

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

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

June 2001



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

For further information, contact

Ariel Mutual Funds:	800-29-ARIEL
Charles Schwab & Co., Inc.:	800-997-4151

TABLE OF CONTENTS

❑	Background and Objectives.....	5
❑	Methodology.....	6
❑	Highlights of Previous and Current Studies.....	7
❑	Investing Patterns.....	14
o	Trends in Market Participation.....	15
o	Perceptions of Best Investments Overall.....	16
o	Accounts with Financial Institutions.....	17
o	Assets with Financial Institutions.....	18
o	Trends in Usage of Investment Firms.....	19
o	Product Ownership.....	20
o	Retirement Plans Owned.....	21
o	Financial Activities Conducted.....	22
o	Financial Activities Conducted in Last 5 Years.....	23
o	Self-Described Investment Experience.....	24
o	Overall Likelihood to Invest.....	25
o	Factors Most Influencing Investing.....	26
o	Income as a Factor in Likelihood to Invest.....	27
o	Education as a Factor in Likelihood to Invest.....	28
o	Age as a Factor in Likelihood to Invest.....	29
o	Self Perception of Financial Well Being.....	30
o	Self Perception of Financial Well Being Among Those Earning \$100K+.....	31
o	Attitudes About Retirement.....	32
o	Attitudes About Missed Opportunities	33

TABLE OF CONTENTS (CONTINUED)

❑	Market Volatility.....	34
o	Attitudes About Market Volatility.....	35
o	Confidence in the Stock Market By Age.....	36
o	Attitudes About Market Volatility Among Those With \$50K+ in Assets.....	37
o	Attitudes About Market Volatility By Gender.....	38
❑	Children and Investing.....	39
o	Children’s Financial Accounts/Products.....	40
o	Children’s Investment Accounts, By Parents’ Assets.....	41
o	Topics of Discussion With Children.....	42
o	Age Differences in Discussing Money With Children.....	43
o	Gender Differences in Discussing Money With Children	44
o	Giving Spending Money to Children.....	45
o	Age Differences in Giving Children an Allowance.....	46
o	Attitudes About Children and Money.....	47
o	Attitudes About Children and Money Among Parents of Teenagers.....	48
o	Importance of Leaving an Inheritance.....	49

CONTINUED NEXT PAGE

TABLE OF CONTENTS (CONTINUED)

□	Study Participant Profile.....	50
o	Demographic Profile.....	51
o	Financial Profile.....	53

BACKGROUND AND OBJECTIVES

- ❑ Ariel Mutual Funds and Charles Schwab & Co., Inc. commissioned Neuwirth Research Inc. to conduct the fifth wave of a primary research study comparing and contrasting high income (\$50,000 or more) African-American and White households in terms of their savings and investment attitudes and behaviors. Ariel and Schwab jointly conducted previous waves of this research in 1998, 1999, and 2000; Ariel conducted the first wave in 1997.

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

METHODOLOGY

- ❑ 500 African-Americans and 500 Whites were interviewed by phone during January and February, 2001.
- ❑ 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 17 minutes.

Note: Throughout this report, a bolded number indicates that it is statistically significantly higher than the number it is being compared to.

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 APRIL 2000 STUDY

- ❑ The 2000 study found that African-American stock investing is on the rise.
 - In 2000 64% of African-Americans are stock investors, compared to 57% in 1998.
 - Among Whites, however, the percentage who own stocks did not increase (81% in 1998 and 82% in 2000).

- ❑ Family obligations, including children's education, drive African-American savings.
 - More African-Americans than Whites expect to support adult children; also, more African-Americans expect to support aging parents.
 - "Children's education" ranked as a somewhat higher reason for saving among African-Americans. African-Americans are saving as much or even more for education than Whites. In addition, more African-Americans than Whites cite education as the key to financial success.
 - On the other hand, African-Americans have considerably less saved for retirement than Whites and fewer African-Americans cite "retirement" as their most important reason for saving.

- ❑ Both African-Americans and Whites support diversity programs for the financial services industry.

- ❑ 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.

HIGHLIGHTS OF THIS YEAR'S STUDY

Investing patterns

- ❑ African-American investing continues to be on the rise. Over the last several years, African-Americans have:
 - Increased their participation in the stock market, and have been more likely than Whites to become first-time investors in stocks and mutual funds.
 - Increased the business they do with mutual fund companies and brokerages.
 - Become less likely to describe themselves as beginning investors.
- ❑ Nevertheless, in 2001 there continues to be a gap between African-American and White investing. African-Americans are still less likely than Whites to:
 - Invest in the market and own mutual funds.
 - Do business with mutual fund companies and brokerages.
 - Have money in 401(k)s and IRAs.
 - Consider themselves experienced investors.
- ❑ Even after controlling for demographic (e.g. income and education) and behavioral (e.g. financial goals) variables, African-Americans are still 35% less likely to invest than Whites.

HIGHLIGHTS OF THIS YEAR'S STUDY (CONTINUED)

- ❑ In examining the key factors influencing investing patterns among African-Americans and Whites, we find:
 - For African-Americans, income functions as a determinant for investing; African-Americans become increasingly more likely to invest as they earn more. Income is not a determinant of investing among Whites.
 - For Whites, there is an important age effect. Regardless of their income, Whites begin investing at fairly young ages (most as they reach their mid-thirties when they start having discretionary income), while for African-Americans the likelihood to invest does not track with age.
 - Education is equally important for both groups in its impact on investing: college graduates are significantly more likely to be investors, all else being equal.

- ❑ African-American attitudes about their wealth, financial future, and missed opportunities suggest that despite the progress made over the last few years, more encouragement to participate in the market and build wealth is warranted.
 - African-Americans, even those in the higher income brackets, are less likely than Whites to consider themselves financially well off.
 - African-Americans are less confident than Whites that they will be able to retire comfortably.
 - African-Americans themselves believe they have missed out on opportunities to build wealth through the stock market.

HIGHLIGHTS OF THIS YEAR'S STUDY (CONTINUED)

Market volatility

- ❑ Given the recent volatility in the market, the challenge of continuing to narrow the gap between African-American and White investing patterns will be formidable:
 - Anxiety is higher about market volatility among African-Americans than it is among Whites.
 - While African-American confidence in the stock market has been shaken more than White confidence in all age categories, the difference is particularly acute among older investors.
 - Even among African-Americans with over \$50,000 in assets, confidence in the market is significantly lower than among Whites.
 - African-American women are particularly anxious that their long-term financial goals will be impacted by volatility.

HIGHLIGHTS OF THIS YEAR'S STUDY (CONTINUED)

Children and investing

- ❑ Over the long term, however, we should see the investing gap continue to narrow as African-American parents place an emphasis on money matters within the family.
 - While African-American minor children are less likely to own savings and investment accounts/products than White children (even within families with over \$50,000 in assets) the subject of savings and investing is more often a topic of conversation in African-American households than it is within White households. African-Americans are also more likely to begin talking to their children about these matters at an earlier age. African-American mothers, however, are less confident than fathers that they have the knowledge to share.
 - More African-American children than White children receive regular allowances, particularly teenagers. At the same time, African-American parents, particularly parents of teenagers, are more concerned than White parents about their children's materialism.
 - African-Americans place more of a priority than Whites on leaving an inheritance to their heirs, especially parents of young children.

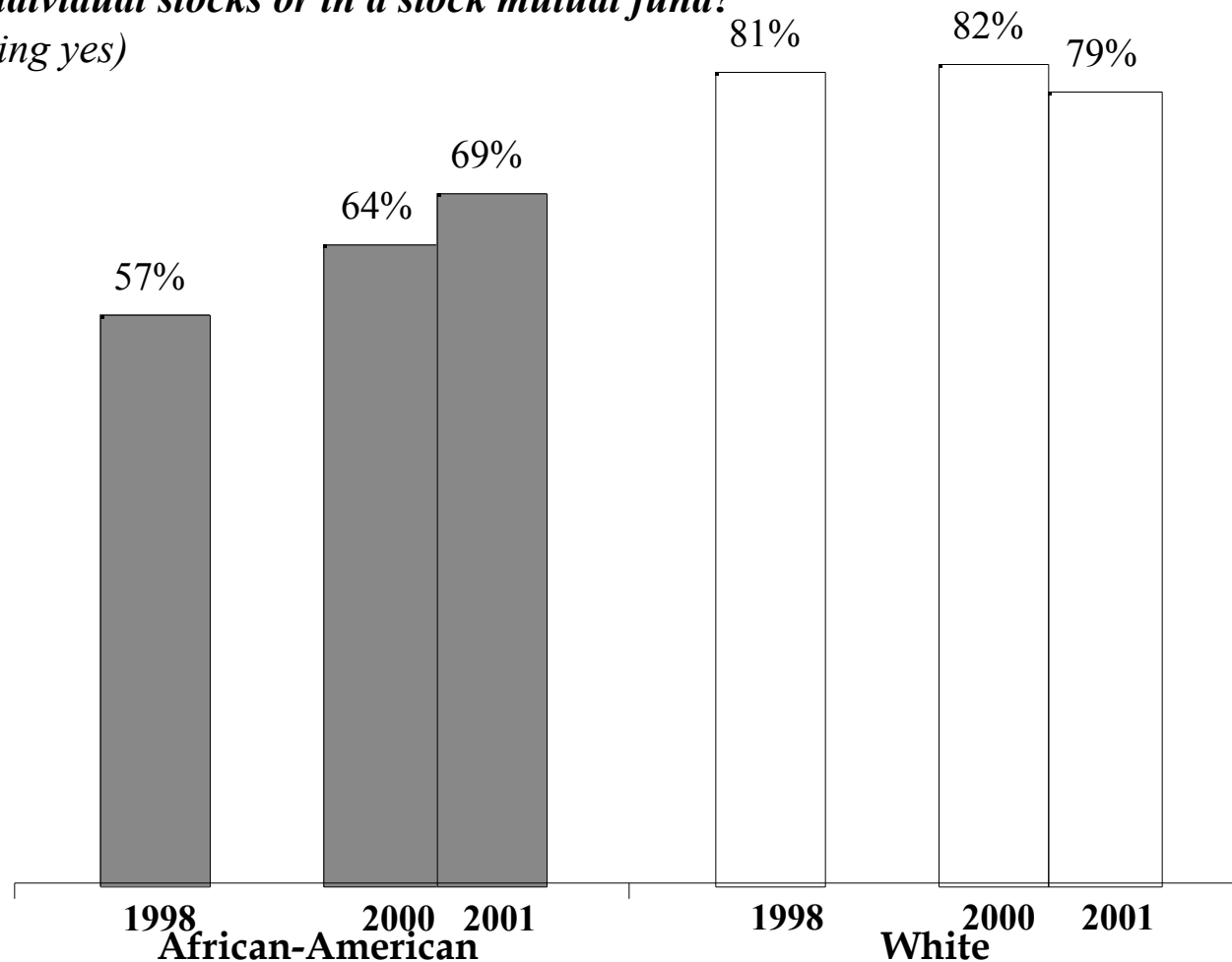
INVESTING PATTERNS

TRENDS IN MARKET PARTICIPATION

African-American investing continues to be on the rise.

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?

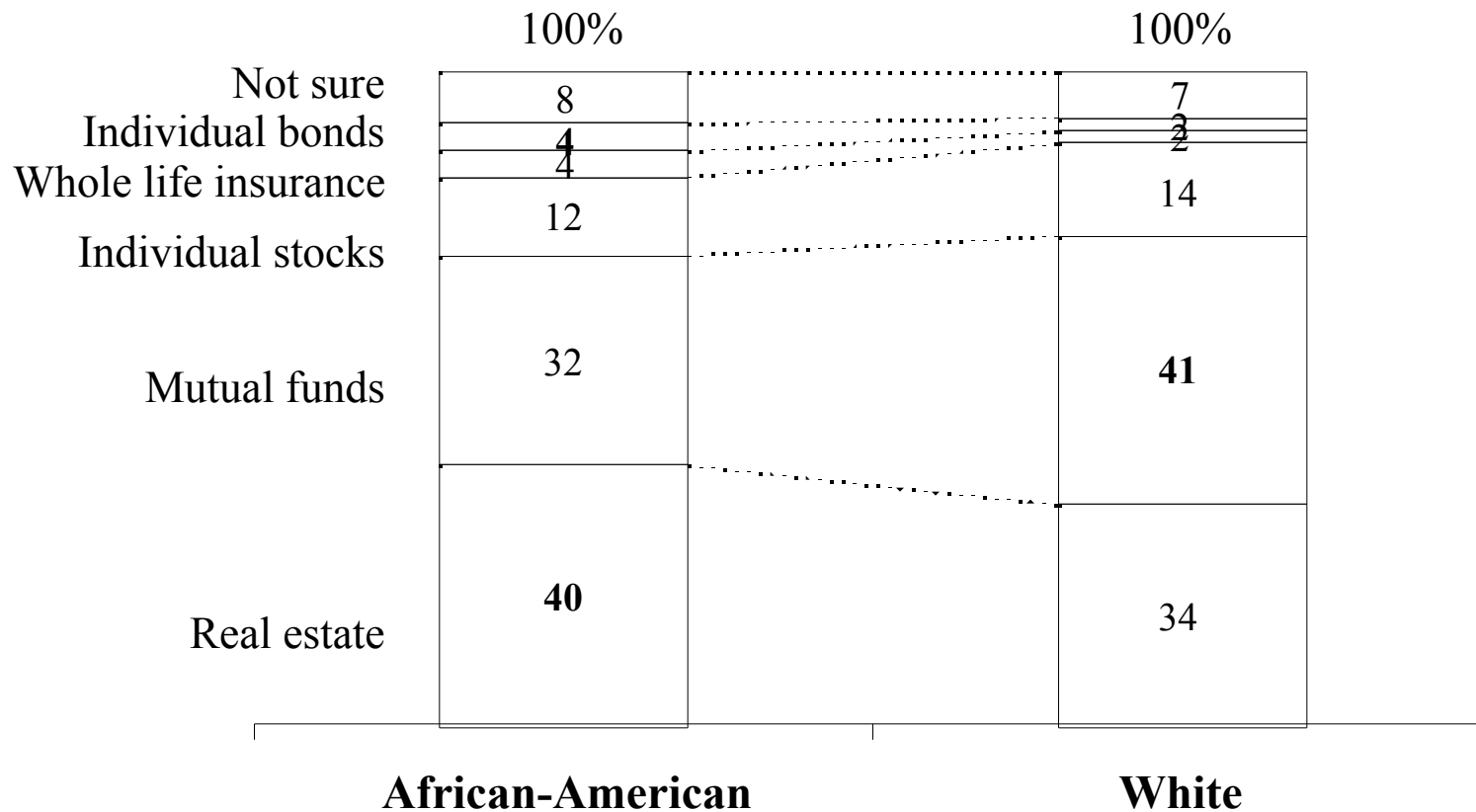
(% answering yes)



PERCEPTIONS OF BEST INVESTMENTS OVERALL

As we have seen in past years, African-Americans are still most likely to perceive real estate as the best investment overall. The differences in perceptions about investments have narrowed since 1998, when 46% of African-Americans cited real estate, as compared to 32% of Whites.

