

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

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

June 2002



# 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 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, 2000, and 2001.
  
- ❑ 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

- ❑ 502 African-Americans and 510 Whites were interviewed by phone during January and February, 2002.
- ❑ All respondents were over the age of 18 and had a household income of at least \$50,000. Additionally, all identified themselves as the primary or joint decision-maker in the household in terms of investment decisions.
- ❑ The sample, national in scope, was drawn randomly from census exchanges that have a median income of \$40,000 or more. In order to bolster the African-American sample, additional interviews were conducted in census exchanges that have a median income of \$40,000 or more and that have a population that is at least 25% or above African American.
- ❑ The survey ran for an average of 18 minutes.

*Note: Throughout this report, a bolded number indicates 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 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 JUNE 2001 STUDY

- ❑ The 2001 study found that 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. In examining the key factors influencing investing patterns among African-Americans and Whites, we found:
  - 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.
- ❑ 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.

# HIGHLIGHTS OF THIS YEAR'S STUDY

## Investing Patterns

- ❑ The percentage of high-income Blacks (earning over \$50,000 annually) who invest in the stock market is up 30 percent over the last five years. Over the same period, stock ownership among Whites with comparable incomes rose just 4%.
  - Specifically, 74% of high-income Blacks today own stocks or stock funds, which is 30% higher than the 1998 figure of 57%.
  - White stock ownership has remained statistically flat, moving from 81% to 84%.
  - Since 1998, the percentage of Blacks who have brokerage or mutual fund accounts is up from 50% to 71% while the percentage of Whites with either mutual fund or brokerage accounts has risen from 71% to 82%.
- ❑ Blacks have generally held to their pre-set investment strategies despite the lingering recession, a down market for much of 2001, and the September terrorist attacks.
  - Just a handful of Blacks and Whites (6% and 7% respectively) liquidated any investments as a result of last year's recession or acts of terrorism.
  - A high majority of both Black and White investors (74% and 68%) made no major changes to their portfolios.
  - More Blacks than Whites updated their wills (25% vs. 16%) and bolstered their insurance policies (12% vs. 6%).
  - Among investors, more Blacks than Whites (38% vs. 24%) began reviewing investments more frequently last year.

# HIGHLIGHTS OF THIS YEAR'S STUDY (CONTINUED)

## Financial Optimism Runs Strong Among Blacks and Whites

- ❑ The general mood among Blacks and Whites regarding financial matters is notably upbeat.
  - 84% of Blacks and 89% of Whites say they are “optimistic about their financial future.”
  - 98% of Blacks and 96% of Whites predict that their household financial situation will hold steady or improve in the next 12 months.
  - While 29% of Blacks surveyed this year have cut spending in the past year, 71% of this group says a major reason is to “put more money aside toward long-term savings and investments.” By comparison, 19% of Whites say they have cut spending in the past year, and 59% of those say it is to save and invest more.
  - Among non-investors, twice as many Blacks than Whites (42% vs. 21%) say they are “somewhat” or “very” likely to begin investing next year.
- ❑ This confidence also extends to those investors with retirement plans.
  - Average monthly savings has risen over last year for both groups (Blacks up from \$200 to \$237; Whites up from \$242 to \$280).
  - Among non-retirees surveyed, the percentage that feel they will “have enough money to live comfortably in old age” has also risen dramatically for Blacks, (60% to 72%) and slightly for Whites, (72% to 75%).

# HIGHLIGHTS OF THIS YEAR'S STUDY (CONTINUED)

## However, Economic Anxiety Remains Just Below The Surface

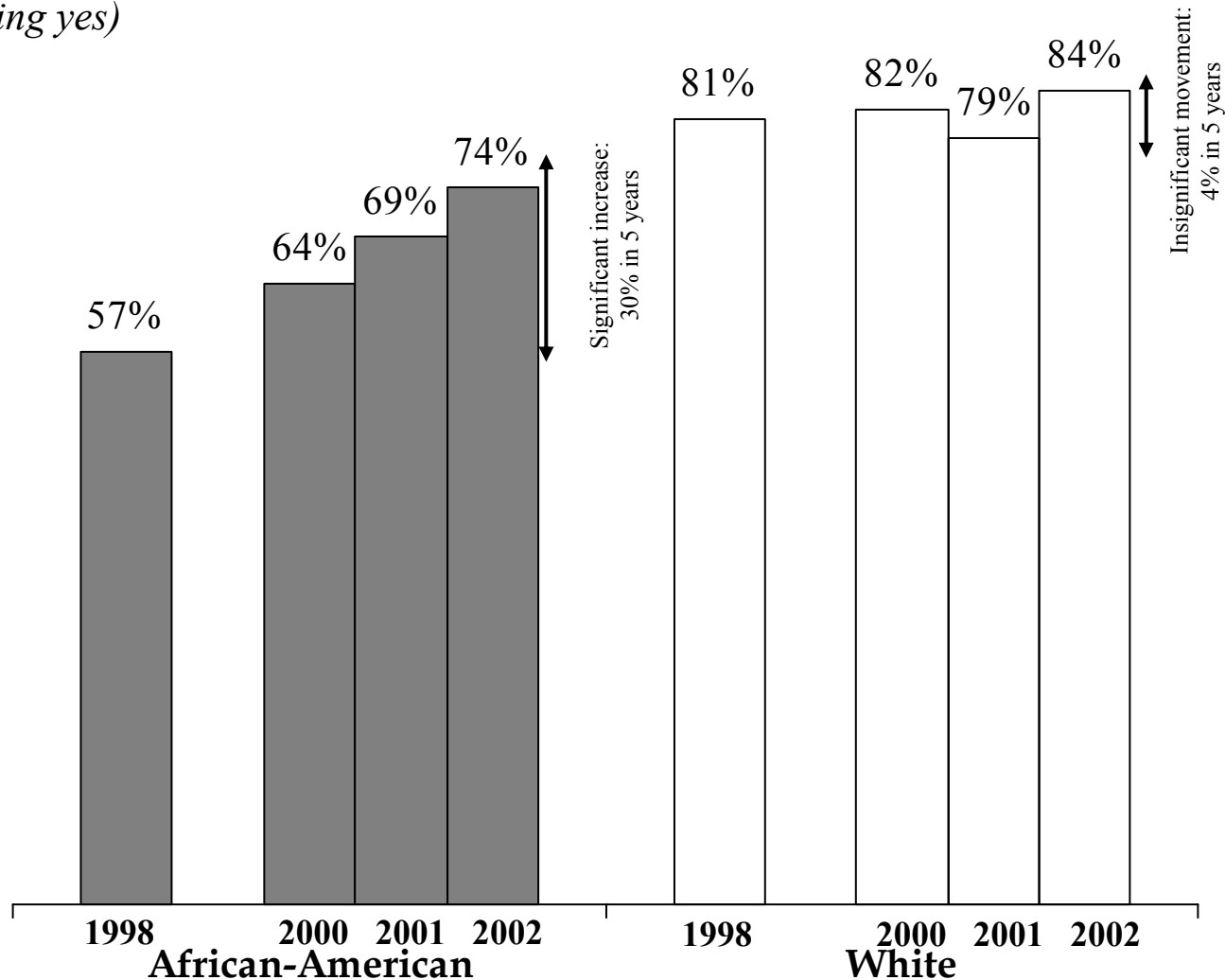
- ❑ Despite the general sense of optimism, the survey also found that:
  - A sharply rising percentage of all investors agree that, “The recent stock market volatility has shaken [their] long-term confidence in the stock market.” Blacks in agreement rose from 32% to 43% since last year; Whites went from 15% to 25%.
  - More Blacks than Whites (49% vs. 39%) confess to being, “more anxious about [their] financial situation than [they] were a year ago”.
  - Far fewer Blacks than Whites (46% vs. 68% respectively) think the economy will improve within the next 12 months.
  - Among non-retirees surveyed, roughly one in four of each group (24% of Blacks and 27% of Whites) plans to delay retirement due to the economic downturn. On average, the expected length of the delay is between five and six years.
- ❑ The historical preference for real estate among Blacks rebounded this year with
  - 49% of African Americans call real estate the “best investment overall,” up from 40% last year and even higher than the 46% figure of 1998.
  - The percentage of Whites who feel real estate is the “best investment overall” has remained constant over five years, hovering between 30% and 34%.

