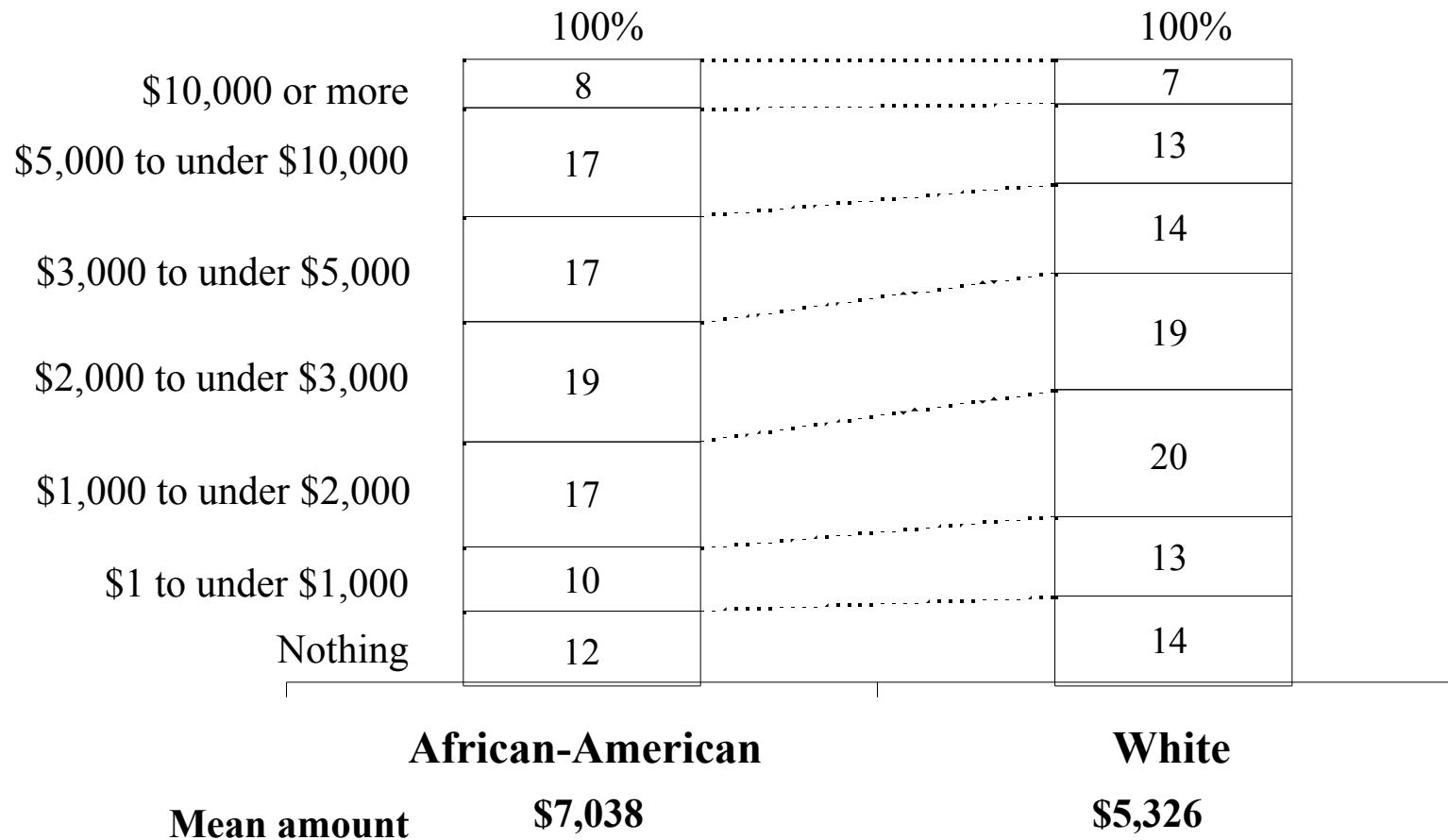
PAYING OFF CREDIT CARDS

Do you generally pay off your entire credit card balance every month?