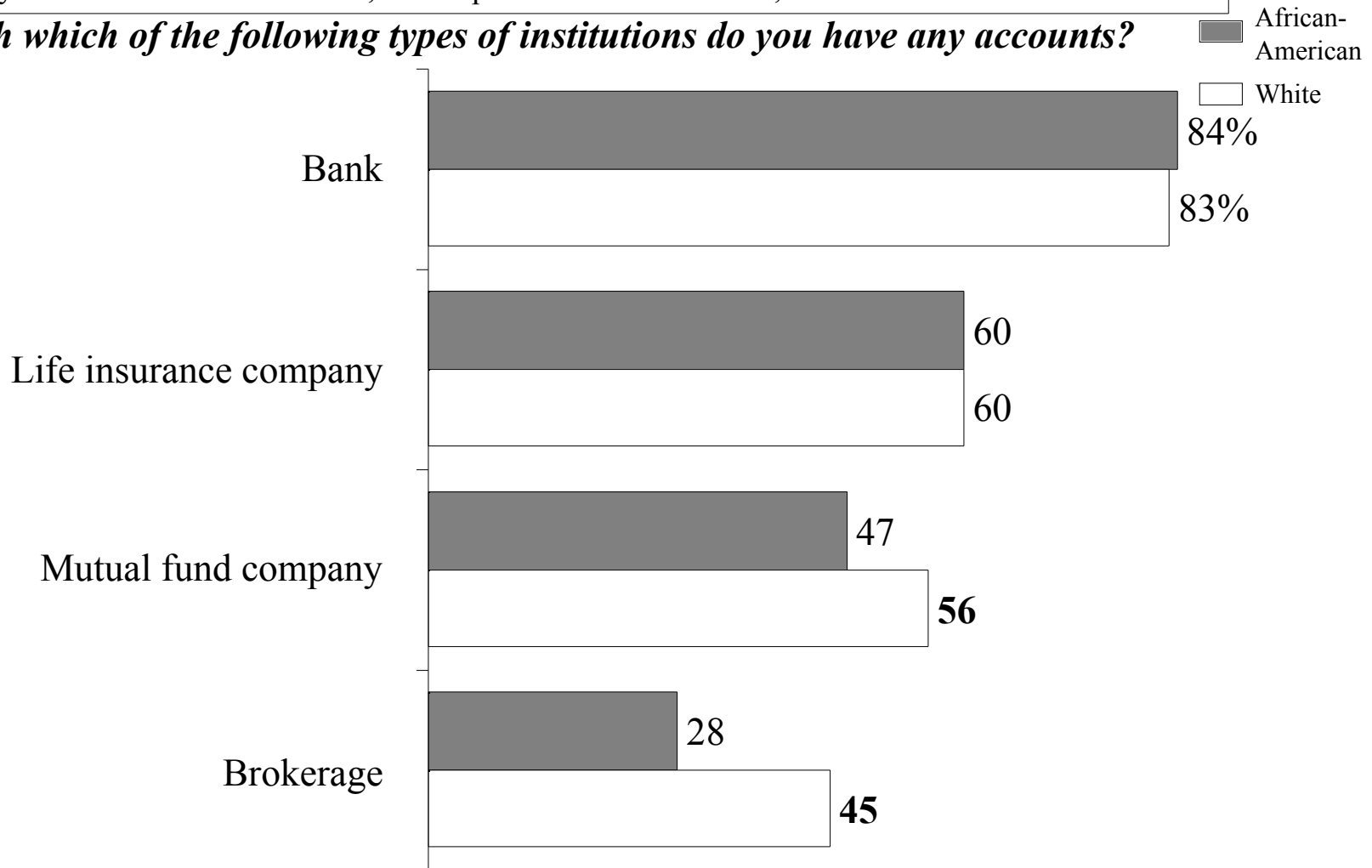
Which of the following do you think is the best investment overall?



ACCOUNTS WITH FINANCIAL INSTITUTIONS

While African-Americans still are less likely than Whites to have accounts at mutual fund companies or brokerages, they are much more likely to have such accounts than in 1998, when only 26% of African-Americans, as compared to 51% of Whites, had accounts at such firms.

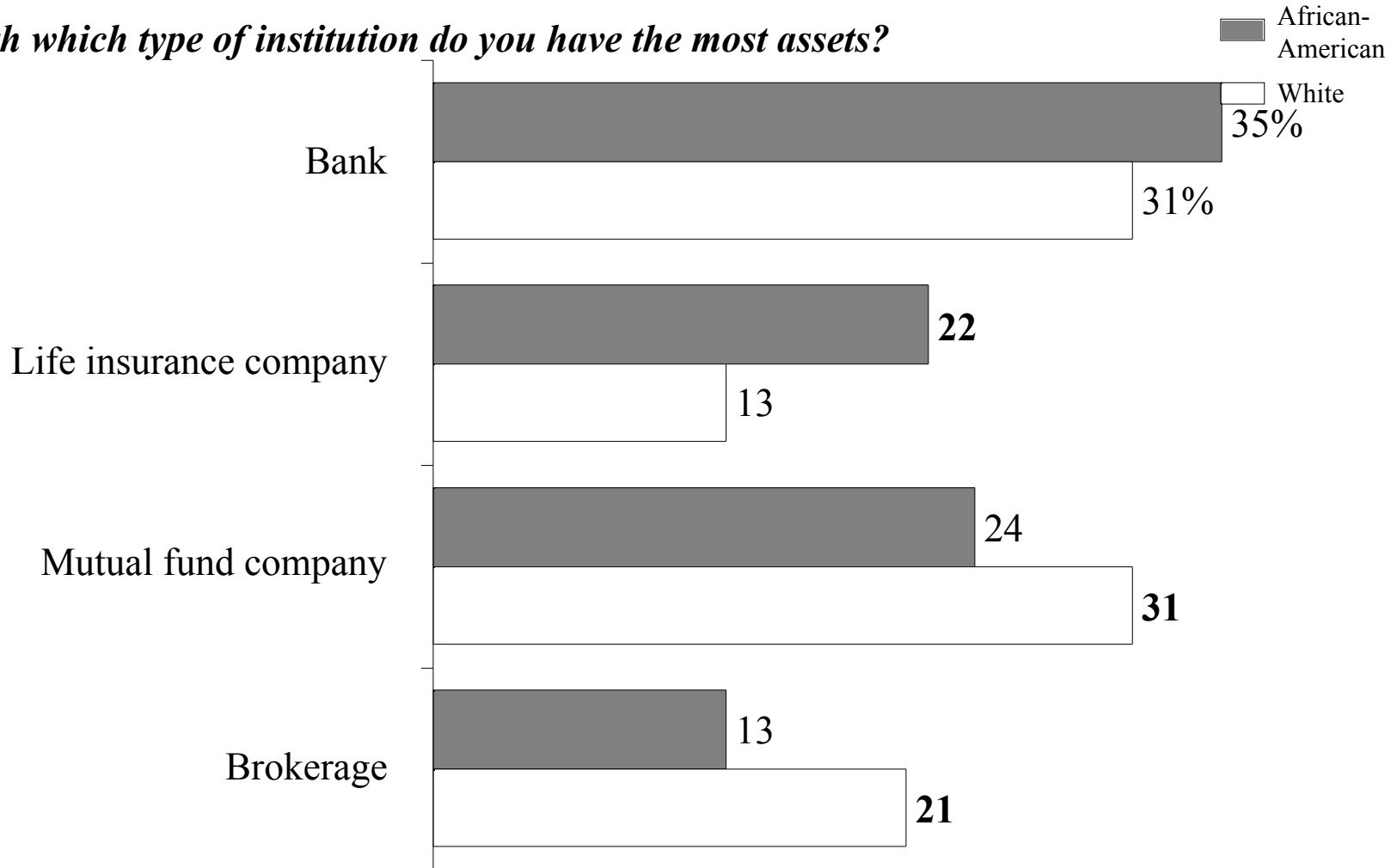
With which of the following types of institutions do you have any accounts?



ASSETS WITH FINANCIAL INSTITUTIONS

While African-Americans are less likely than Whites to have the most assets at mutual fund companies or brokerages....

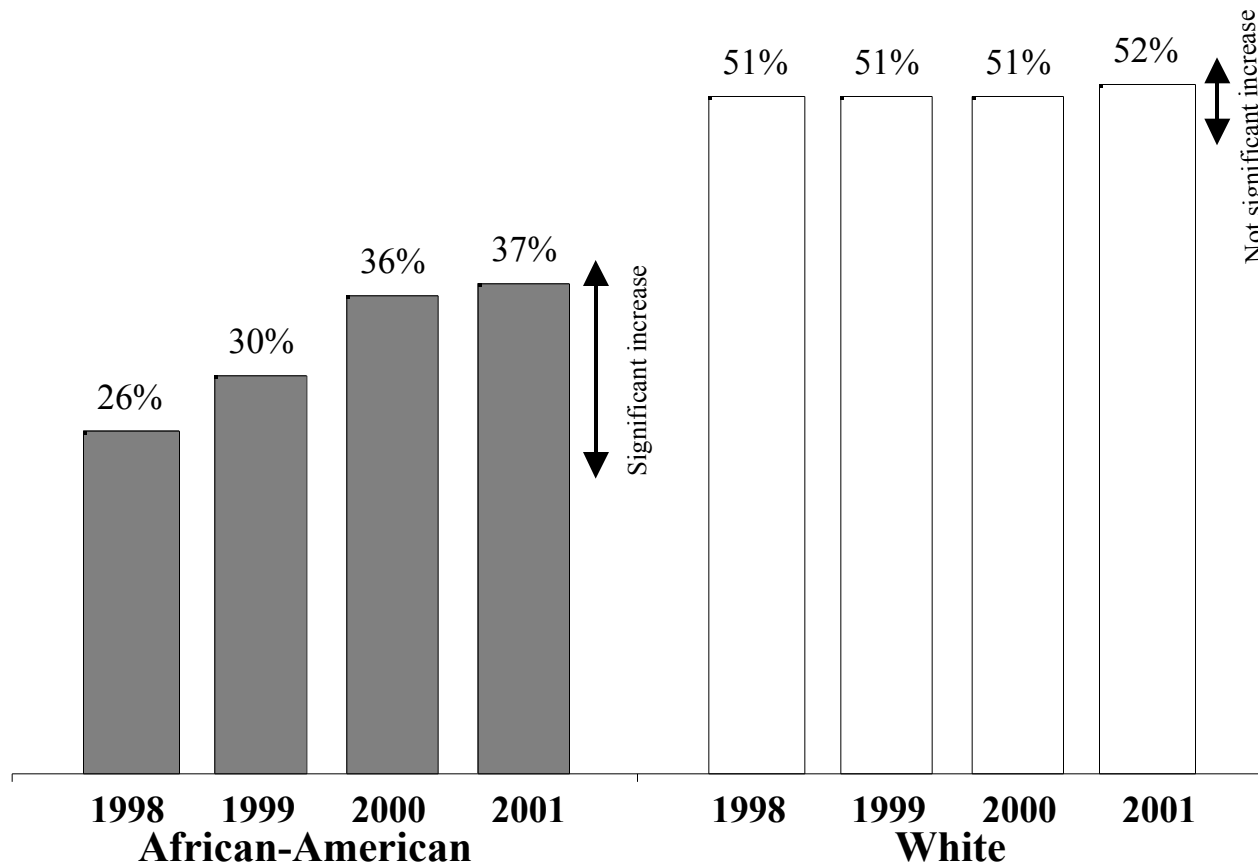
With which type of institution do you have the most assets?



TRENDS IN USAGE OF INVESTMENT FIRMS

...this number has been steadily increasing since 1998, whereas the number for Whites has been flat.

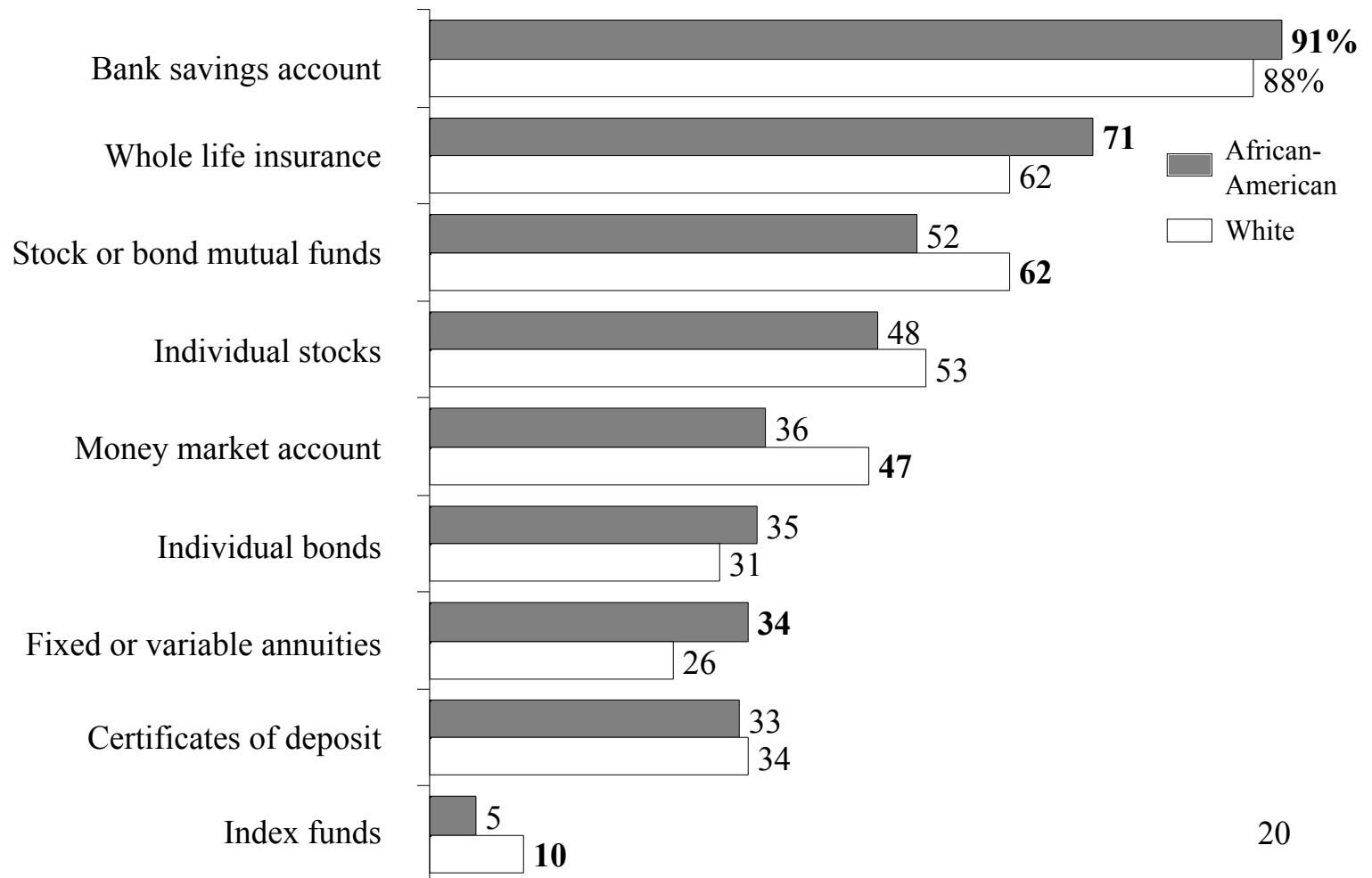
% Saying have the most assets at a brokerage or mutual fund company



PRODUCT OWNERSHIP



African-Americans are more likely than Whites to have conservative investments such as savings accounts, whole life insurance, and annuities, while Whites are more likely to own mutual funds, index funds, and money market accounts.

Outside of a 401(k) plan or other employer-sponsored retirement plan, which of the following types of investments or insurance do you own, either alone or jointly?