# INVESTING PATTERNS

# TRENDS IN MARKET PARTICIPATION

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

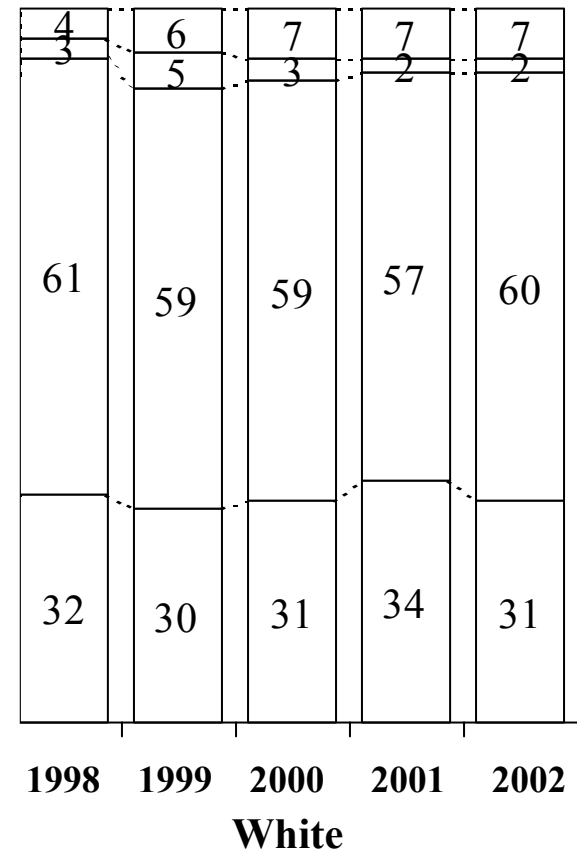
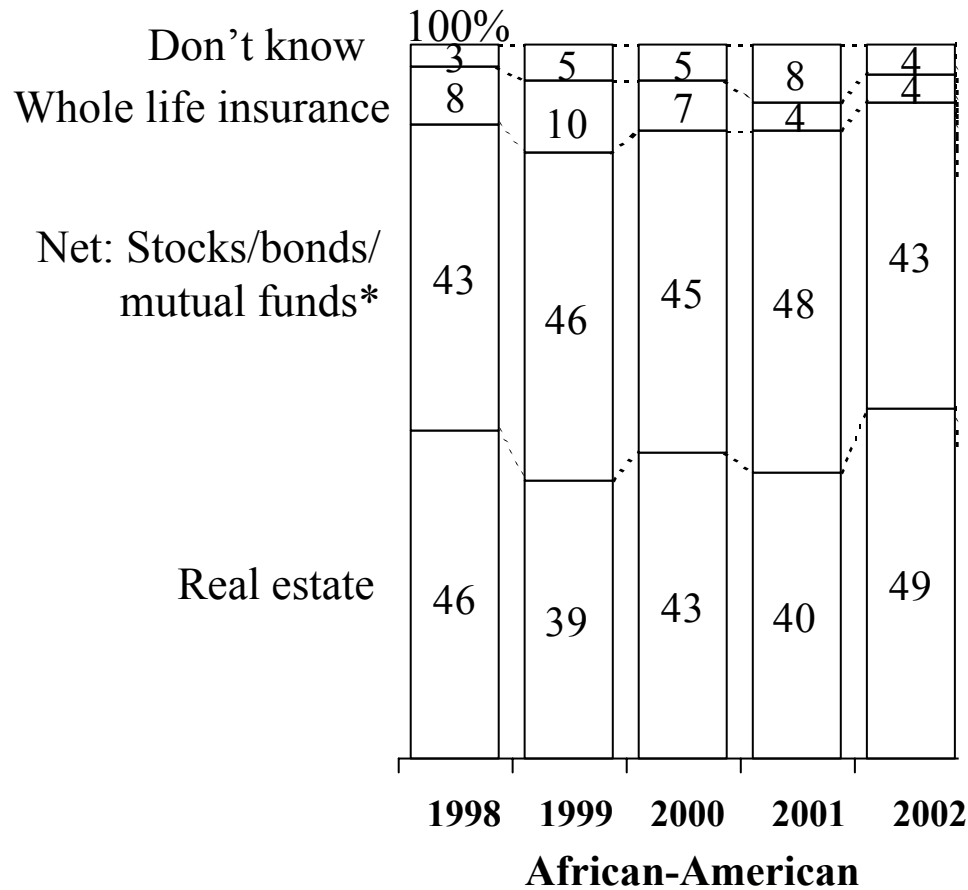
*(% answering yes)*





# PERCEPTIONS OF BEST INVESTMENTS OVERALL

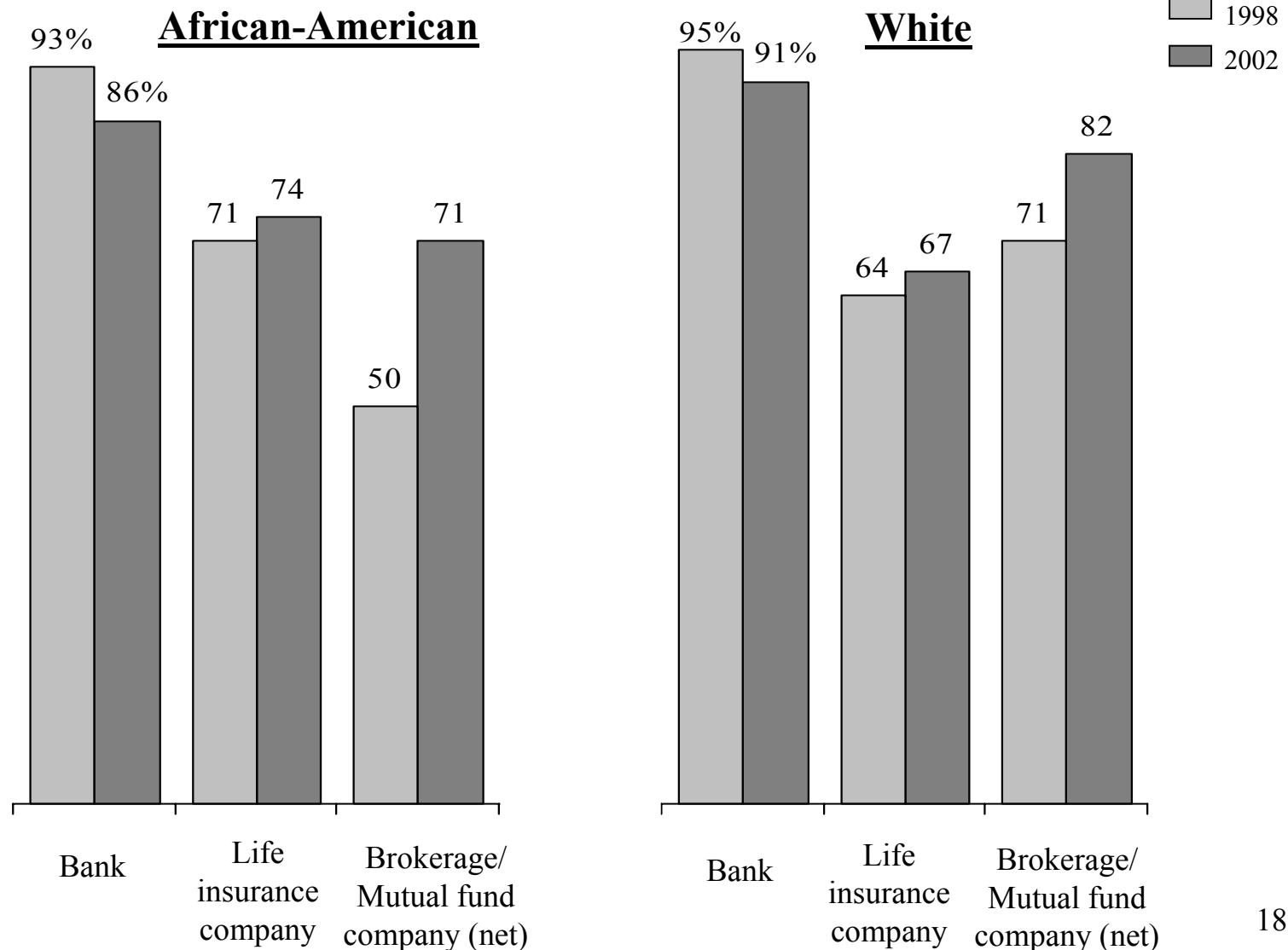
*Which of the following do you think is the best investment overall?*