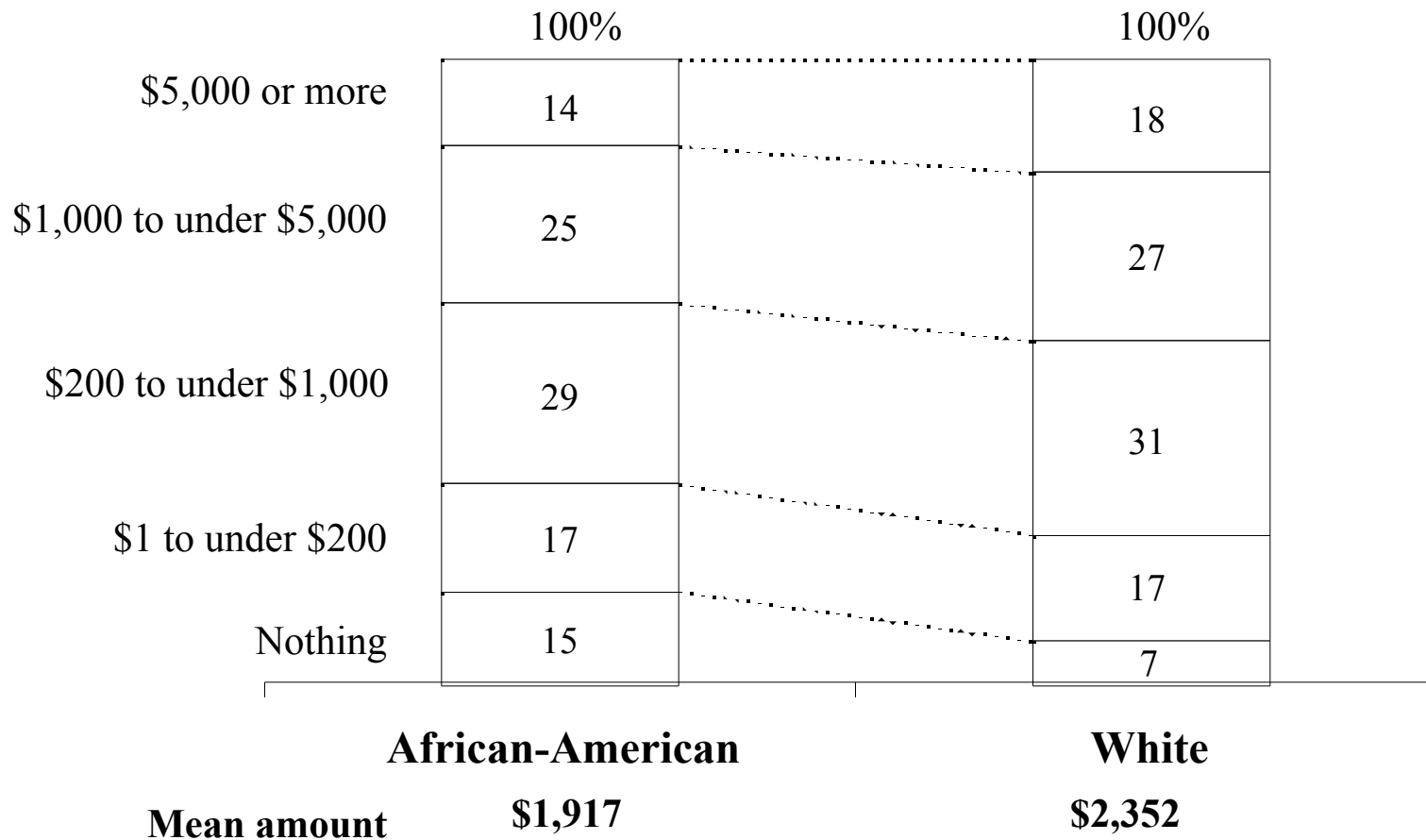
ANNUAL HOUSEHOLD SPENDING ON VACATIONS

Approximately how much does your household spend on vacations each year?