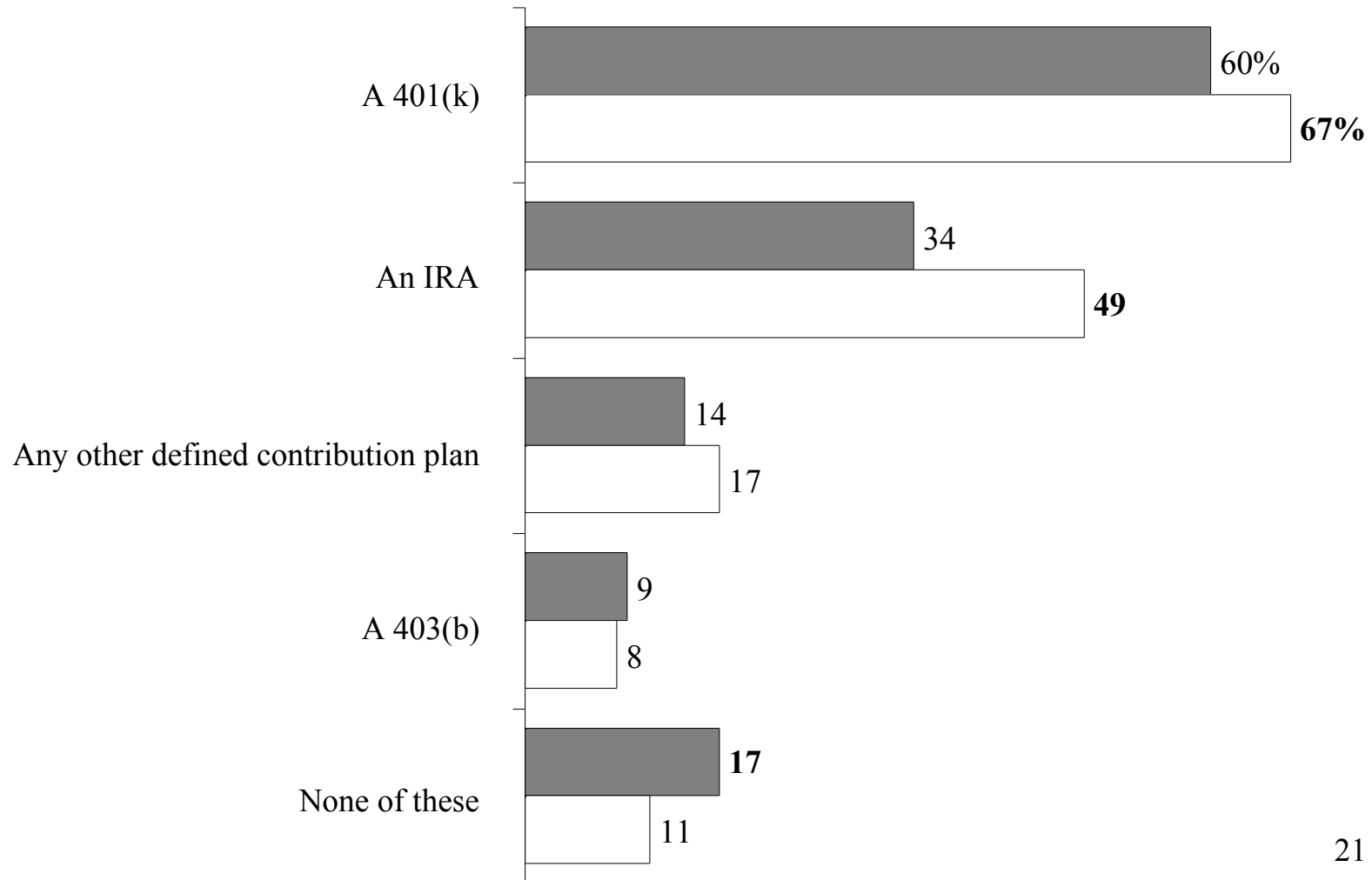


RETIREMENT PLANS OWNED

African-Americans also continue to lag Whites in retirement plan ownership and have not made significant progress on this front since 1998.

 African-American
 White

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

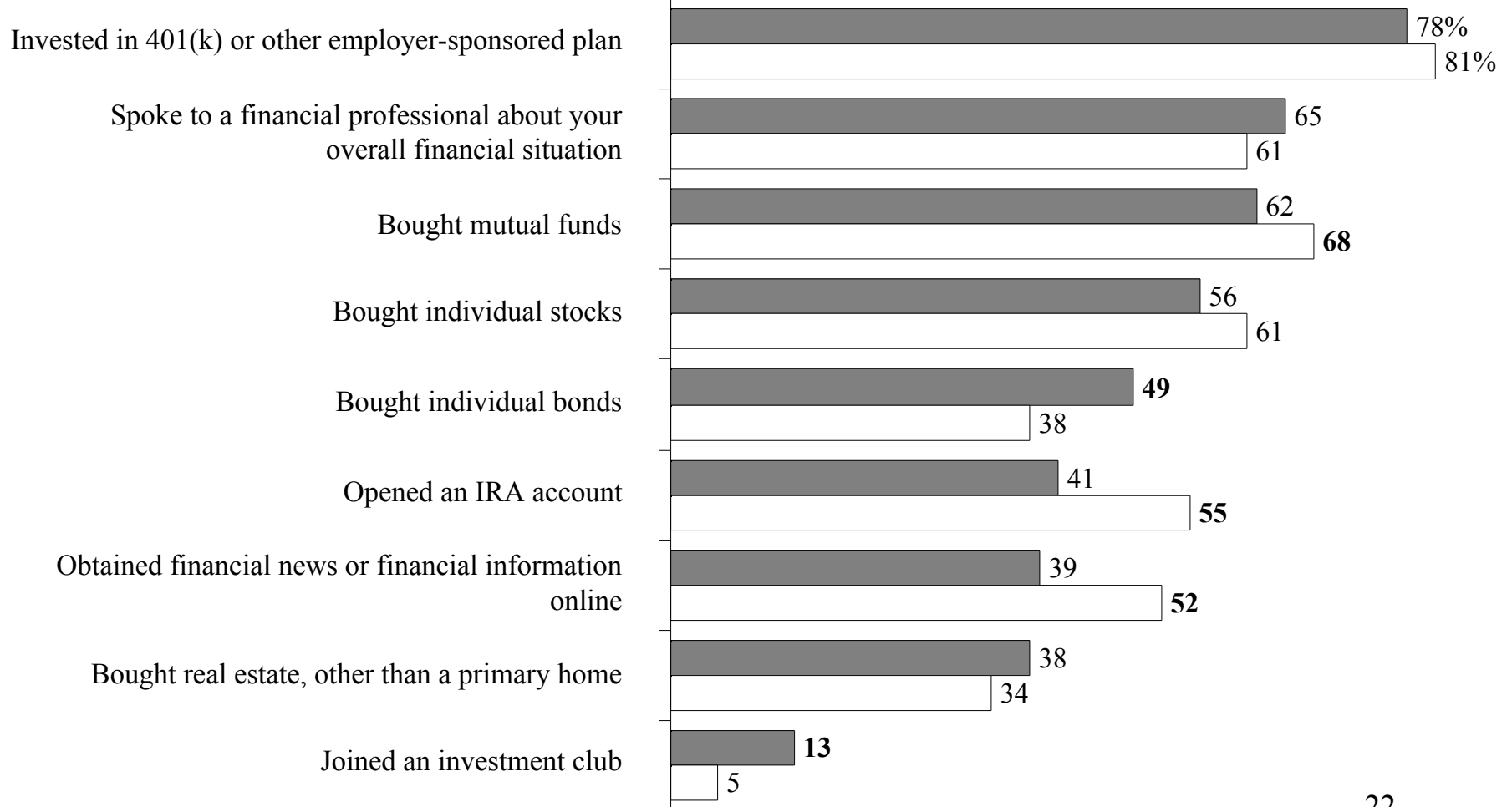


FINANCIAL ACTIVITIES CONDUCTED

One new finding is that more African-Americans than Whites have joined investment clubs, though overall numbers are small.

■ African-American
□ White

Which of the following things have you ever done?



FINANCIAL ACTIVITIES CONDUCTED IN LAST 5 YEARS

At the same time, significantly greater percentages of African-Americans than Whites report conducting numerous activities for the first time in the last five years, including buying stocks and mutual funds. This finding is consistent with the overall rise of investing among African-Americans.

Did you do this for the first time within the last five years?

Base: Have conducted financial activity

Obtained financial news or financial information online



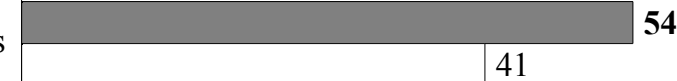
Spoke to a financial professional about your overall financial situation



Joined an investment club



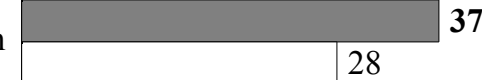
Bought individual stocks



Bought mutual funds



Invested in 401(k) or other employer-sponsored plan



Opened an IRA account



Bought individual bonds



Bought real estate, other than a primary home

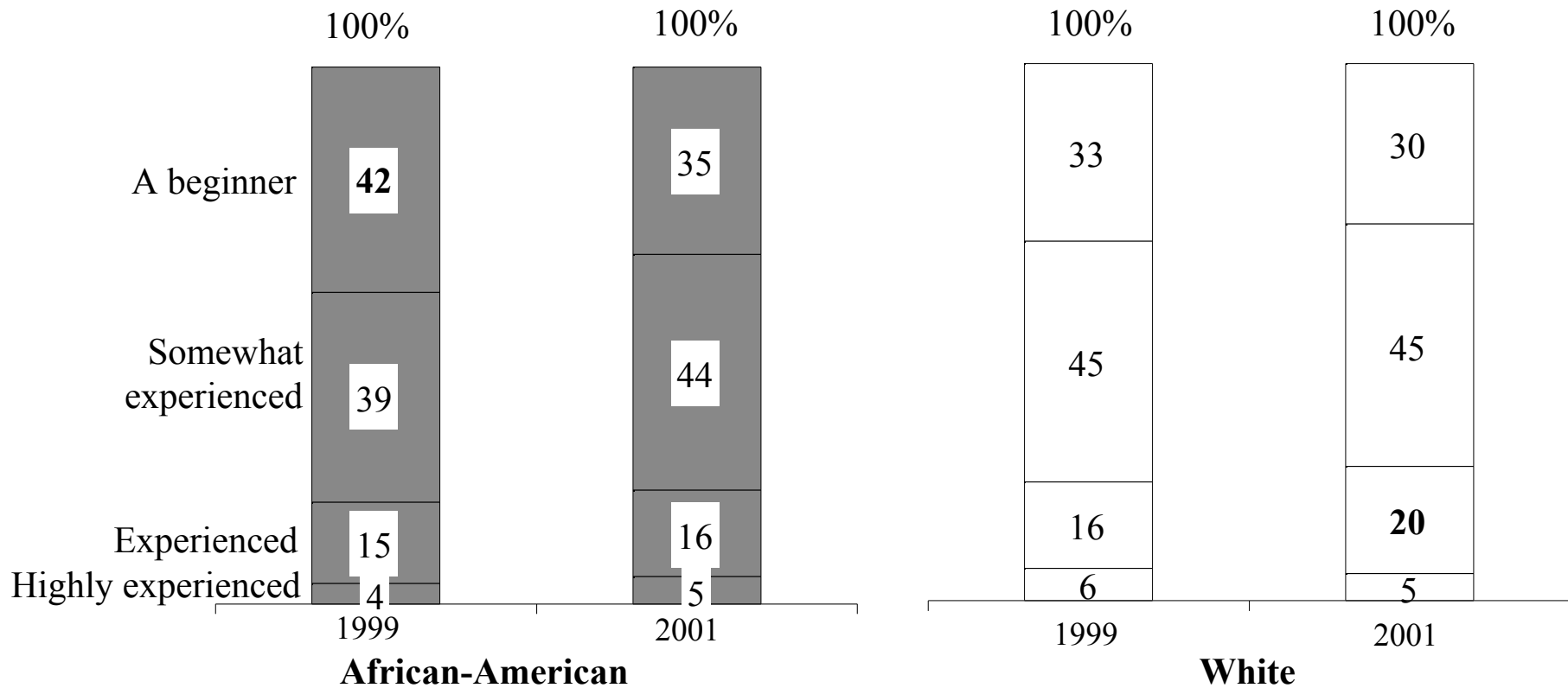


■ African-American
□ White

SELF-DESCRIBED INVESTMENT EXPERIENCE

Since two years ago, fewer African-Americans describe themselves as beginning investors, though they are still less likely than Whites to consider themselves experienced investors.

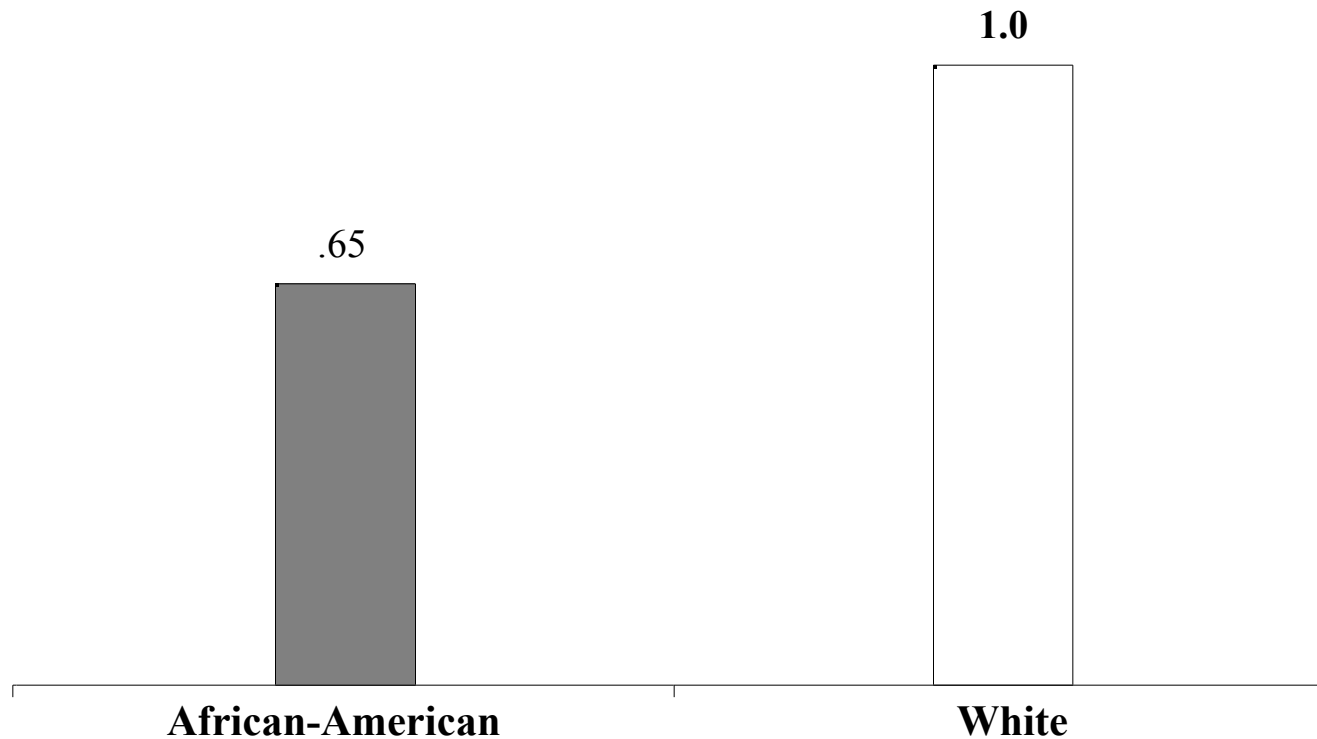
In terms of investment experience, would you describe yourself as.....?



OVERALL LIKELIHOOD TO INVEST

After controlling for the most important demographic and behavioral factors, African-Americans are still significantly likely to invest than Whites.

Likelihood of African-Americans to invest compared to Whites*

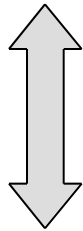


*After controlling for income, education, age, marital status, financial goals, and extended kin in household. This finding was based on a statistical analysis called *logistic regression*.

FACTORS MOST INFLUENCING INVESTING

Looking at each of these demographic and behavioral factors individually and their impact on investing patterns, we find that income plays a pivotal and decisive role for African-Americans, whereas age is of greatest importance for Whites.