\* Mutual funds added as a separate category in 2000

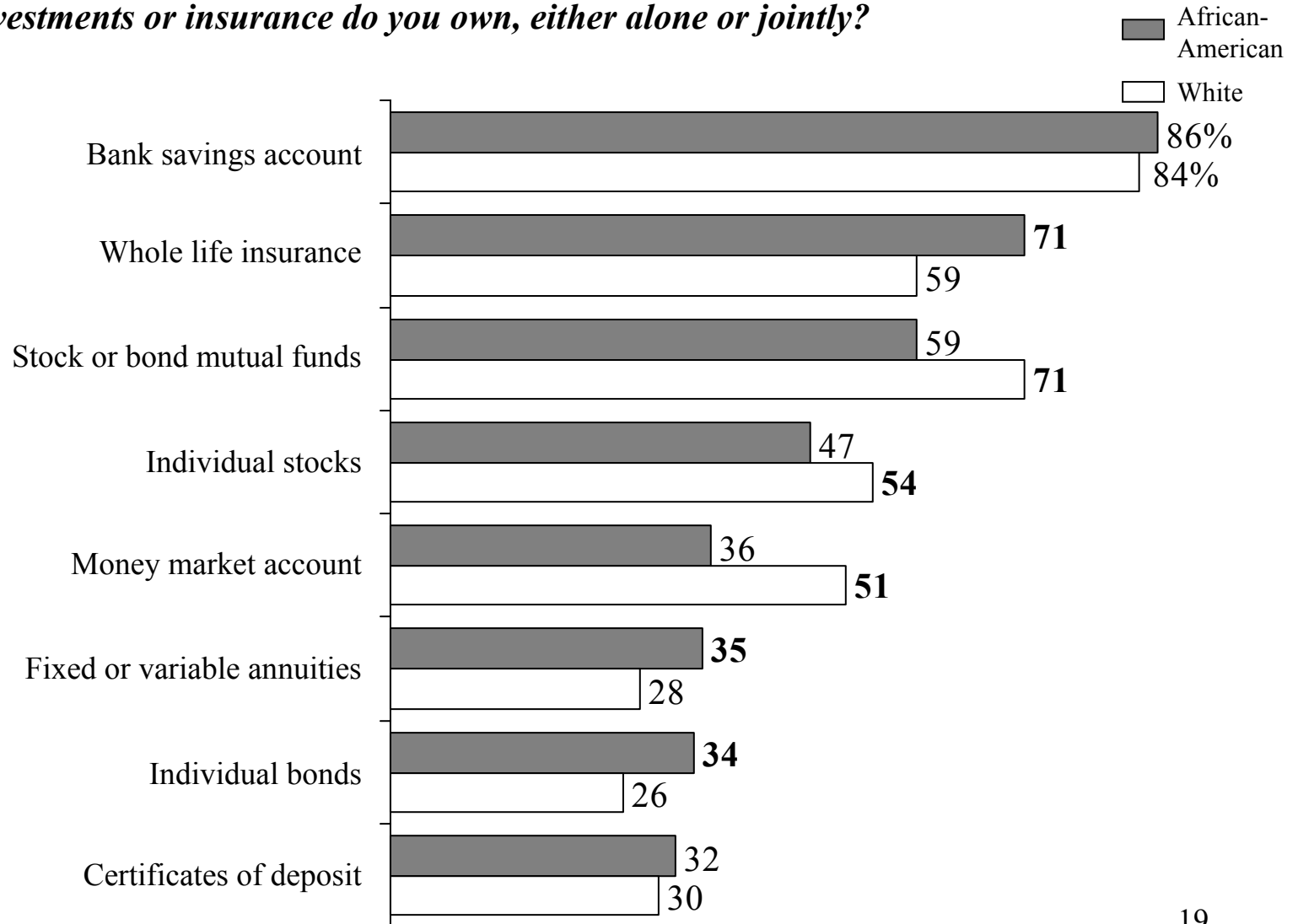
# ACCOUNTS WITH FINANCIAL INSTITUTIONS

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



# PRODUCT OWNERSHIP

*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?*