ANNUAL HOUSEHOLD CHARITABLE CONTRIBUTIONS

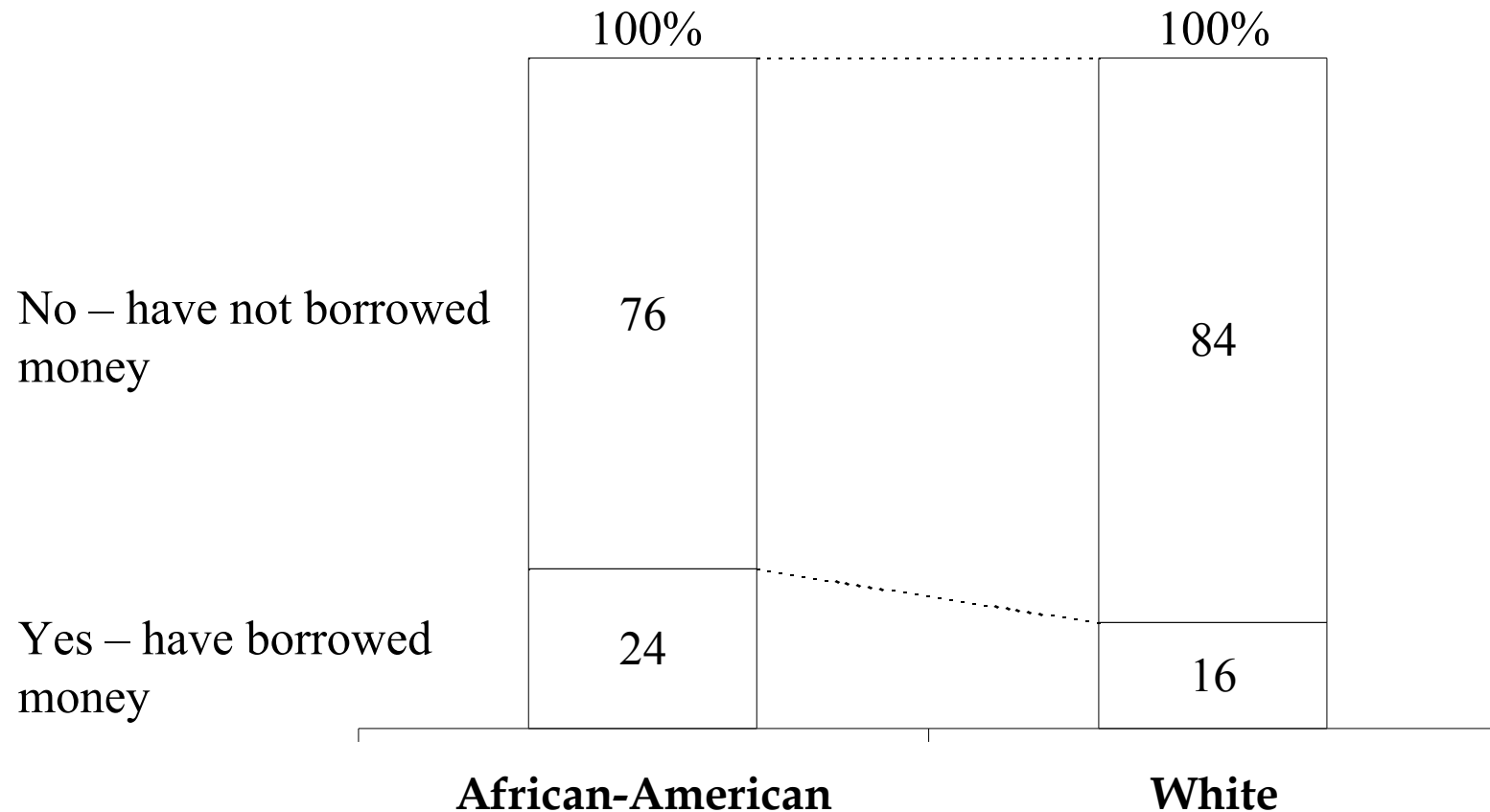
Approximately how much does your household spend per year contributing to charitable causes?



BORROWING MONEY FROM EMPLOYER-SPONSORED RETIREMENT PLAN

Have you ever borrowed money from your employer-sponsored retirement plan?