More influential factors



Less influential factors

**Not significantly
influential factors**

African-Americans

- Income
- Education
- Age

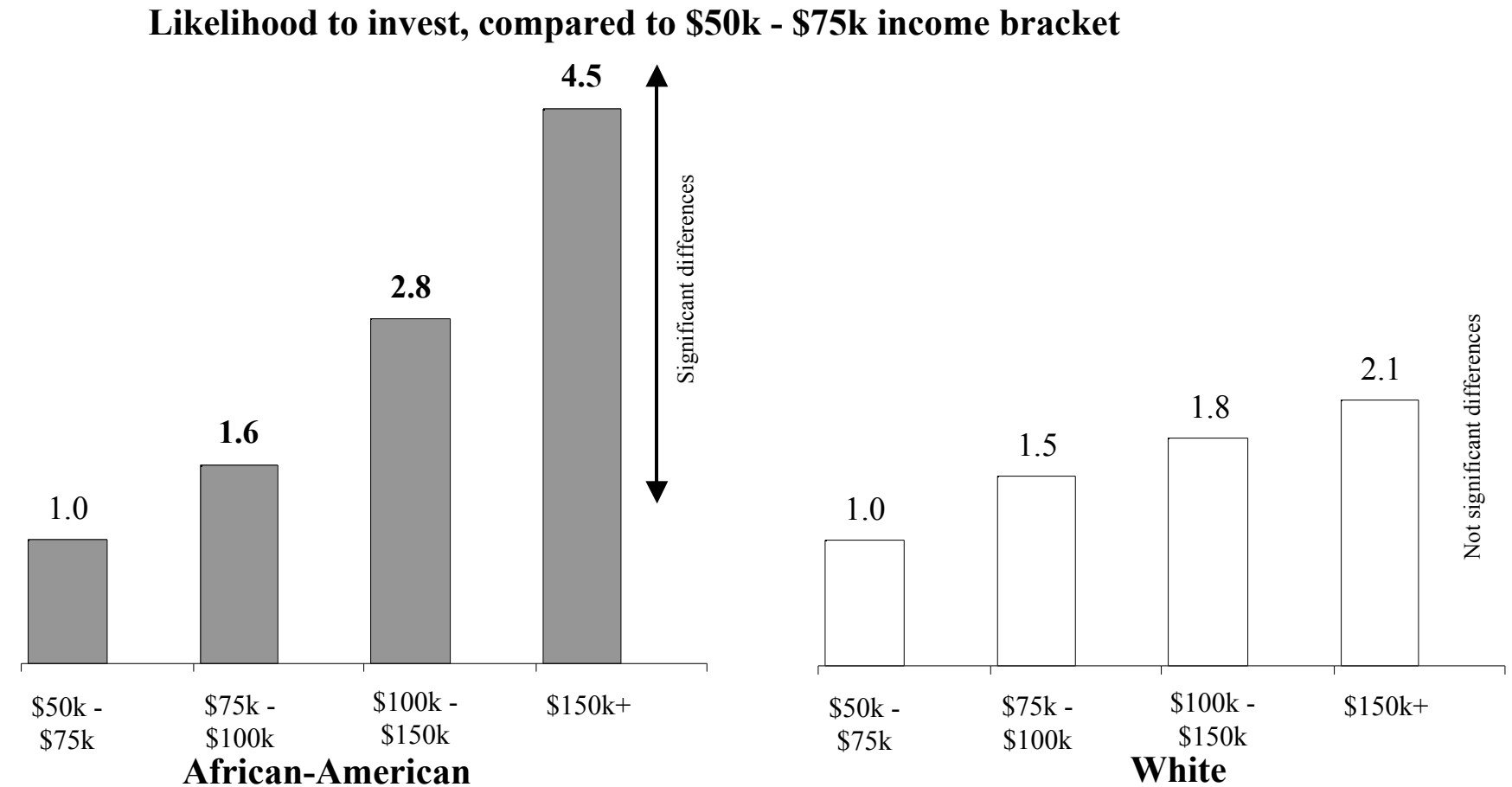
- Goals
- Marital status
- Extended kin in household

Whites

- Age
- Education
- Retirement as goal for saving and investing
- Income
- Marital status
- Extended kin in household

INCOME AS A FACTOR IN LIKELIHOOD TO INVEST

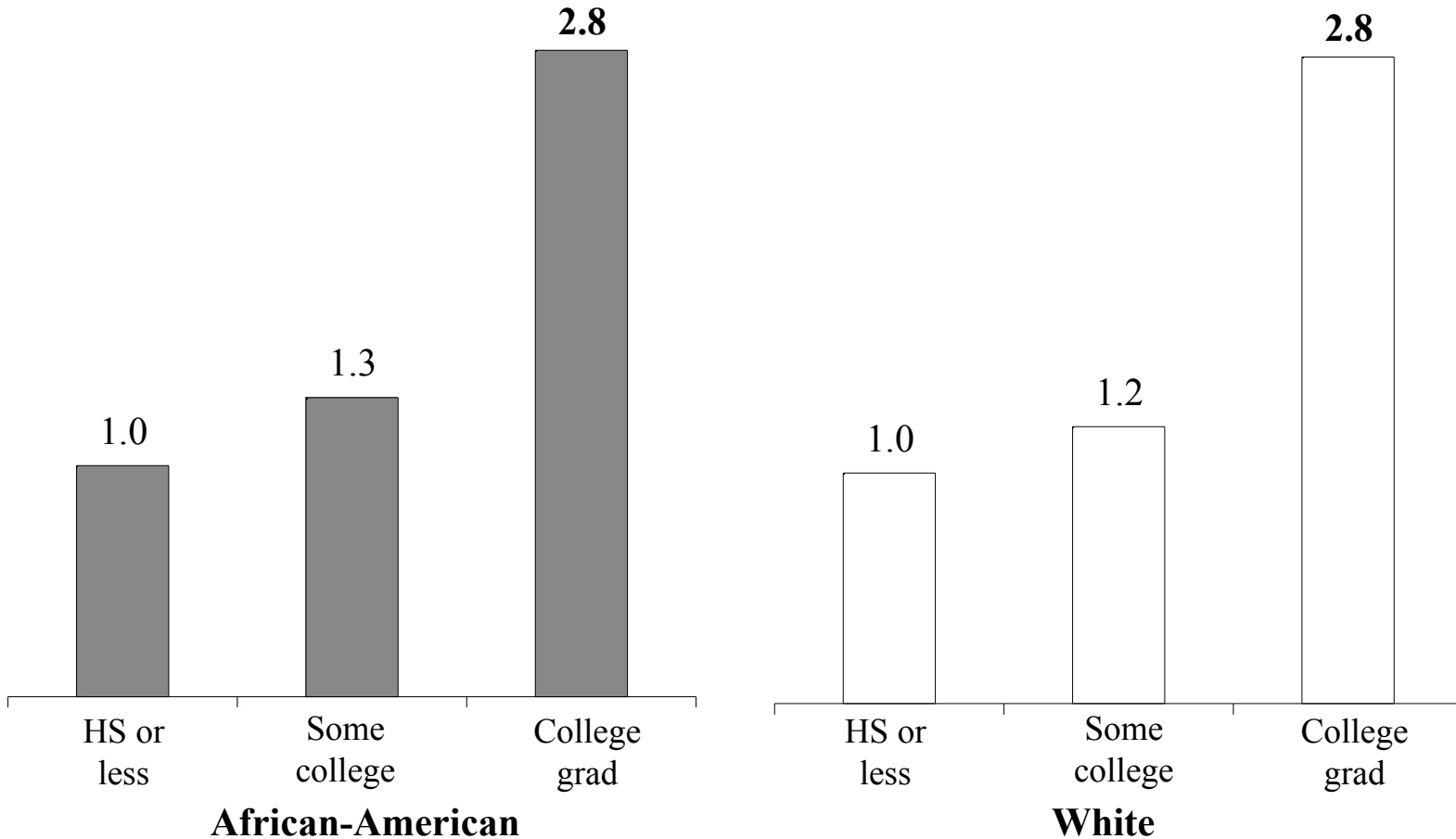
For African-Americans, income functions as a threshold for investing. African-Americans become much more likely to invest when they start earning six figure salaries.



EDUCATION AS A FACTOR IN LIKELIHOOD TO INVEST

Education is equally important for both groups in its impact on investing. Among both African-Americans and Whites, college graduates are 2.8 times more likely to invest than those with high school degrees or less.

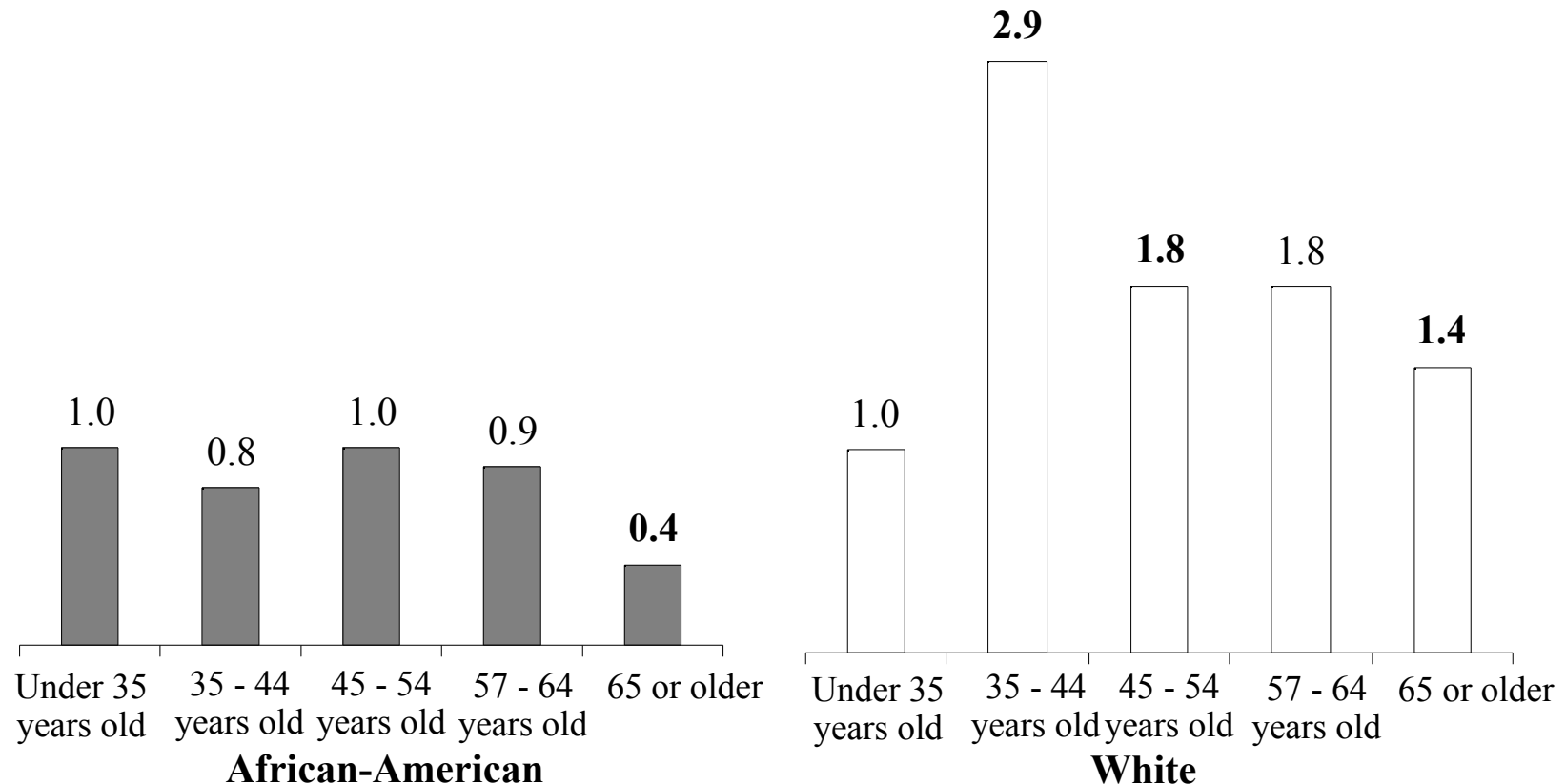
Likelihood to invest, compared to high school education or less



AGE AS A FACTOR IN LIKELIHOOD TO INVEST

There is an age effect among Whites that points to investing being a rite of passage as they reach their mid thirties. Regardless of their income, Whites begin investing at fairly young ages, while the odds of investing for African-Americans remains constant across most of the age distribution.

Likelihood to invest, compared to those under 35 years old

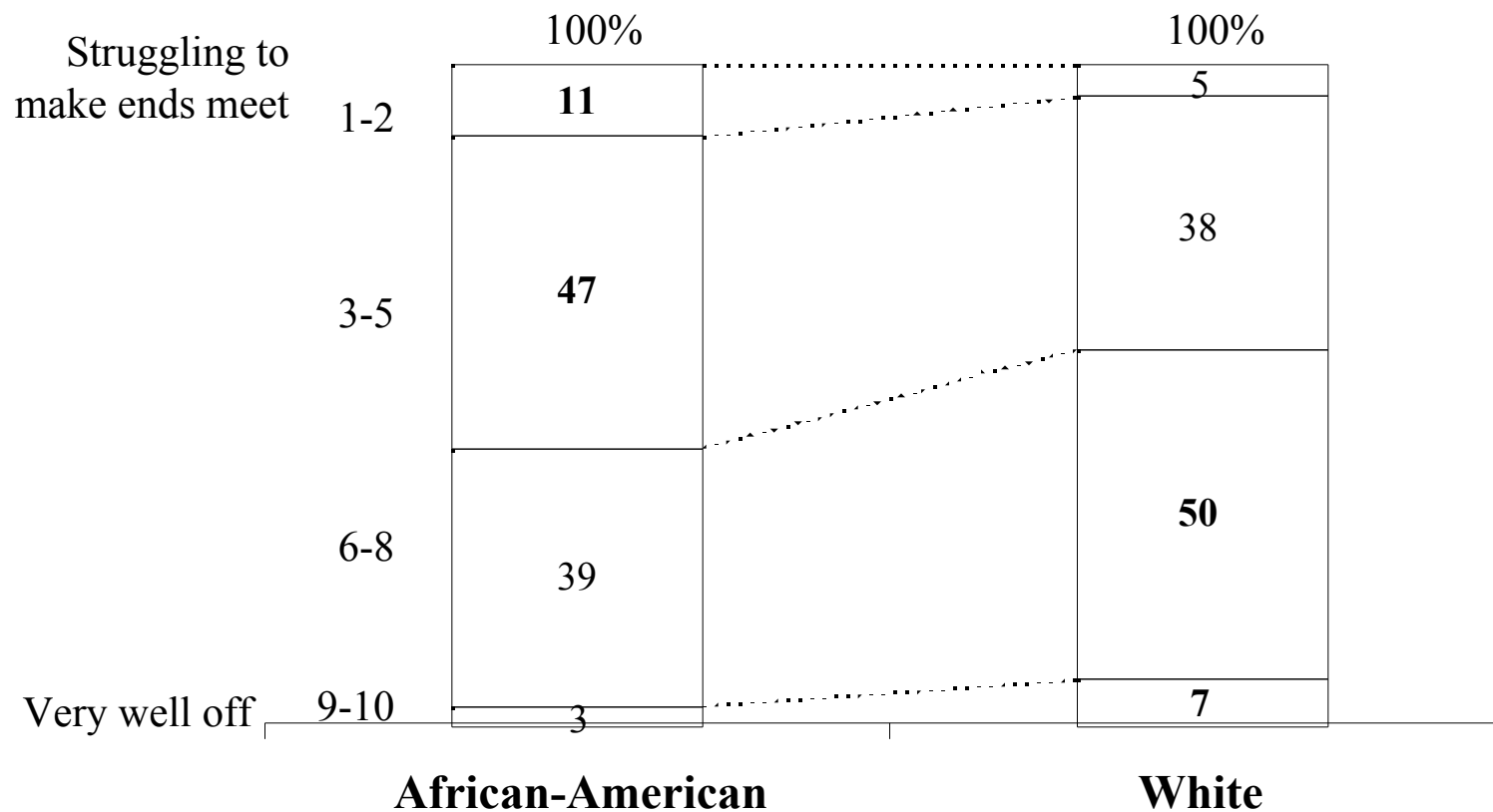


Note: Another significant factor for White investing is having retirement as a main goal; those who are focused on their retirement are 1.9 times more likely to invest than those who are saving or investing for other goals. For African-Americans, none of the reasons for saving or investing influence their likelihood to be in the market.

SELF-PERCEPTION OF FINANCIAL WELL-BEING

African-Americans perceive themselves to be less financially well off than Whites.