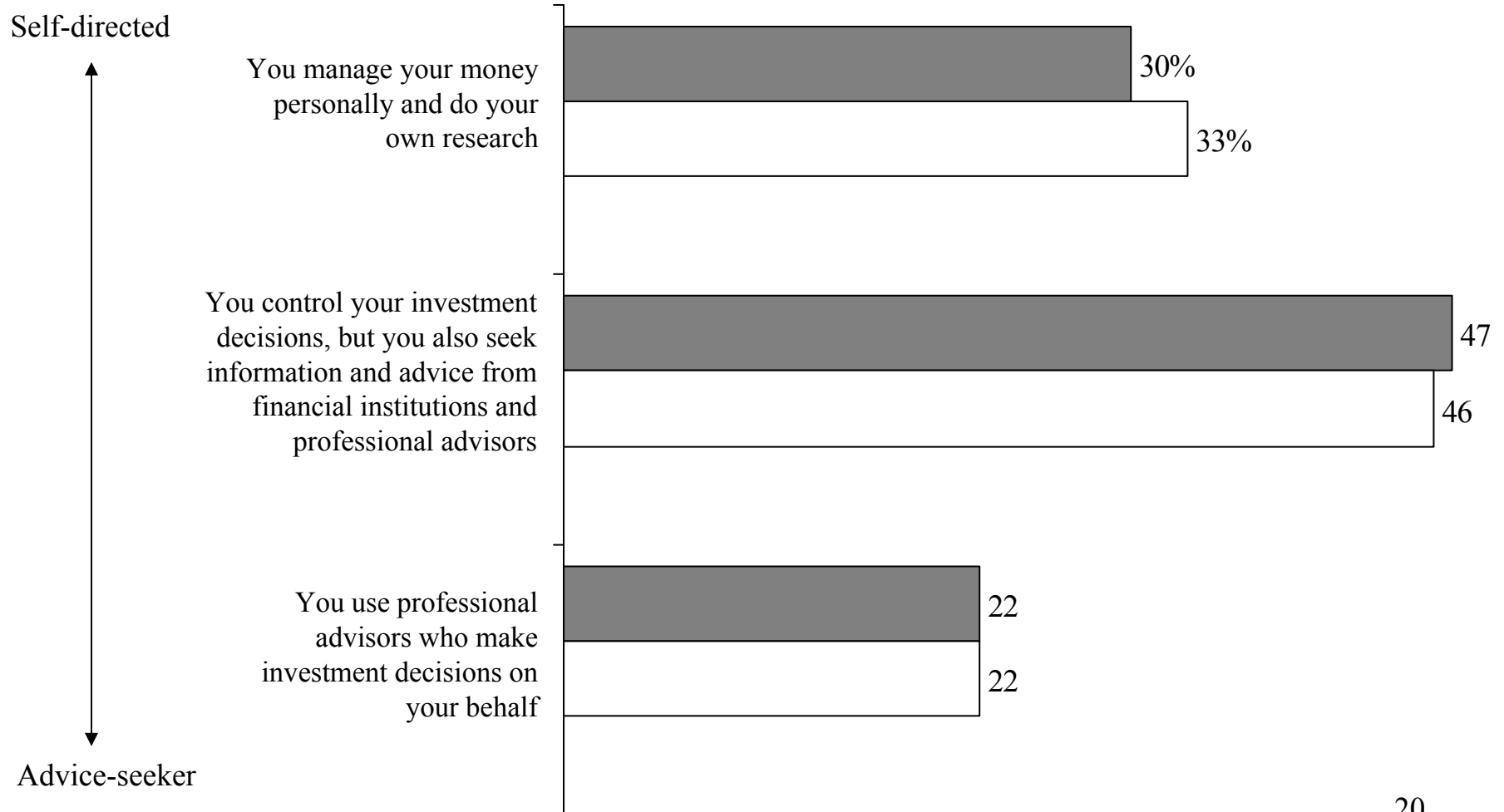


# DEGREE OF DEPENDENCE ON ADVICE

*Which of the following statements comes closest to describing you right now?*

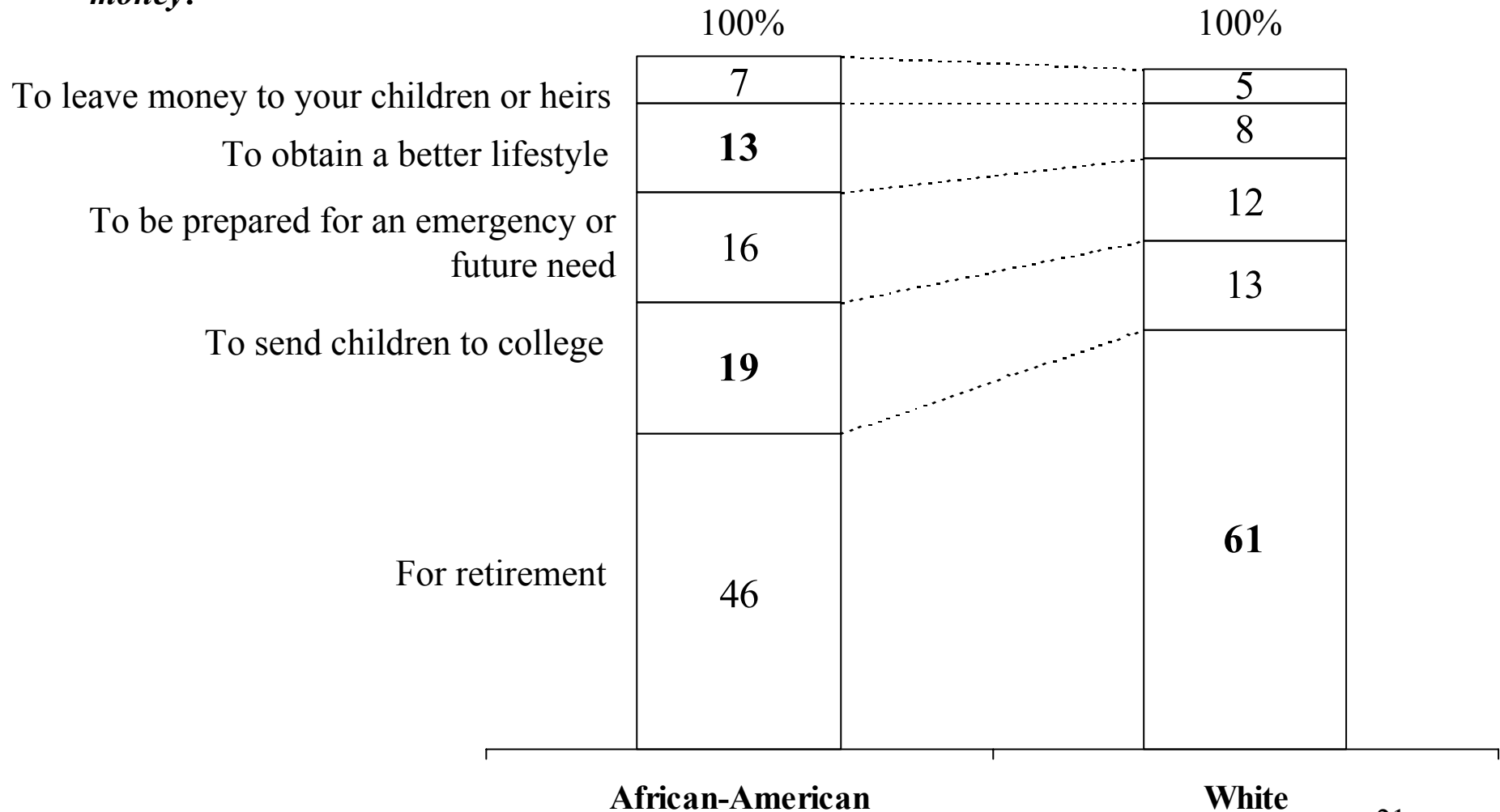
*Base: Have money in the stock market right now*