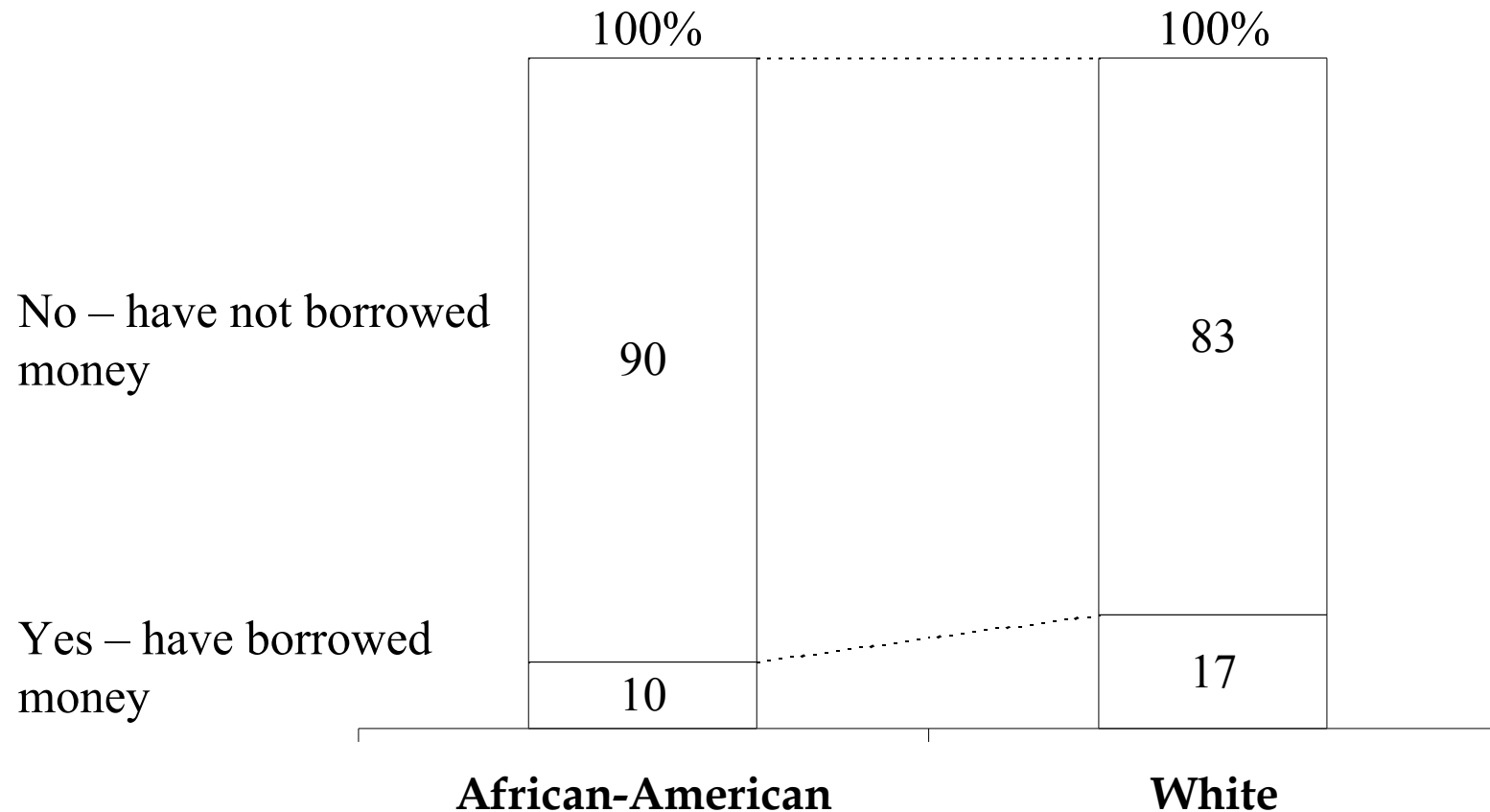
Base: Have investments in employer-sponsored retirement programs



BORROWING MONEY FROM WHOLE LIFE INSURANCE

Have you ever borrowed money from your whole life insurance policy?