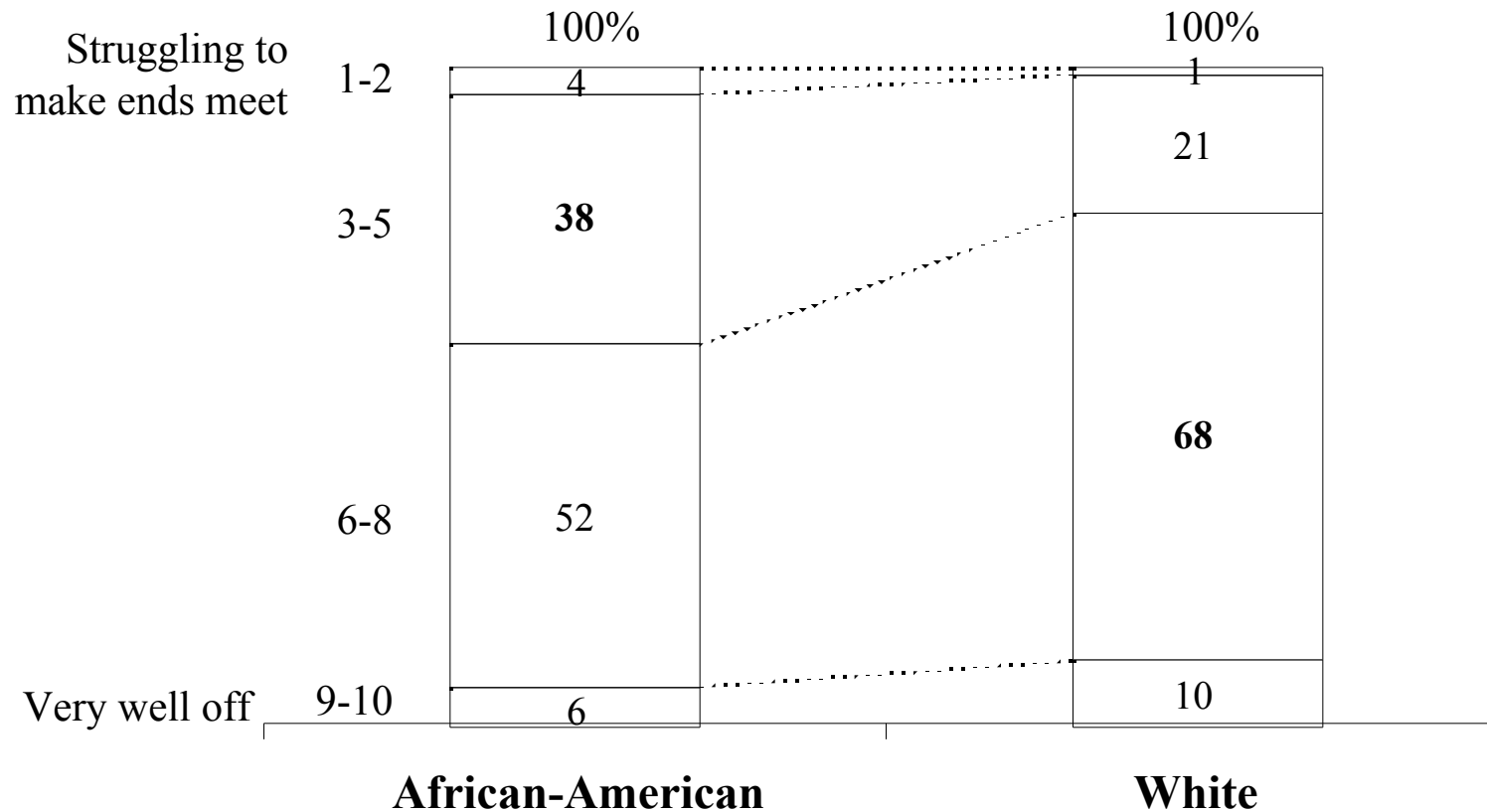
Using a scale from 1 to 10, how financially well off do you consider yourself? A rating of 1 would mean struggling to make ends meet, and a rating of 10 would mean very well off.



SELF-PERCEPTION OF FINANCIAL WELL-BEING AMONG THOSE EARNING \$100K+

Even those African-Americans who have household incomes in the six digits – the most likely group to be investing – tend to view their financial situation more negatively than Whites in the same income category.

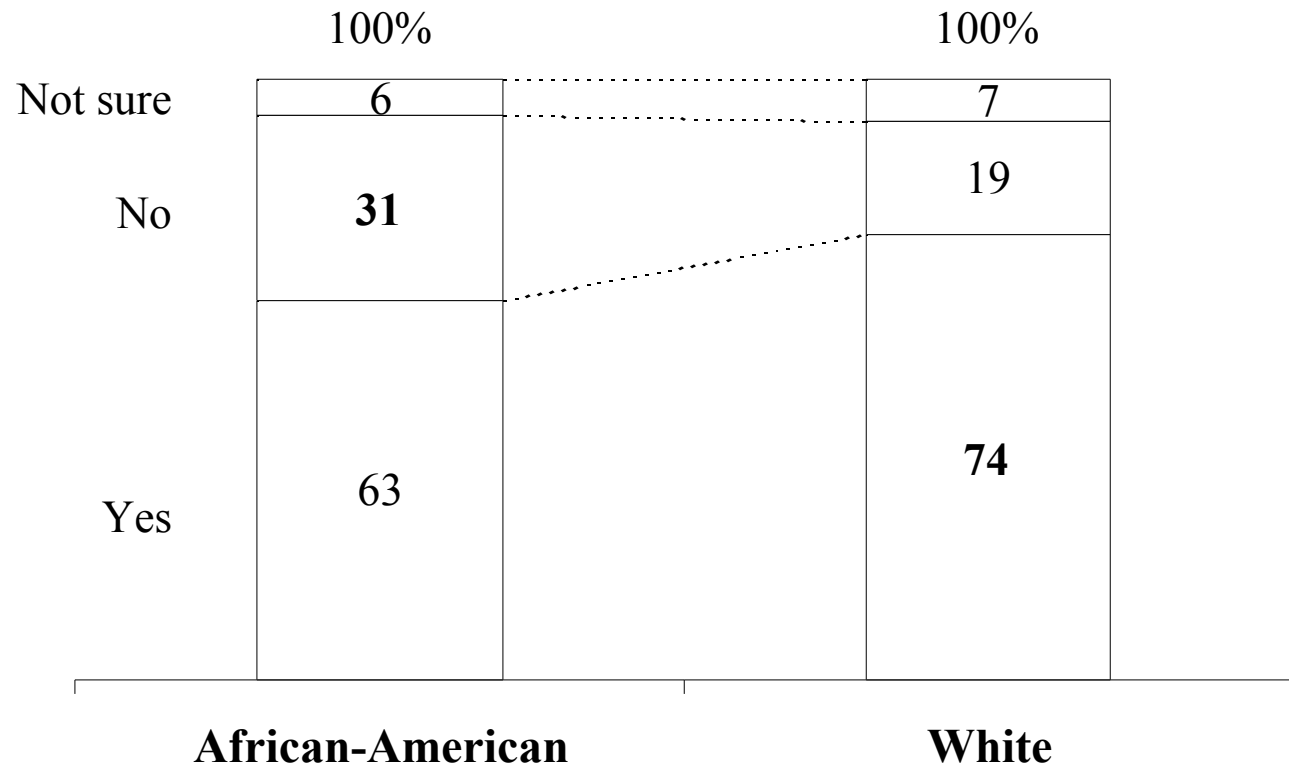
Using a scale from 1 to 10, how financially well off do you consider yourself? A rating of 1 would mean struggling to make ends meet, and a rating of 10 would mean very well off.



ATTITUDES ABOUT RETIREMENT

When it comes to thinking about the future, fewer African-Americans than Whites believe they will have enough money to retire comfortably.

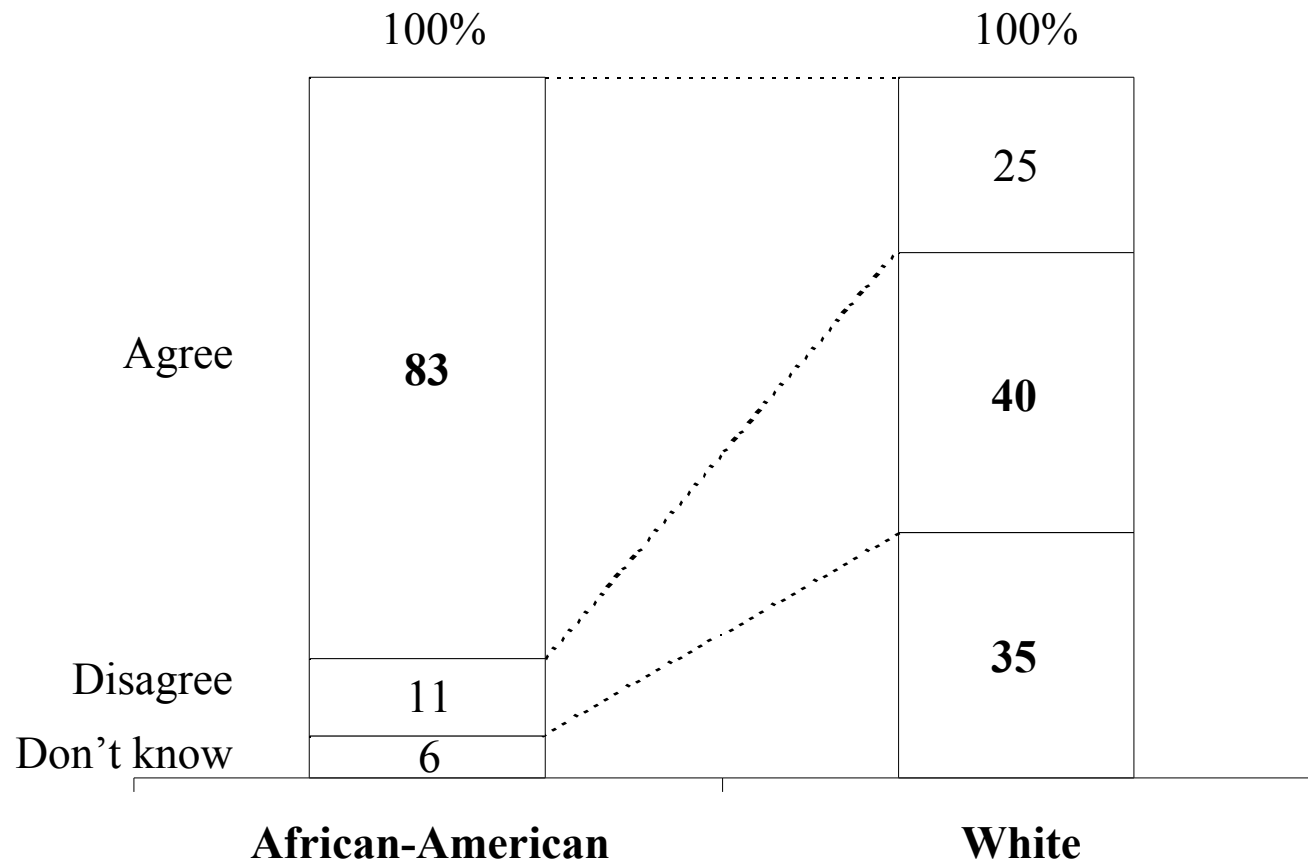
Do you think you will have enough money to live comfortably in old age?



ATTITUDES ABOUT MISSED OPPORTUNITIES

Most African-Americans agree that the African-American population has missed out on opportunities in the stock market.

Would you agree or disagree that African-Americans have missed out on opportunities to increase their wealth through the stock market?



MARKET VOLATILITY

ATTITUDES ABOUT MARKET VOLATILITY

Percentage agreeing with following statements

Base: Investors

Overall, anxiety is higher about market volatility among African-American investors than it is among White investors.

■ African-American
□ White

You expect occasional market corrections



These days the stock market is a lot more volatile because of Internet stocks



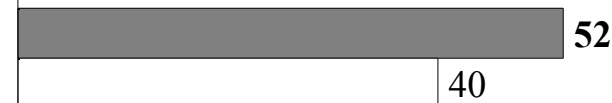
The stock market continues to be the best place for long term investing



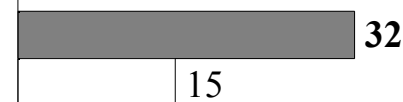
The recent stock market volatility will have little impact on your ability to reach your long term financial goals



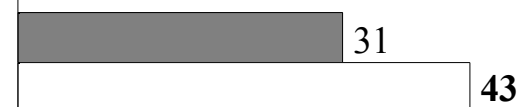
The economy is headed towards a recession



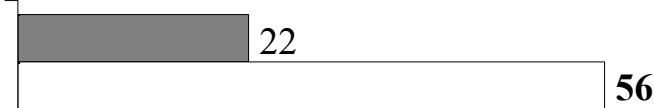
The recent stock market volatility has shaken your long term confidence in the stock market



The Internet stock boom is over



President Bush will have a positive impact on your personal financial situation

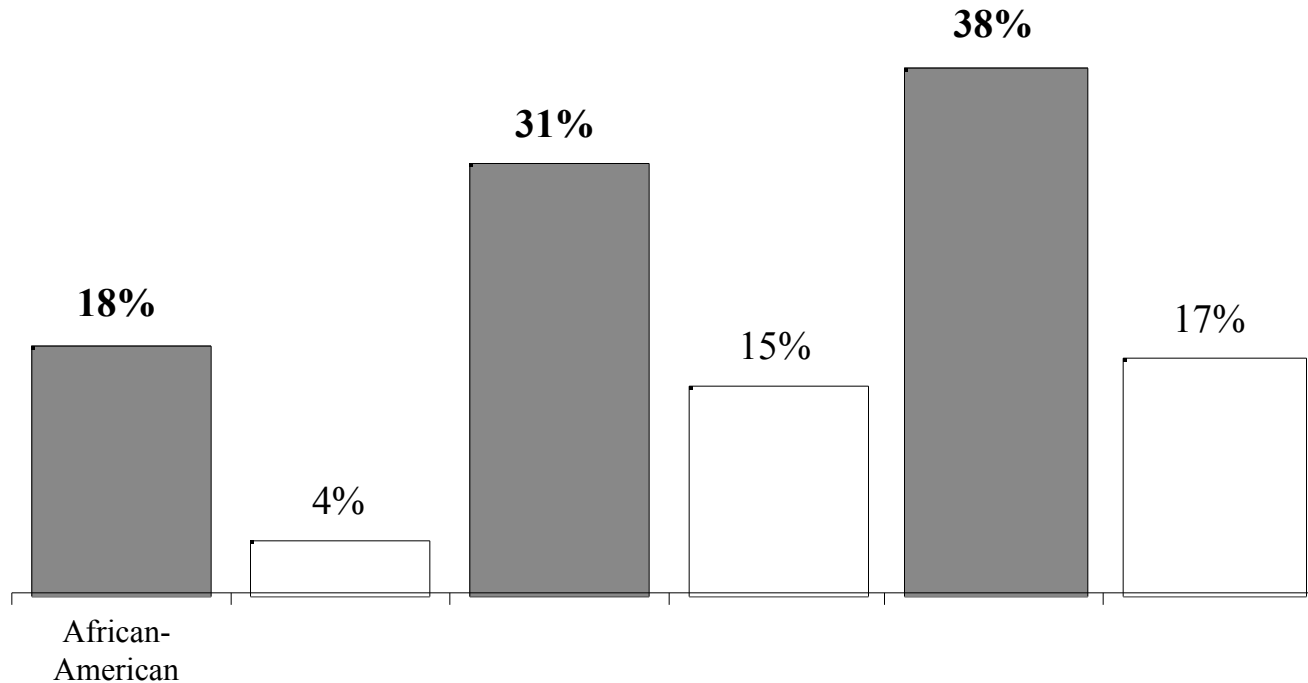


CONFIDENCE IN STOCK MARKET BY AGE

While African-American confidence in the stock market has been shaken more than White confidence in all age categories, the difference is particularly acute among older investors.

% Agreeing that “the recent stock market volatility has shaken your long term confidence in the stock market.”