■ African-American  
□ White



# GOAL FOR SAVINGS AND INVESTING

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

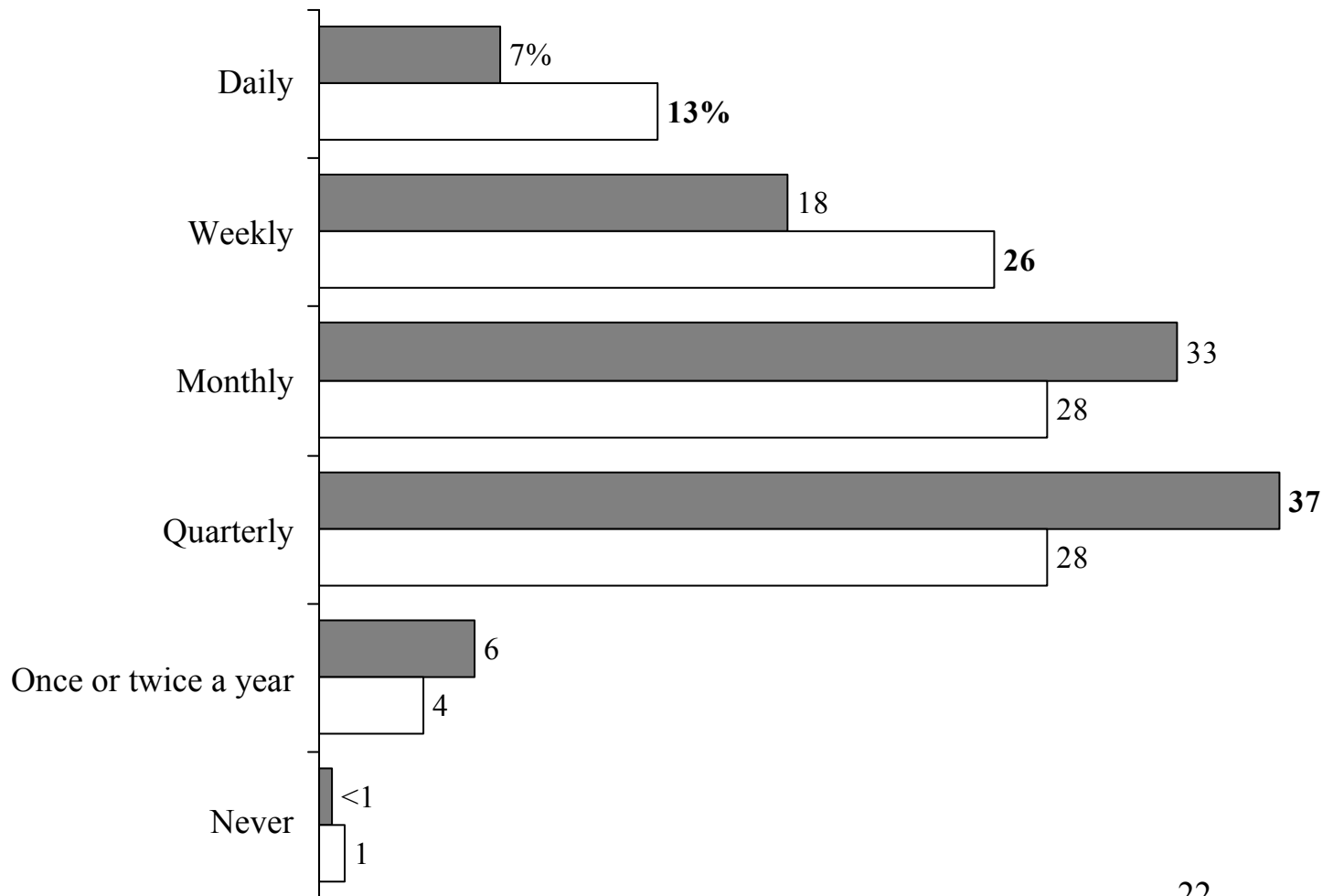


# FREQUENCY OF TRACKING INVESTMENTS

*On average, how often do you check your investments?*

*Base: Have money in the stock market right now*

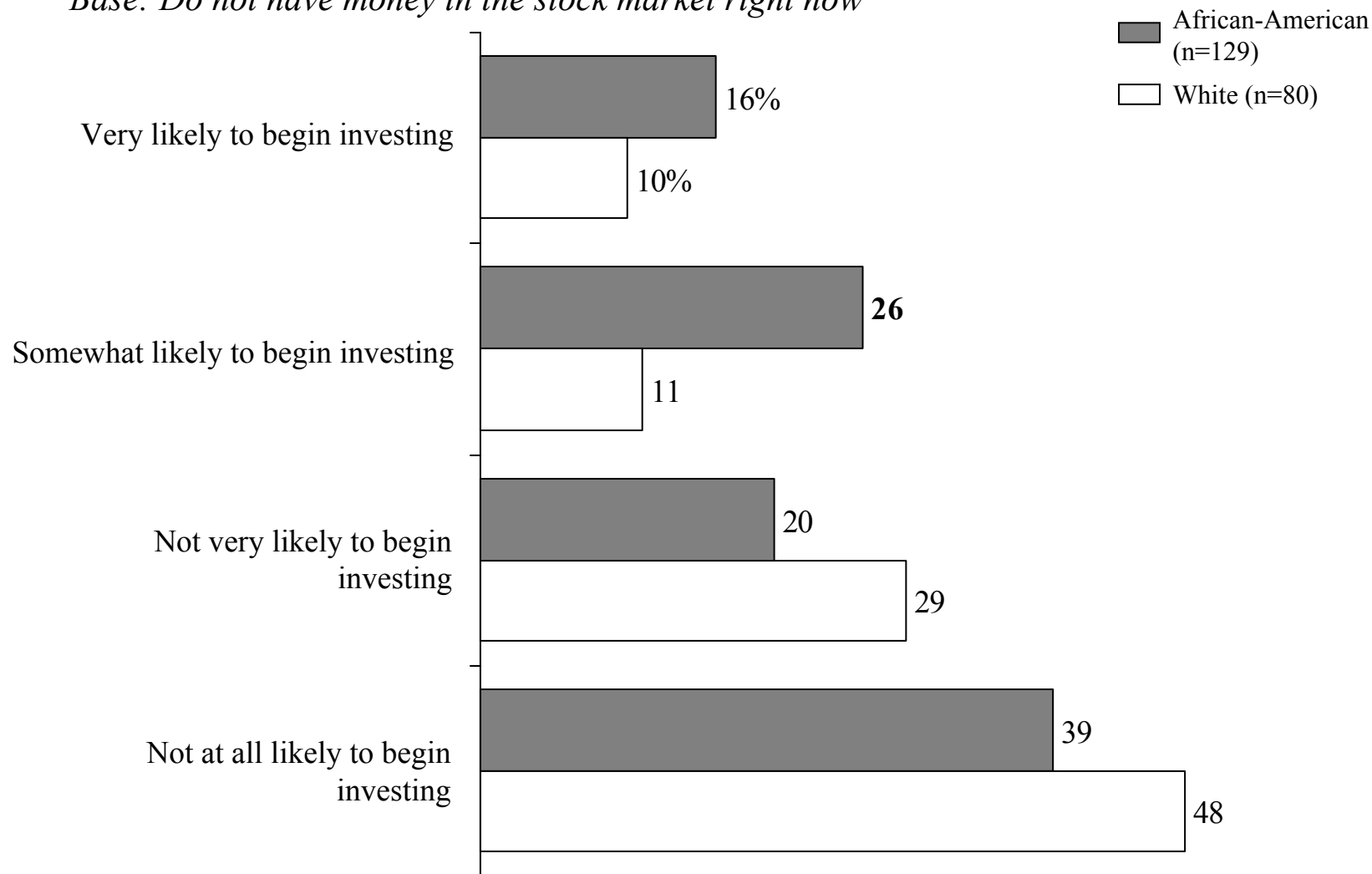
■ African-American  
□ White



# LIKELIHOOD TO INVEST

*Excluding defined contribution plans, how likely are you to begin investing in stocks or mutual funds during the next year?*

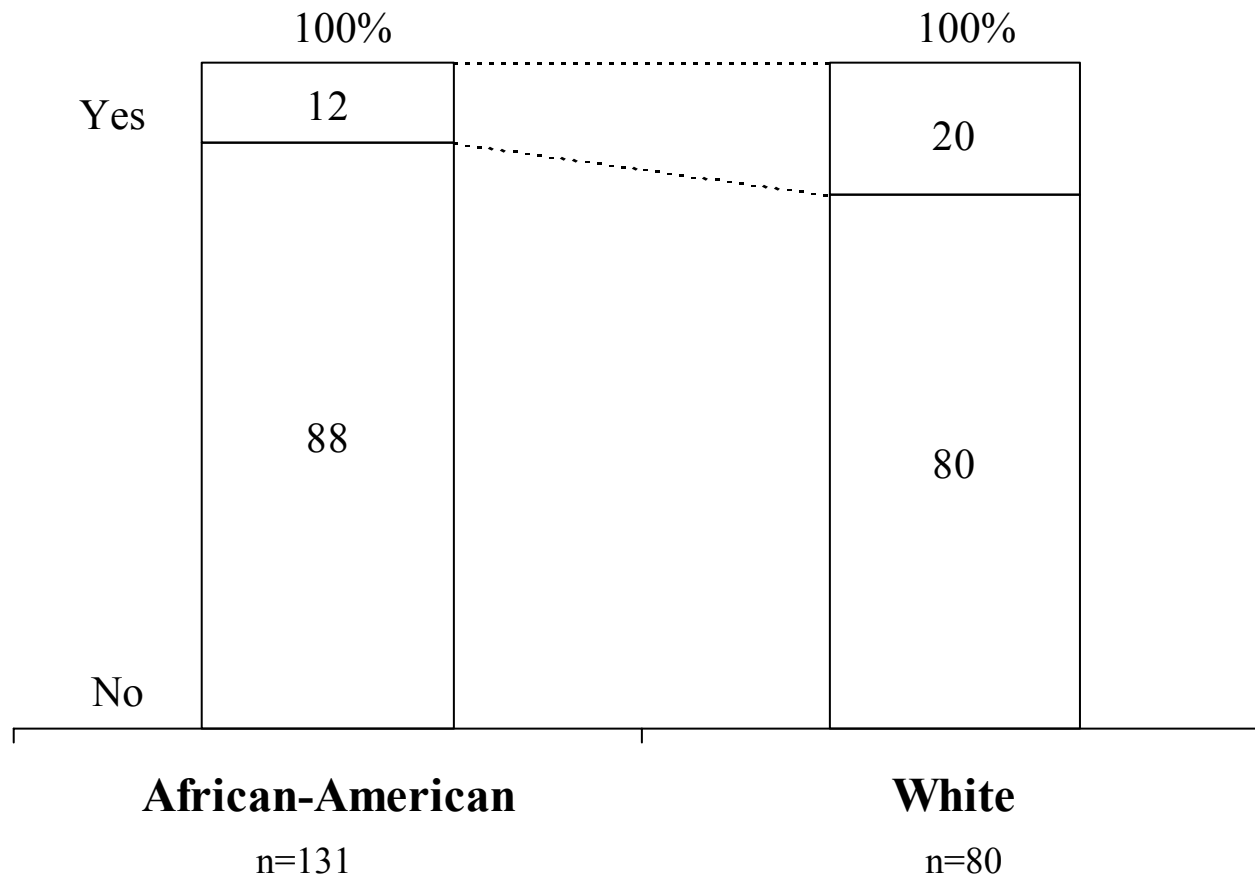
*Base: Do not have money in the stock market right now*