Base: Currently own whole life insurance



STUDY PARTICIPANT PROFILE

DEMOGRAPHIC COMPARISON

- ❑ Some demographic differences between African-Americans and Whites may help explain certain attitudinal and behavioral differences in the overall study data. These differences include:
 - Age: African-Americans in the study are slightly younger than Whites in the study (40 is the mean age for African Americans, while 43 is the mean age for Whites.)
 - Income: African-Americans in the study have somewhat lower average annual household incomes than whites in the study (\$98,000 vs. \$107,000.)
 - Employment: Of the study respondents who are employed (90% of African-Americans and 84% of Whites), more African-Americans work for the state or federal government (32% vs. 18%)
 - Geography: A greater proportion of Whites in the study live in the West (21% vs. 6%) and North Central (28% vs. 18%) regions of the country, while more African-Americans live in the South (52% vs. 28%). African-Americans and Whites living in the Northeast comprised virtually the same proportion of study respondents (24% and 23%, respectively.)

DEMOGRAPHIC PROFILE

GENDER

	African-American	White
	%	%
Male	46	57
Female	54	43

EDUCATION

	African-American	White
	%	%
Some HS or less	4	3
HS graduate	19	17
Some college	25	22
College graduate	34	37
Postgraduate study	18	21

EMPLOYMENT STATUS

	African-American	White
	%	%
Employed full time	79	71
Self-employed	6	6
Retired	6	8
Employed part-time	5	7
Unemployed	2	2
Homemaker	2	5
Full-time student	1	1

AGE

	African-American	White
	%	%
18-24	8	4
25-29	10	10
30-34	15	13
35-39	18	16
40-49	29	29
50-64	17	22
65+	3	6
Mean	40	43
Median	39	42

HOUSEHOLD INCOME

	African-American	White
	%	%
\$50,000-74,999	54	41
\$75,000-99,999	24	30
\$100,000-250,000	18	25
Over \$250,0000	4	4
Mean	\$98K	\$107K
Median	\$73K	\$82K

TYPE OF EMPLOYER

(of those employed)

	African-American	White
	%	%
Private co.	56	71
State/fed. gov't	32	18
Not-for-profit	12	11

DEMOGRAPHIC PROFILE (CONTINUED)

MARITAL STATUS

	African-American	White
	%	%
Single/never married	21	11
Not married/living together	3	1
Married	61	78
Divorced/separated	12	8
Widowed	3	2

NON-SPOUSE ADULTS IN HOME

	African-American	White
	%	%
Other adults present	28	18
No other adults present	72	82

INTERNET ACCESS

	African-American	White
	%	%
No	14	14
Yes - both home and work	46	51
Yes - at work	15	10
Yes - at home	25	25

HAVE CHILDREN

	African-American	White
	%	%
Yes	82	75
No	18	25

OF MINOR CHILDREN IN HOUSEHOLD (of those who have children)

	African-American	White
	%	%
None	30	36
1	29	19
2	25	32
3	11	9
4+	5	4
Mean	1.4	1.3
Median	1.0	1.0

FINANCIAL PROFILE

VALUE OF SAVINGS AND INVESTMENTS (ex. real estate)

	African-American	White
	%	%
>\$1,000,000	3	6
\$500,00-\$999,999	3	10
\$250,000-\$499,999	10	13
\$100,000-\$249,999	16	21
\$50,000-\$99,999	20	18
\$25,000-\$49,999	16	13
\$5,000-\$24,999	22	13
<\$5,000	10	6
Mean	\$157K	\$273K

MONTHLY SAVINGS/INVESTMENTS

	African-American	White
	%	%
>\$2,500	3	5
\$1,001-\$2,500	4	9
\$501-\$1,000	13	16
\$351-\$500	14	13
\$201-\$350	16	18
\$101-\$200	22	15
\$51-\$100	13	8
<\$50	6	5
Nothing at this time	9	11
Mean	\$409	\$578

MARKET VALUE OF REAL ESTATE HOLDINGS

	African-American	White
	%	%
>\$300,000	21	29
\$200K-\$300K	20	20
\$100K to \$200K	31	29
\$20K-\$100K	18	10
Under \$20K	10	12
Mean	\$267K	\$284K

HAVE PERSONAL BROKER/ FINANCIAL ADVISOR

	African-American	White
	%	%
Yes	41	49
No	59	51

HAVE A SECOND JOB/ DO MOONLIGHTING

	African-American	White
	%	%
Yes	24	21
No	76	79