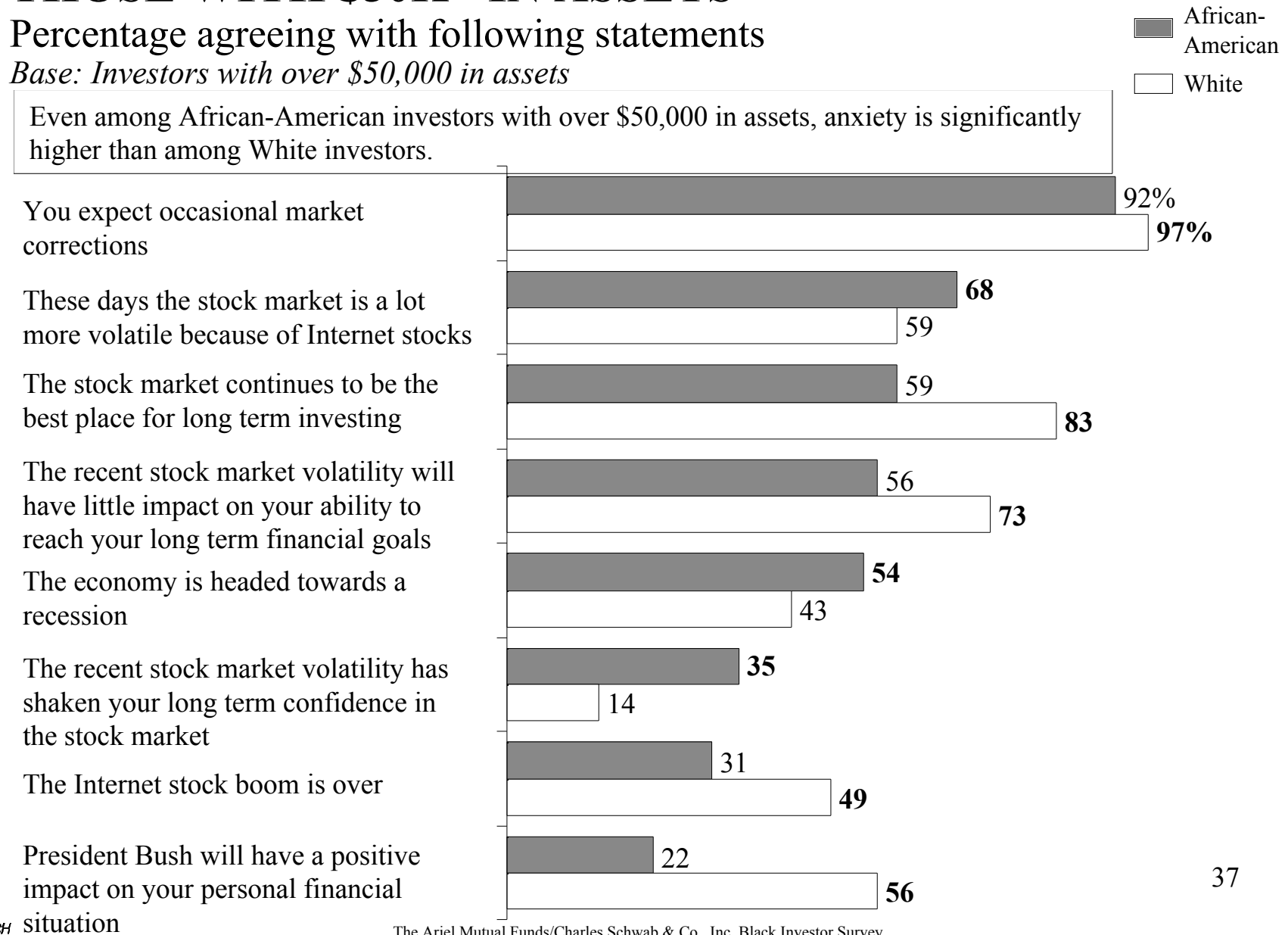
Base: Investors



ATTITUDES ABOUT MARKET VOLATILITY AMONG THOSE WITH \$50K+ IN ASSETS

Percentage agreeing with following statements

Base: Investors with over \$50,000 in assets

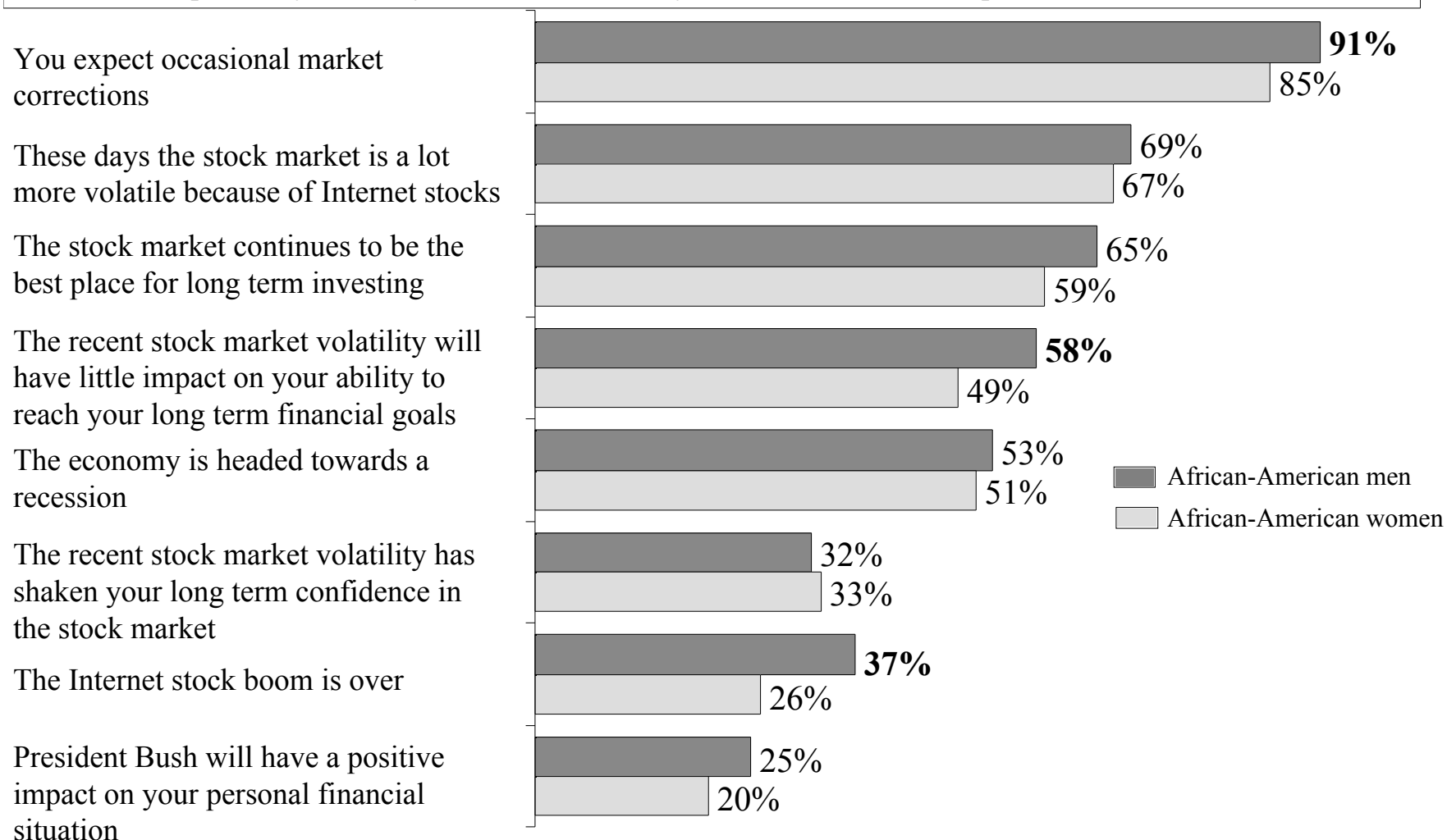


ATTITUDES ABOUT MARKET VOLATILITY BY GENDER

Percentage agreeing with following statements

Base: Investors

African-American men are more confident than African-American women that their long term financial goals will not be impacted by volatility; men are more likely than women to have expected market corrections.



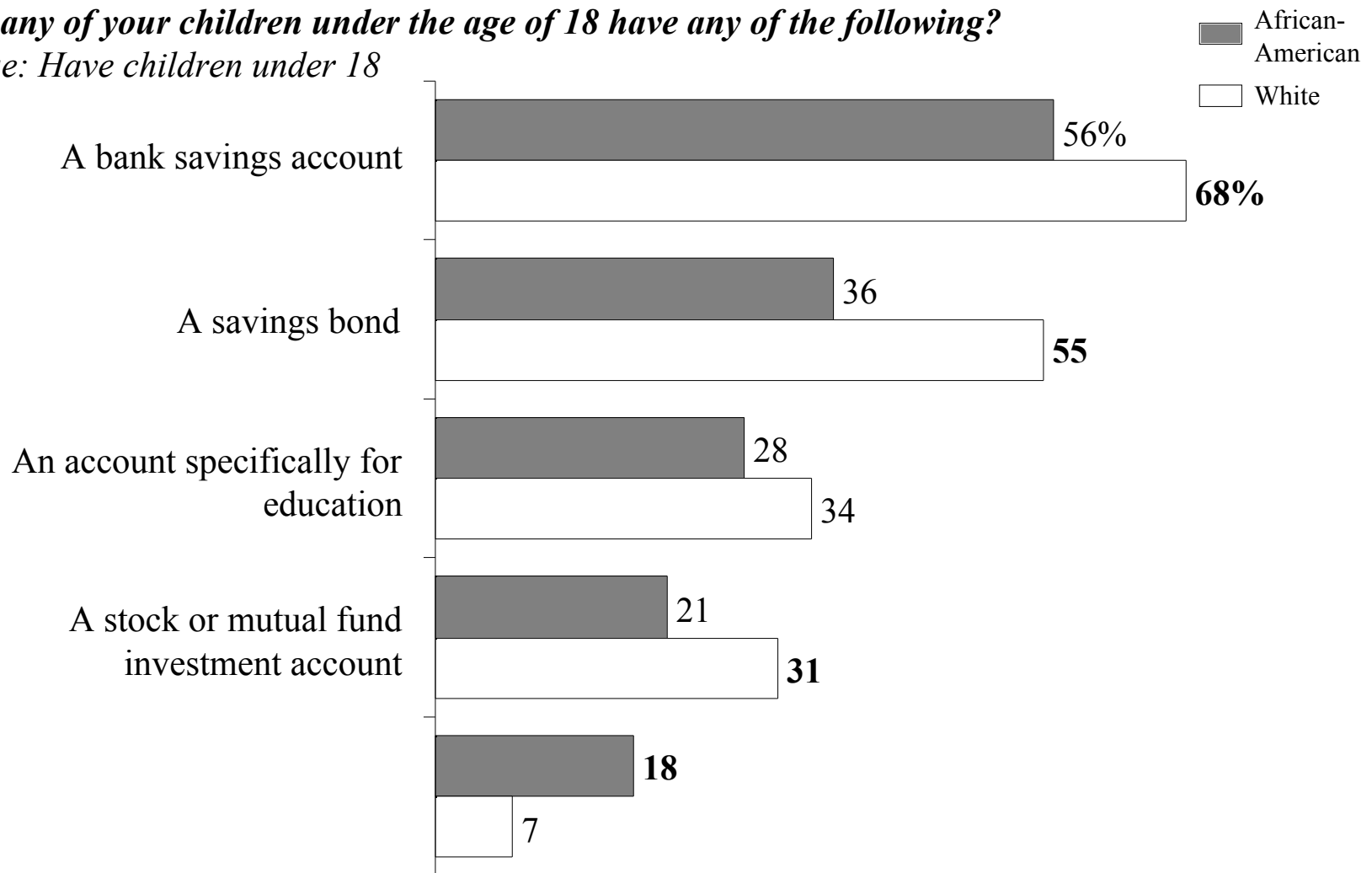
CHILDREN AND INVESTING

CHILDREN'S FINANCIAL ACCOUNTS/PRODUCTS

Significantly more White children than African-American children have savings accounts, savings bonds, and stock or mutual fund investment accounts.

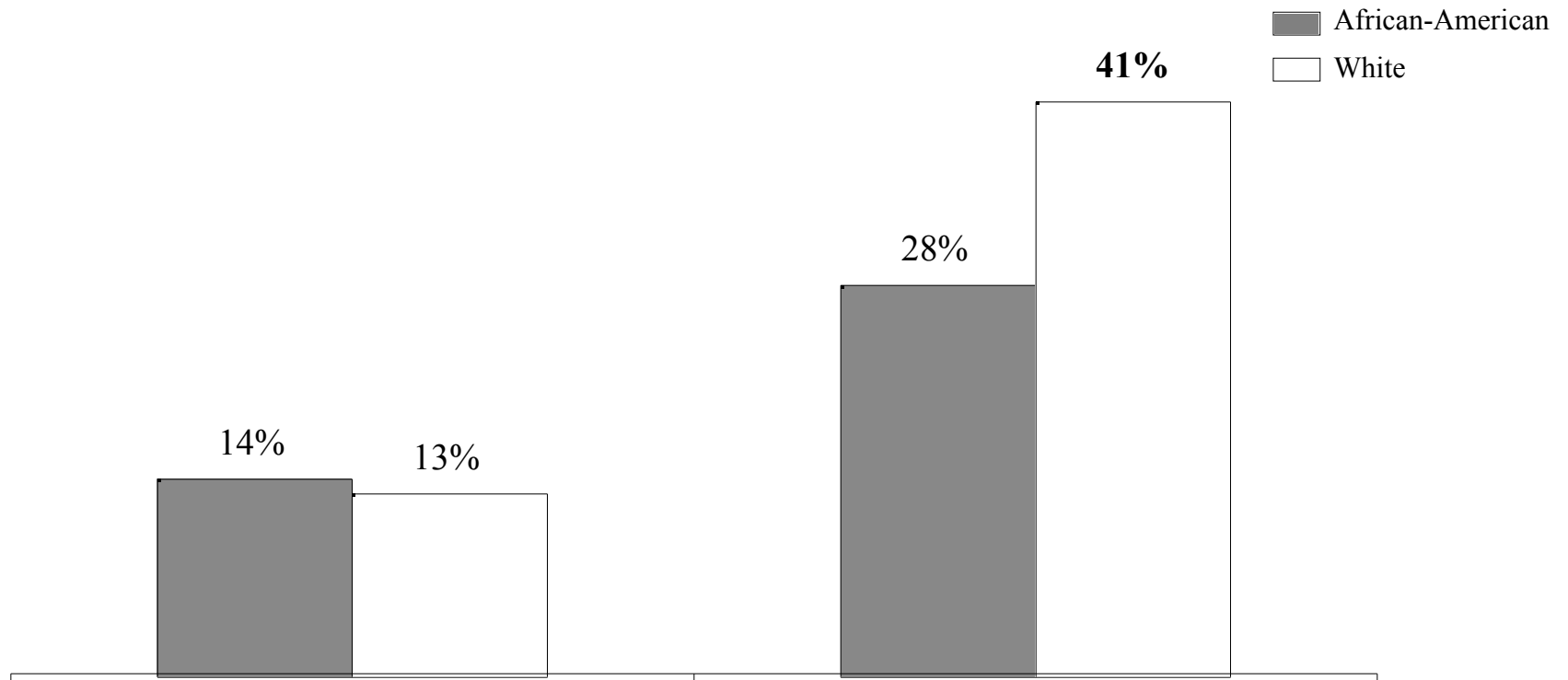
Do any of your children under the age of 18 have any of the following?

Base: Have children under 18



CHILDREN'S INVESTMENT ACCOUNTS, BY PARENTS' ASSETS

While African-American and White parents with assets under \$50,000 are similarly likely to report their children having stock or mutual fund investment accounts, White ownership of such accounts increases more dramatically among parents with higher assets.