# RECENT LIQUIDATION OF INVESTMENTS

*Did you liquidate any stock market holdings in the last three years?*

*Base: Do not have money in the stock market right now*





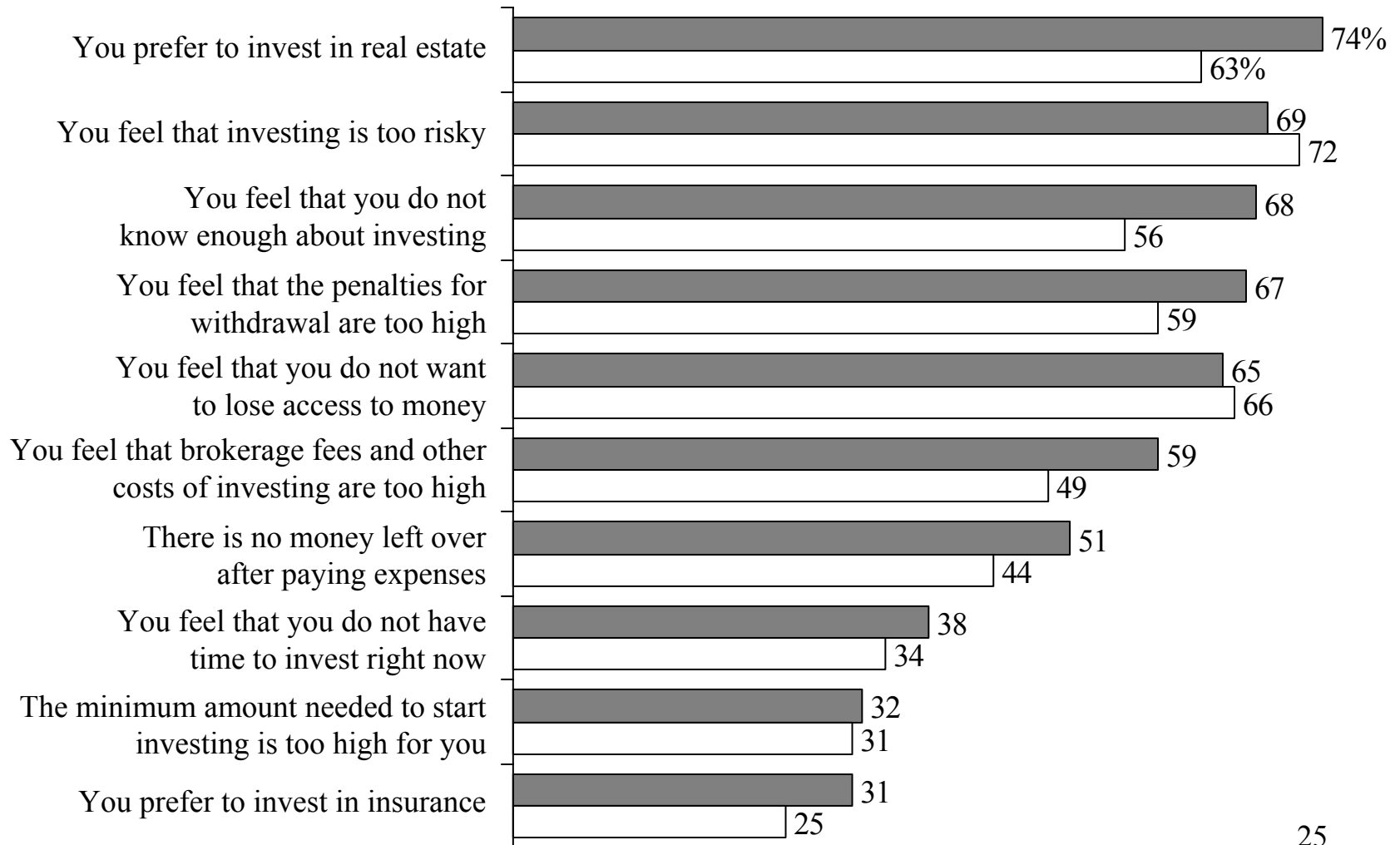


# REASONS FOR NOT INVESTING

*Which of the following reasons describe why you are not investing in stocks or mutual funds at this time?*

*Base: Do not have money in the stock market right now*

 African-American (n=131)  
 White (n=80)