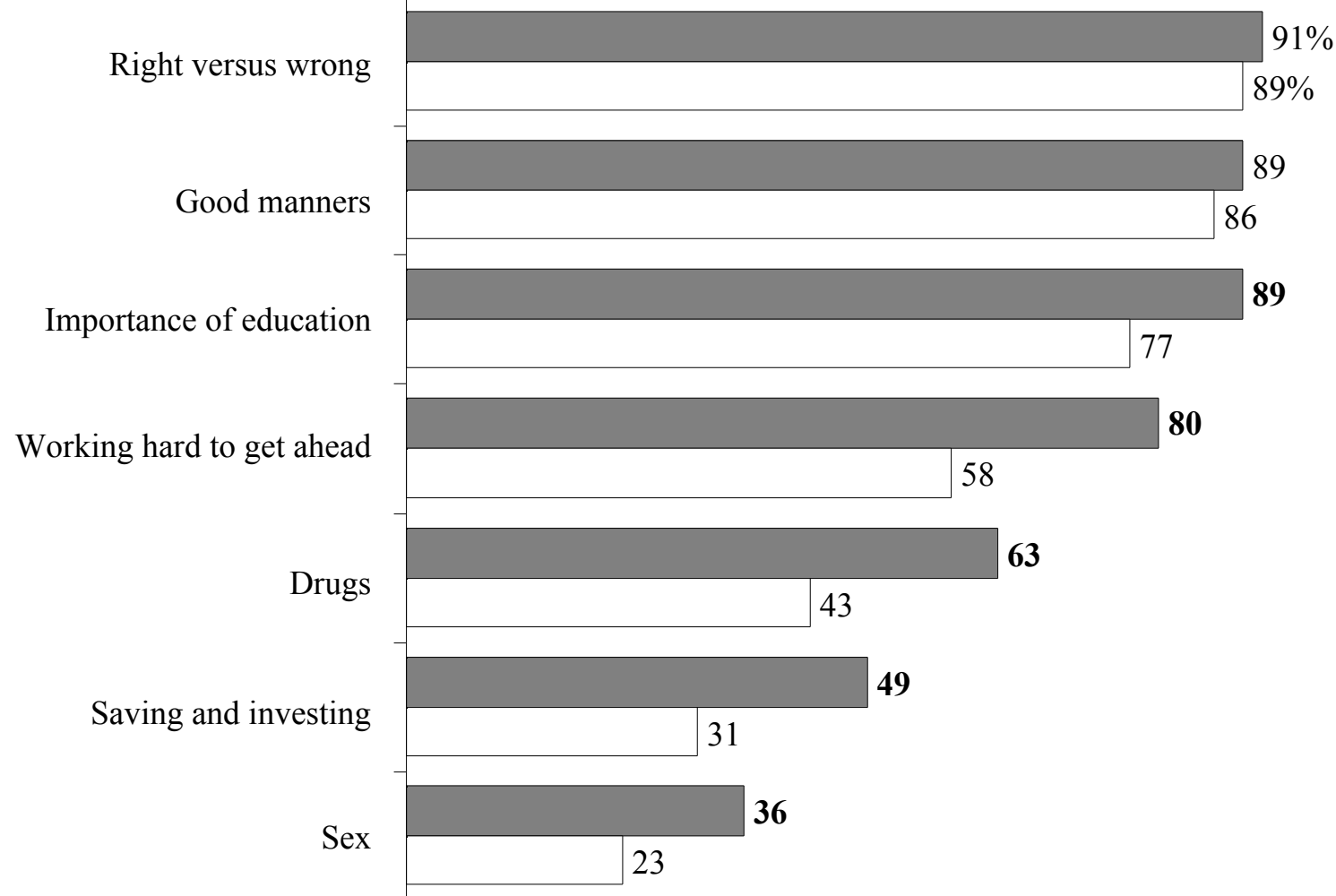


TOPICS OF DISCUSSION WITH CHILDREN

Saving and investing, however, is more often a topic of conversation in African-American households.

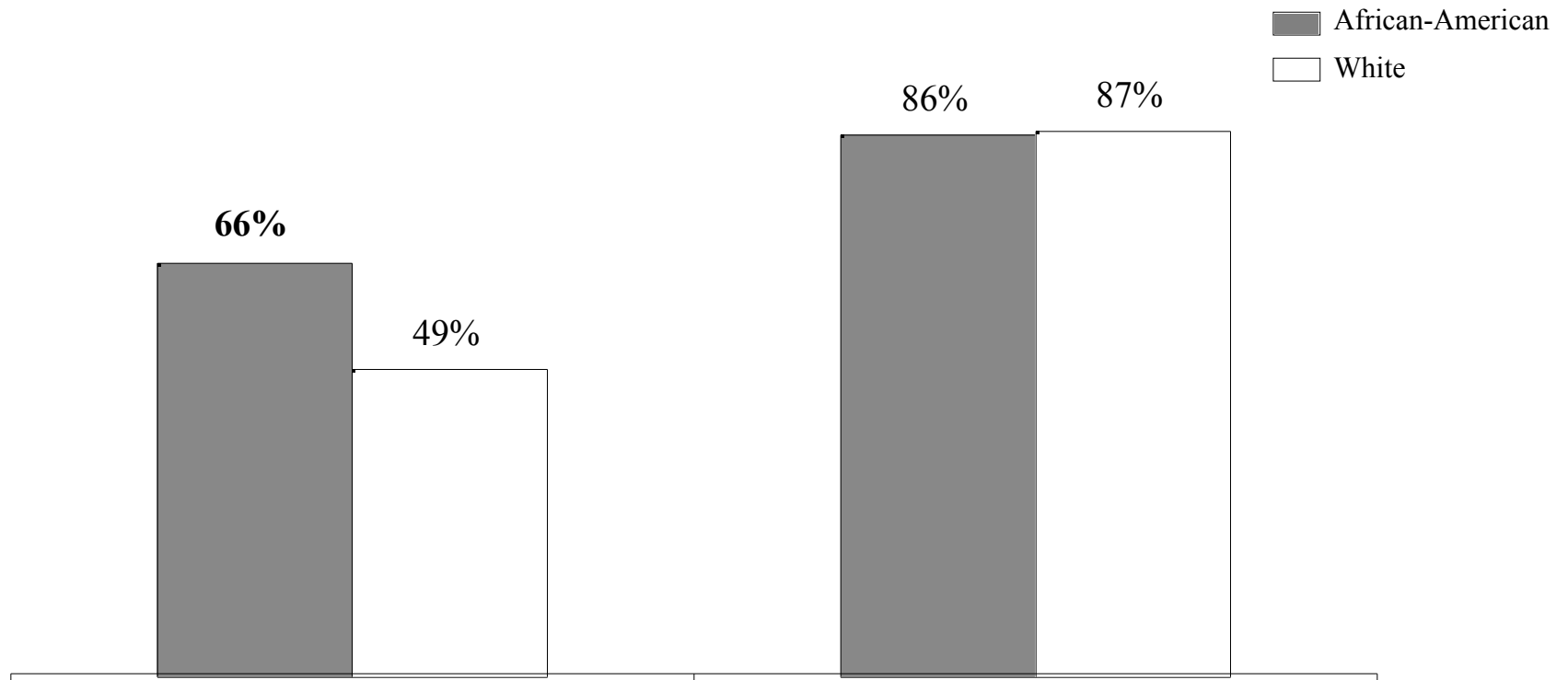
■ African-American
□ White

*Do you discuss the following topics with your children often, sometimes, rarely, or never?
(% answering "Often") Base: Have children under 18*



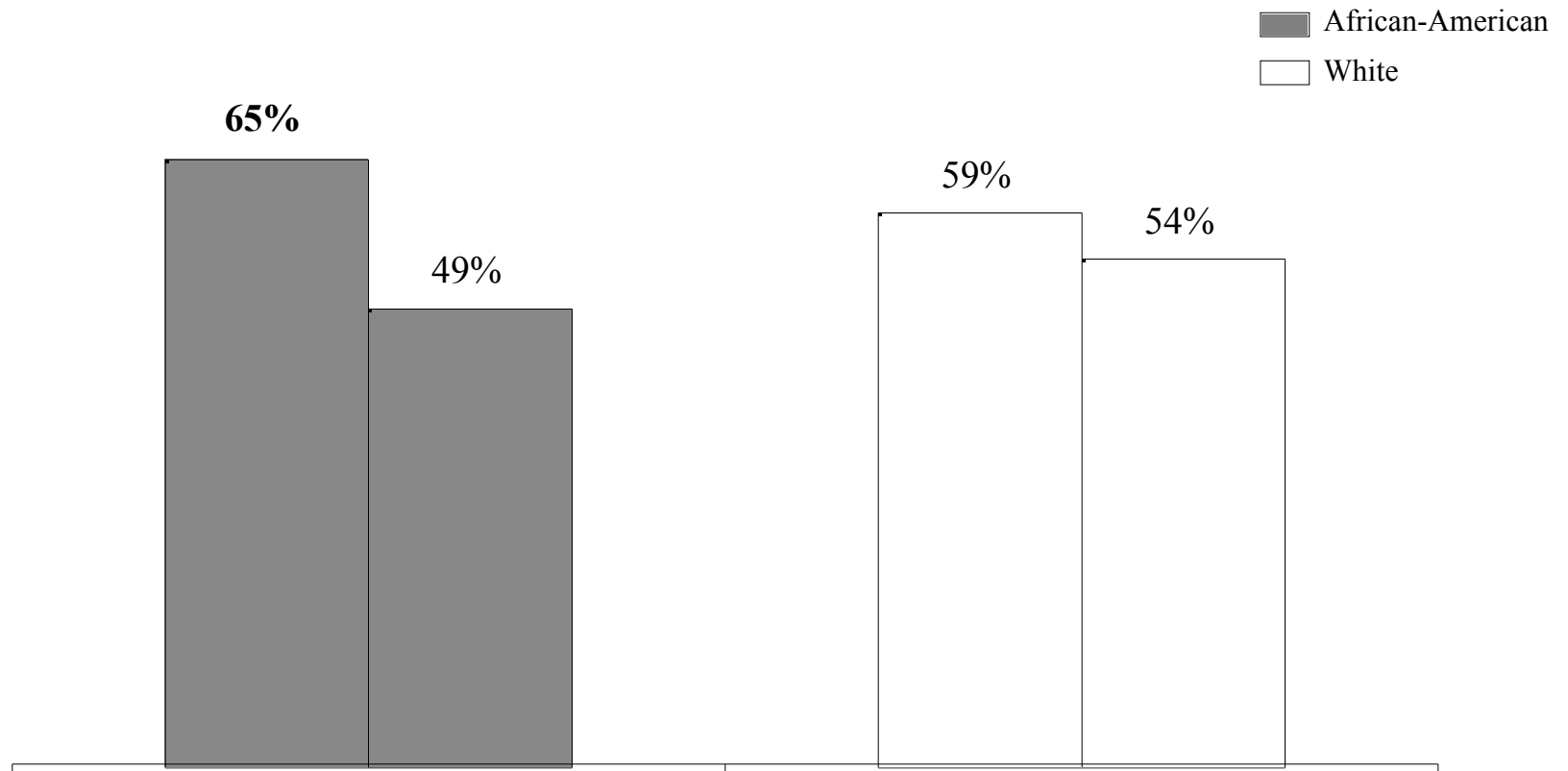
AGE DIFFERENCES IN DISCUSSING MONEY WITH CHILDREN

African-Americans are more likely to begin talking with their children about savings or investing at an early age than are Whites.



GENDER DIFFERENCES IN DISCUSSING MONEY WITH CHILDREN

Both African-American and White mothers are inclined to begin speaking with children about saving and investing at a younger age than are African-American and White fathers. Mothers, however, are less confident than fathers about their knowledge of this subject, especially in the African-American population.



GIVING SPENDING MONEY TO CHILDREN

More African-Americans than Whites give their children a regular allowance; more Whites than African-Americans pay children for chores around the house.

In which of the following ways do you give spending money to your children under 18?

Base: Have children under 18

You give them a regular allowance

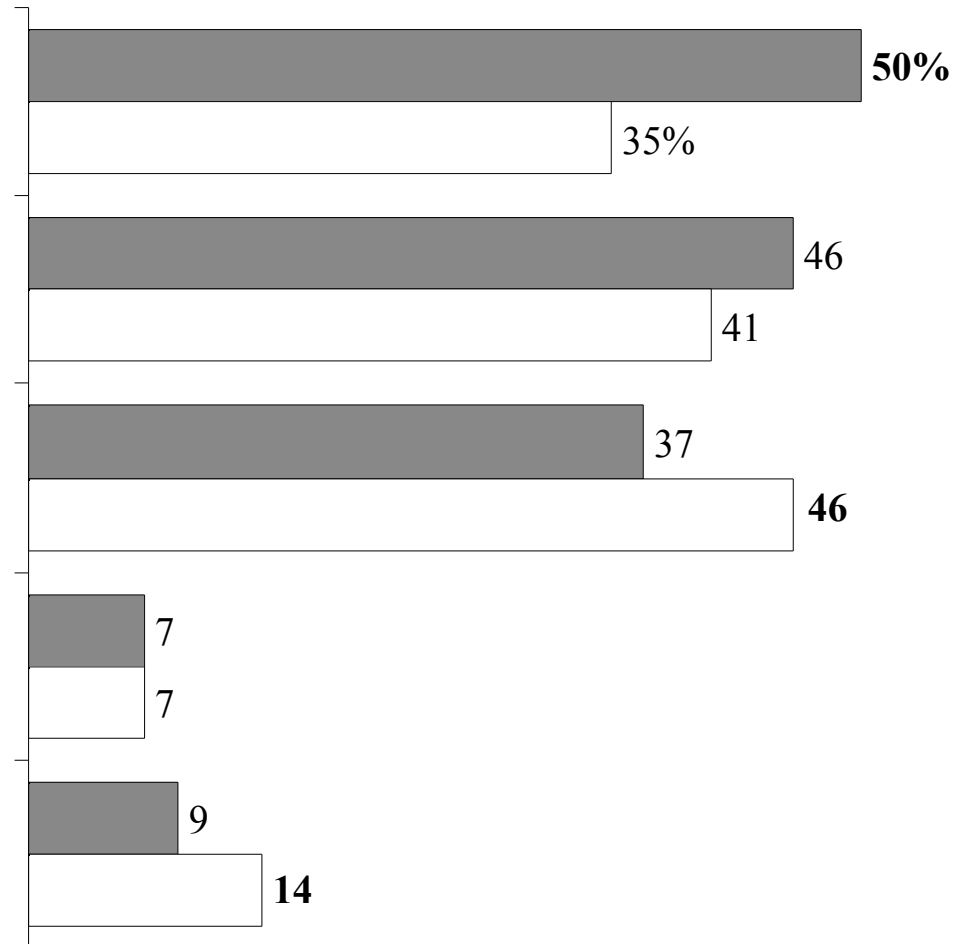
You give them gifts of money on birthdays or special occasions

You pay them for chores that they do around the house

You give them money only when they need it

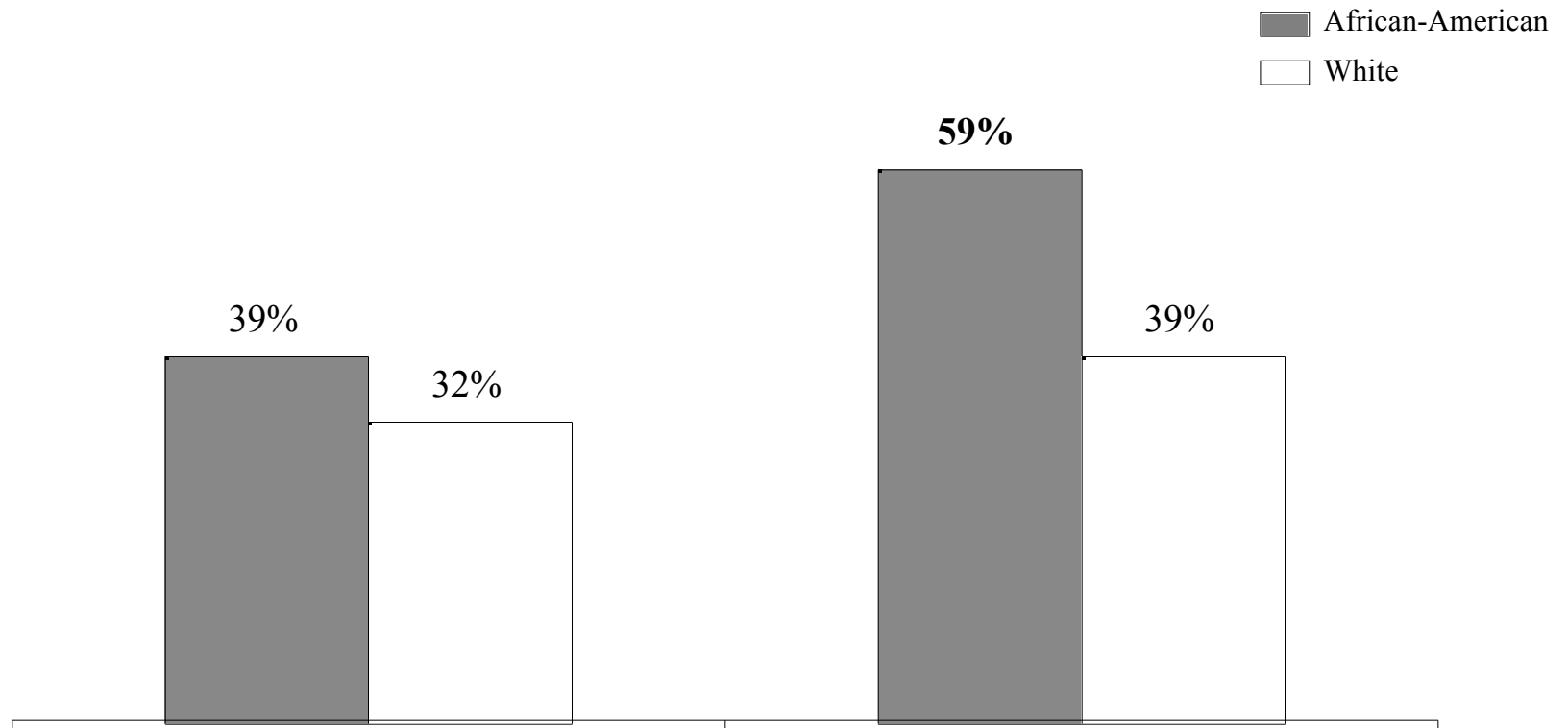
You do not give them any spending money

African-American
White



AGE DIFFERENCES IN GIVING CHILDREN AN ALLOWANCE

Parents of African-American teenagers are more likely than any other group to give their children a regular allowance.

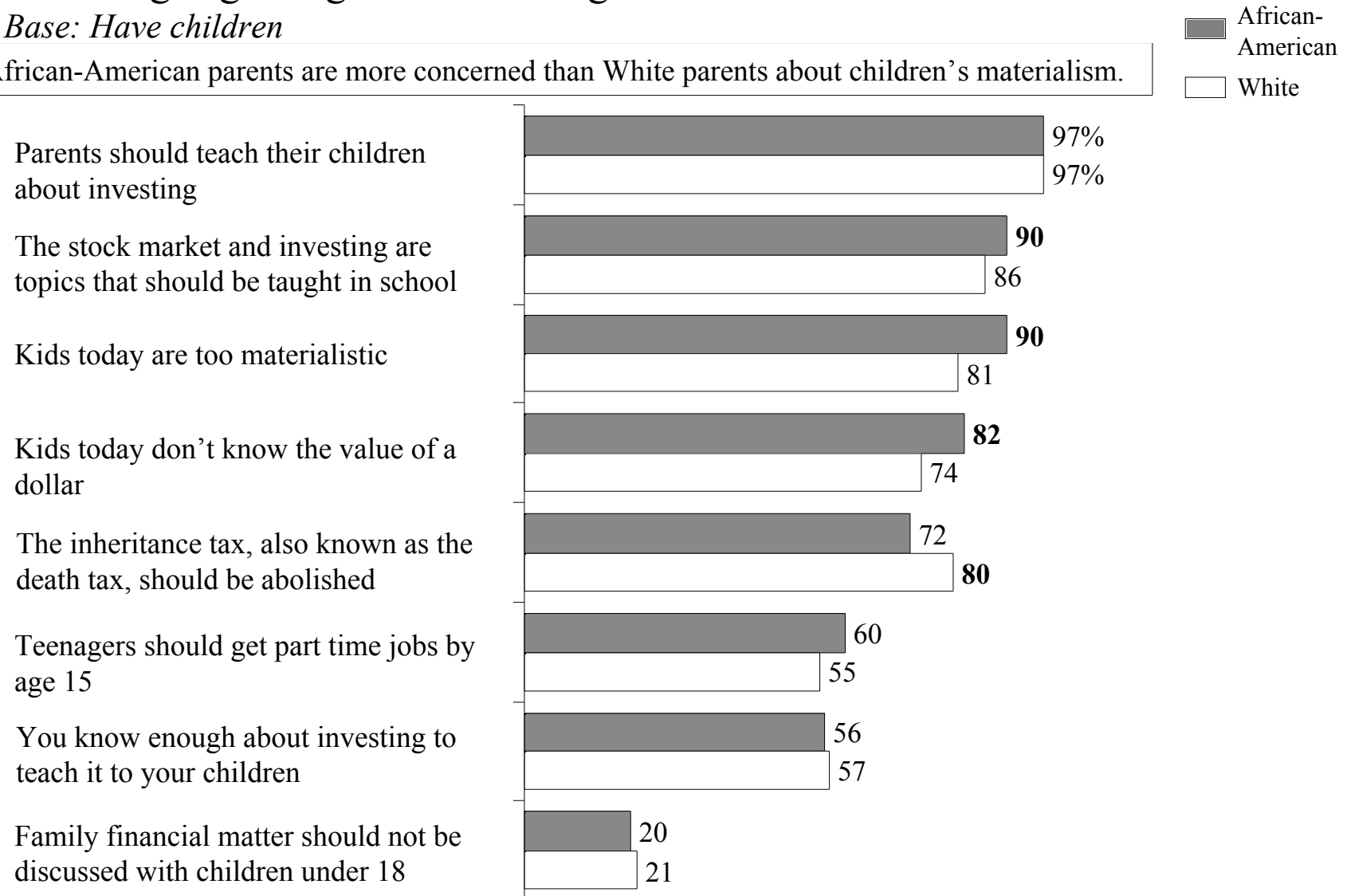


ATTITUDES ABOUT CHILDREN AND MONEY

Percentage agreeing with following statements

Base: Have children

African-American parents are more concerned than White parents about children's materialism.

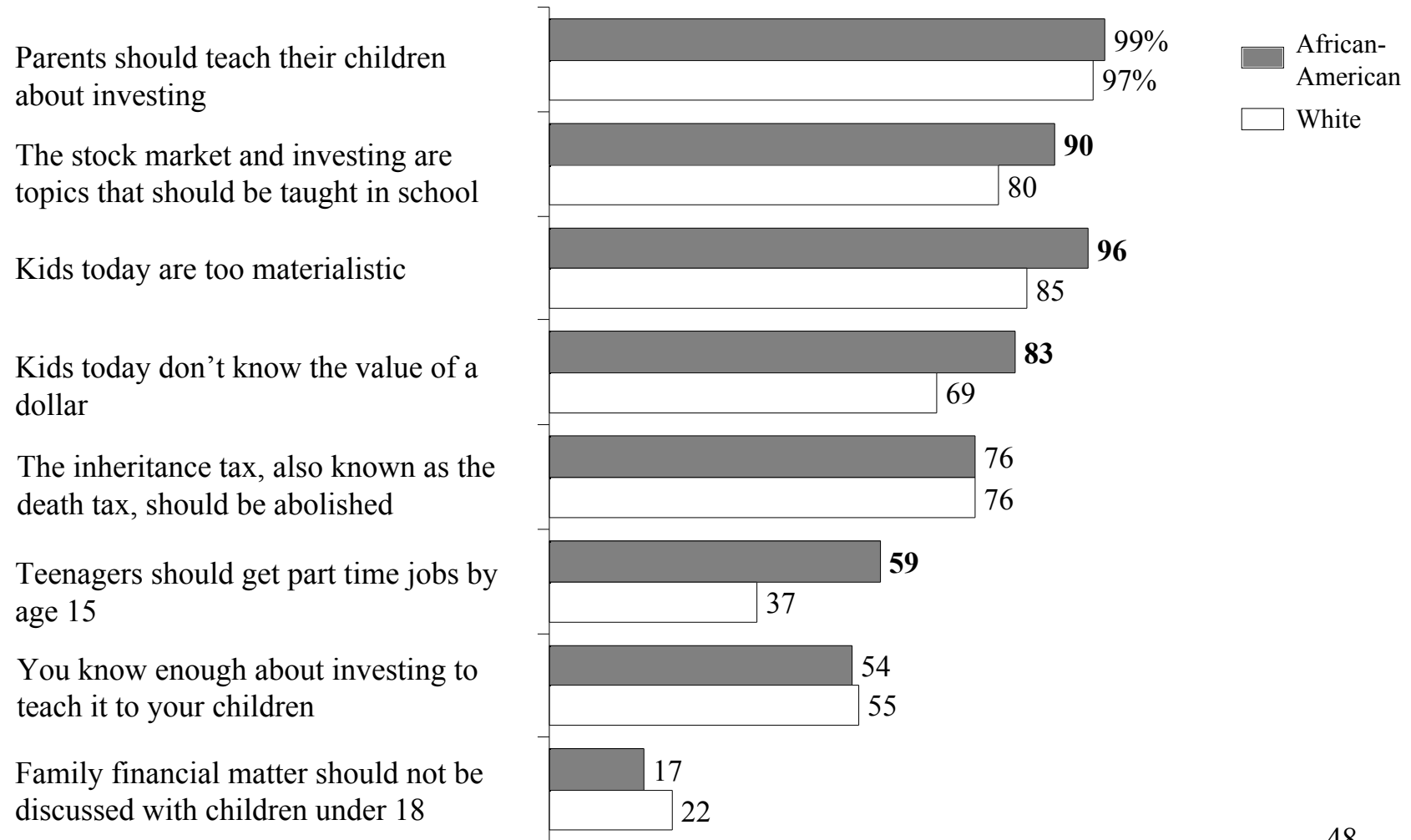


ATTITUDES ABOUT CHILDREN AND MONEY AMONG PARENTS OF TEENAGERS

Percentage agreeing with following statements

Base: Have teenage children

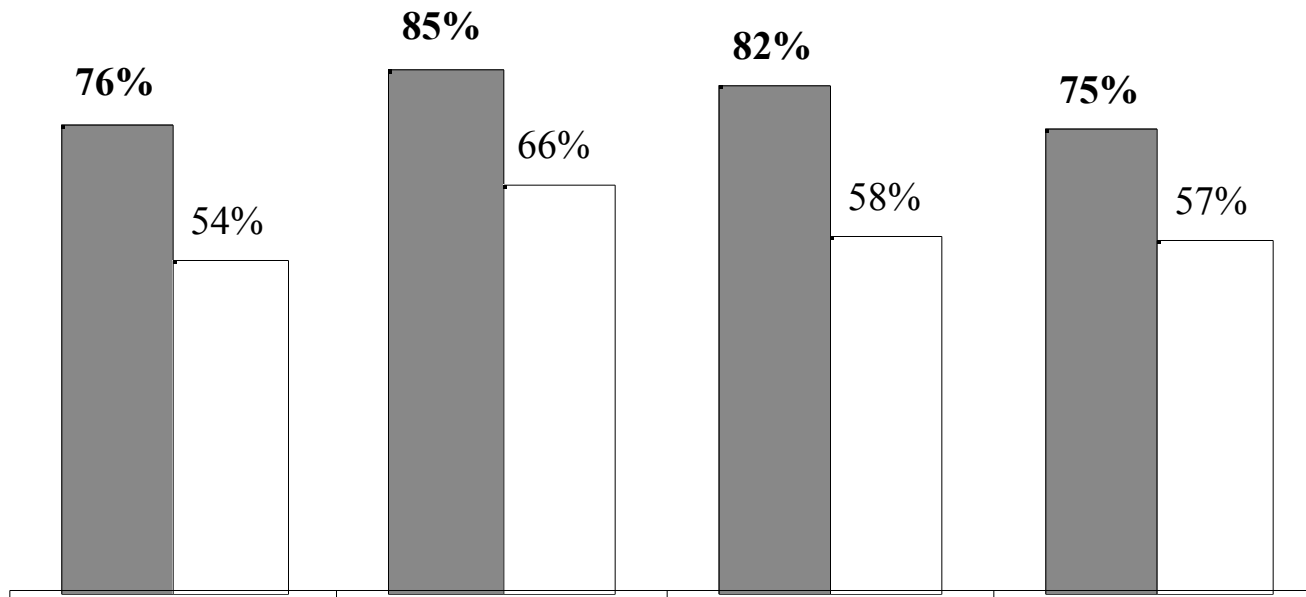
The concern about materialism is particularly acute among African-American parents of teenagers.



IMPORTANCE OF LEAVING AN INHERITANCE

African-Americans, particularly those with young children, place a priority on leaving an inheritance to their heirs.

% Agreeing that “leaving an inheritance to your heirs is very important to you.”



STUDY PARTICIPANT PROFILE

DEMOGRAPHIC PROFILE

GENDER

	African-American	White
	%	%
Male	43	53
Female	57	47

AGE

	African-American	White
	%	%
18-24	3	1
25-29	4	5
30-34	7	9
35-39	10	14
40-49	31	29
50-64	39	34
65+	6	9
Mean	43	45
Median	47	48

EDUCATION

	African-American	White
	%	%
Some HS or less	2	1
HS graduate	17	16
Some college	26	25
College graduate	29	32
Postgraduate study	26	26

HOUSEHOLD INCOME

	African-American	White
	%	%
\$50,000-74,999	56	43
\$75,000-99,999	25	29
\$100,000-250,000	18	24
Over \$250,0000	1	4
Mean	\$95K	\$106K
Median	\$72K	\$81K

EMPLOYMENT STATUS

	African-American	White
	%	%
Employed full time	75	66
Self-employed	4	8
Retired	12	14
Employed part-time	5	5
Unemployed	2	1
Homemaker	1	6
Full-time student	1	0

TYPE OF EMPLOYER

(of those employed)

	African-American	White
	%	%
Private co.	47	70
State/fed. gov't	41	20
Not-for-profit	12	10

DEMOGRAPHIC PROFILE (CONTINUED)

MARITAL STATUS

	African-American	White
	%	%
Single/never married	13	9
Not married/living together	1	2
Married	71	81
Divorced/separated	11	6
Widowed	4	2

HAVE CHILDREN

	African-American	White
	%	%
Yes	86	79
No	14	21

NON-SPOUSE ADULTS IN HOME

	African-American	White
	%	%
Other adults present	31	16
No other adults present	69	84

INTERNET ACCESS

	African-American	White
	%	%
No	12	10
Yes - both home and work	55	58
Yes – at work	11	8
Yes – at home	22	24

FINANCIAL PROFILE

VALUE OF SAVINGS AND INVESTMENTS (ex. real estate)

	African-American	White
	%	%
>\$1,000,000	2	7
\$500,00-\$999,999	3	7
\$250,000-\$499,999	12	15
\$100,000-\$249,999	20	25
\$50,000-\$99,999	22	18
\$25,000-\$49,999	18	13
\$5,000-\$24,999	15	12
<\$5,000	8	3
Mean	\$158K	\$275K
Median	\$71K	\$126K

MONTHLY SAVINGS/INVESTMENTS

	African-American	White
	%	%
>\$2,500	2	5
\$1,001-\$2,500	4	10
\$501-\$1,000	12	18
\$351-\$500	14	17
\$201-\$350	20	14
\$101-\$200	17	16
\$51-\$100	13	7
<\$50	7	3
Nothing at this time	11	10
Mean	\$388	\$587
Median	\$216	\$345