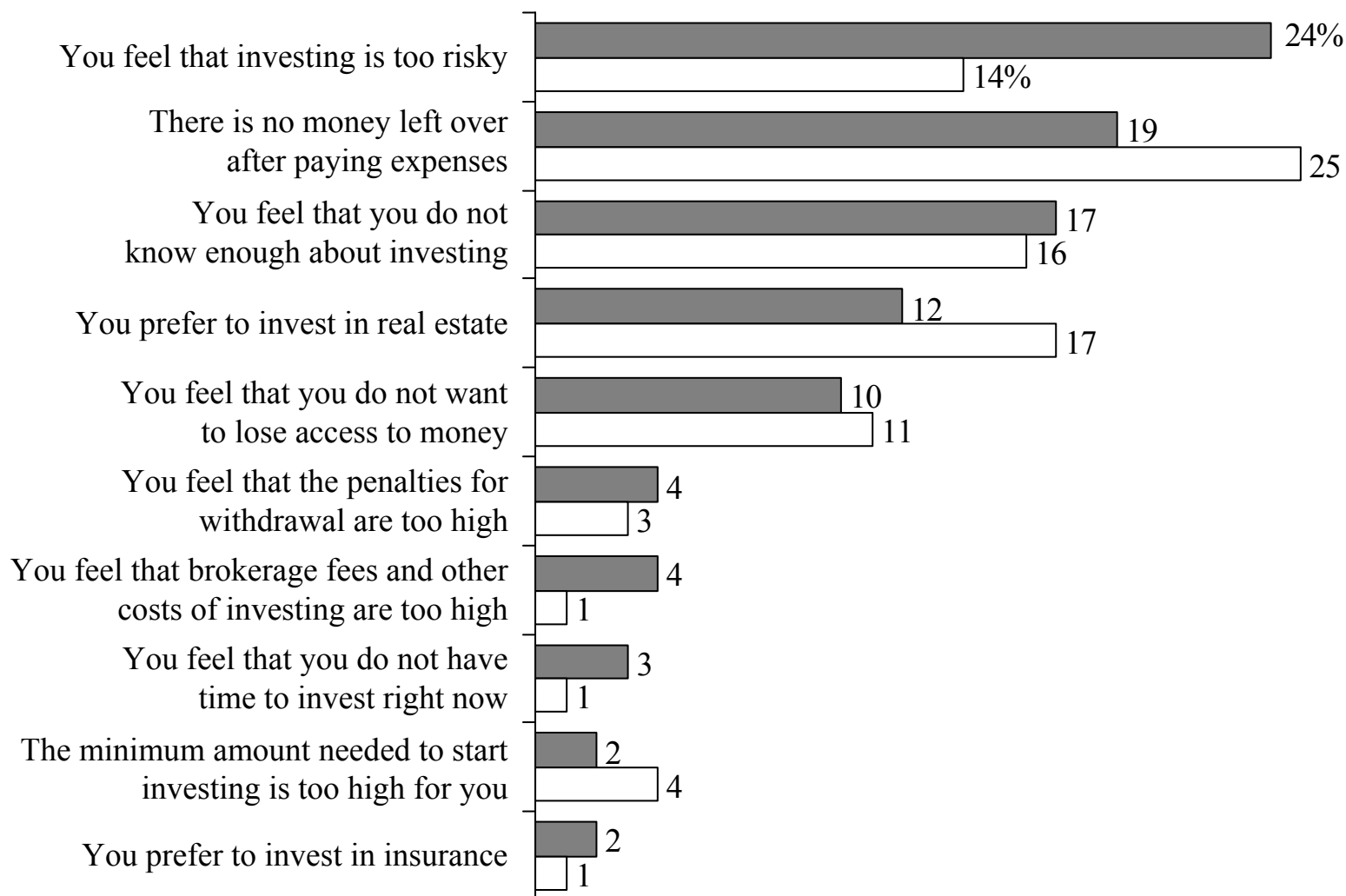
# MOST IMPORTANT REASON FOR NOT INVESTING

*Which of the reasons you just mentioned is the most important reason?*

*Base: Do not have money in the stock market right now*

■ African-American  
(n=131)

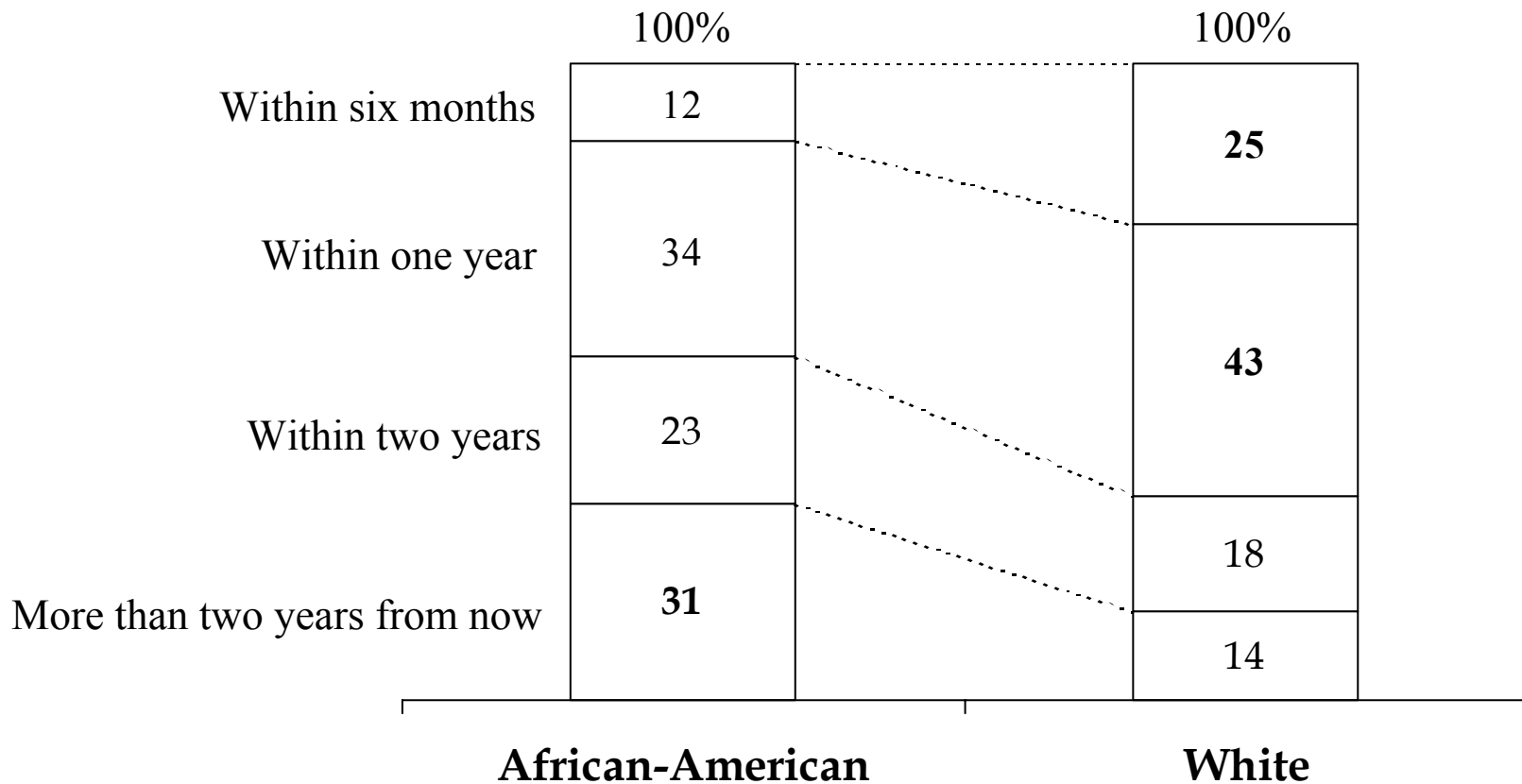
□ White (n=80)



# **FINANCIAL ATTITUDES AND BEHAVIORS IN AN UNCERTAIN ECONOMY**

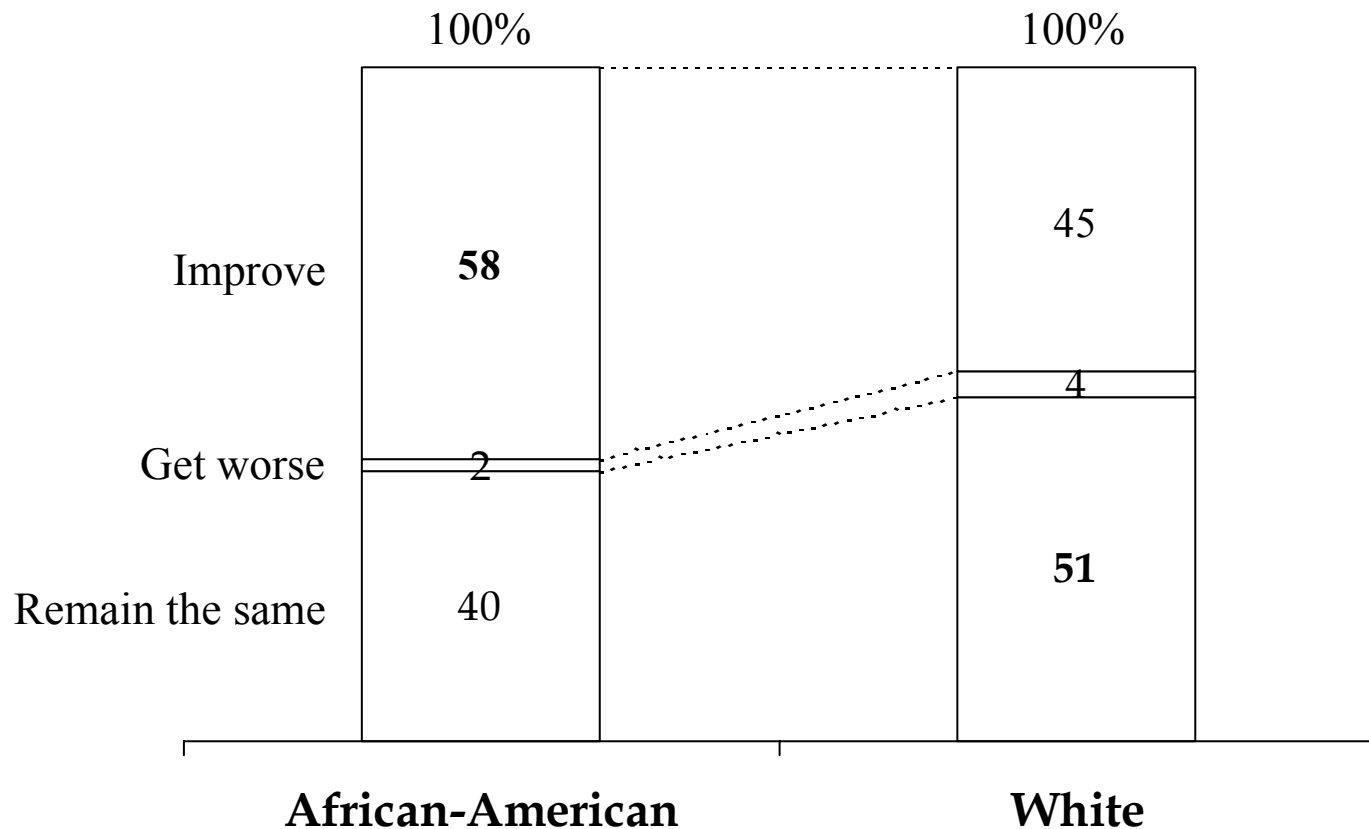
# OUTLOOK FOR THE ECONOMY

*Do you think the economy will improve. . . ?*



# OUTLOOK FOR HOUSEHOLD FINANCIAL SITUATION

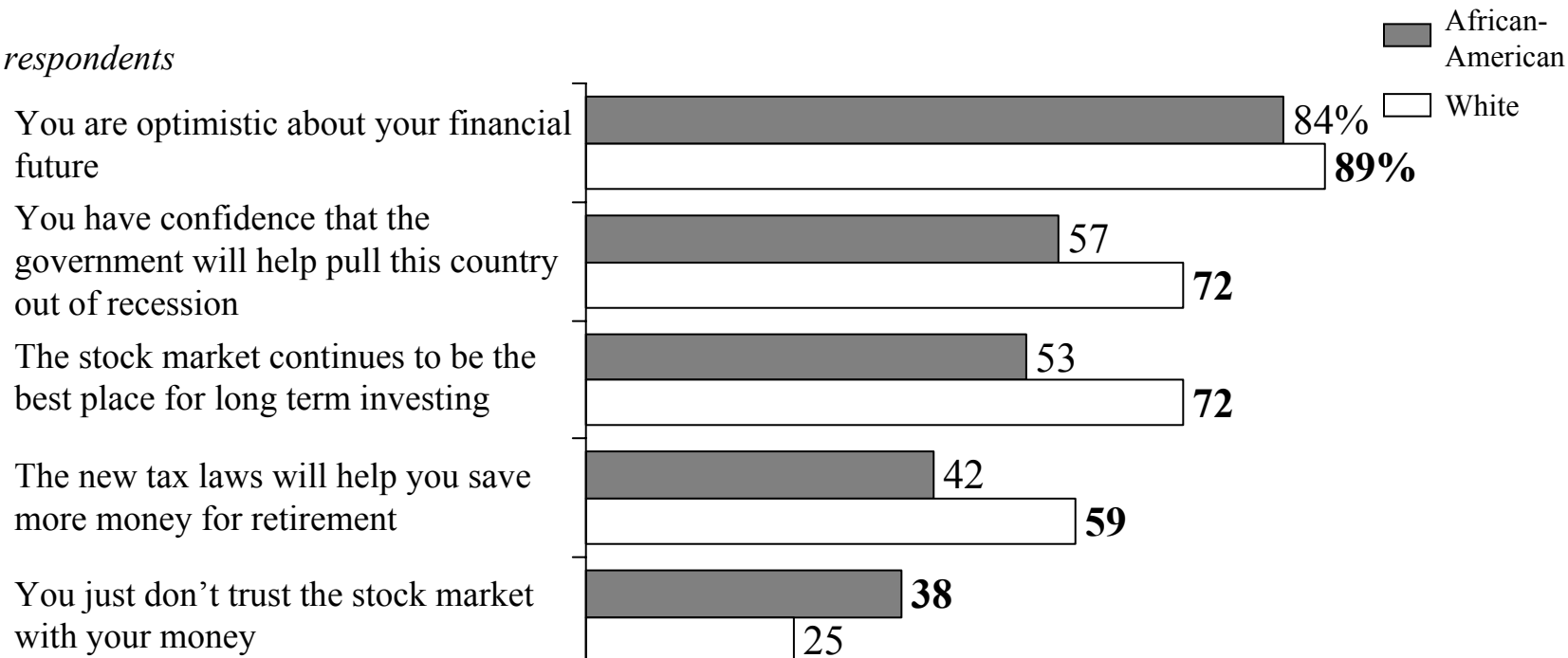
*Over the next year, do you feel that your household's financial situation will improve, get worse, or remain about the same?*



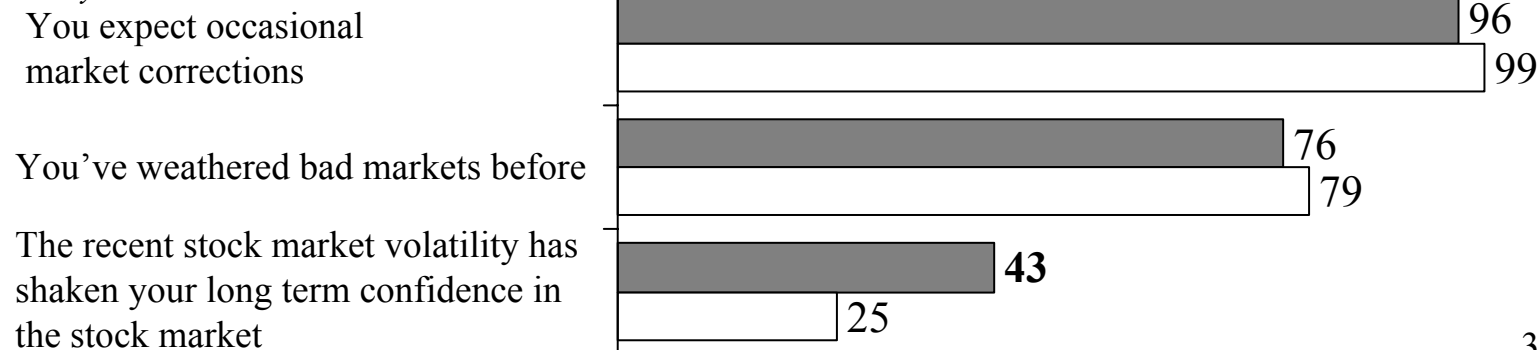
# ATTITUDES ABOUT MARKET VOLATILITY

*% Agreeing with following statements.*

*Base: All respondents*

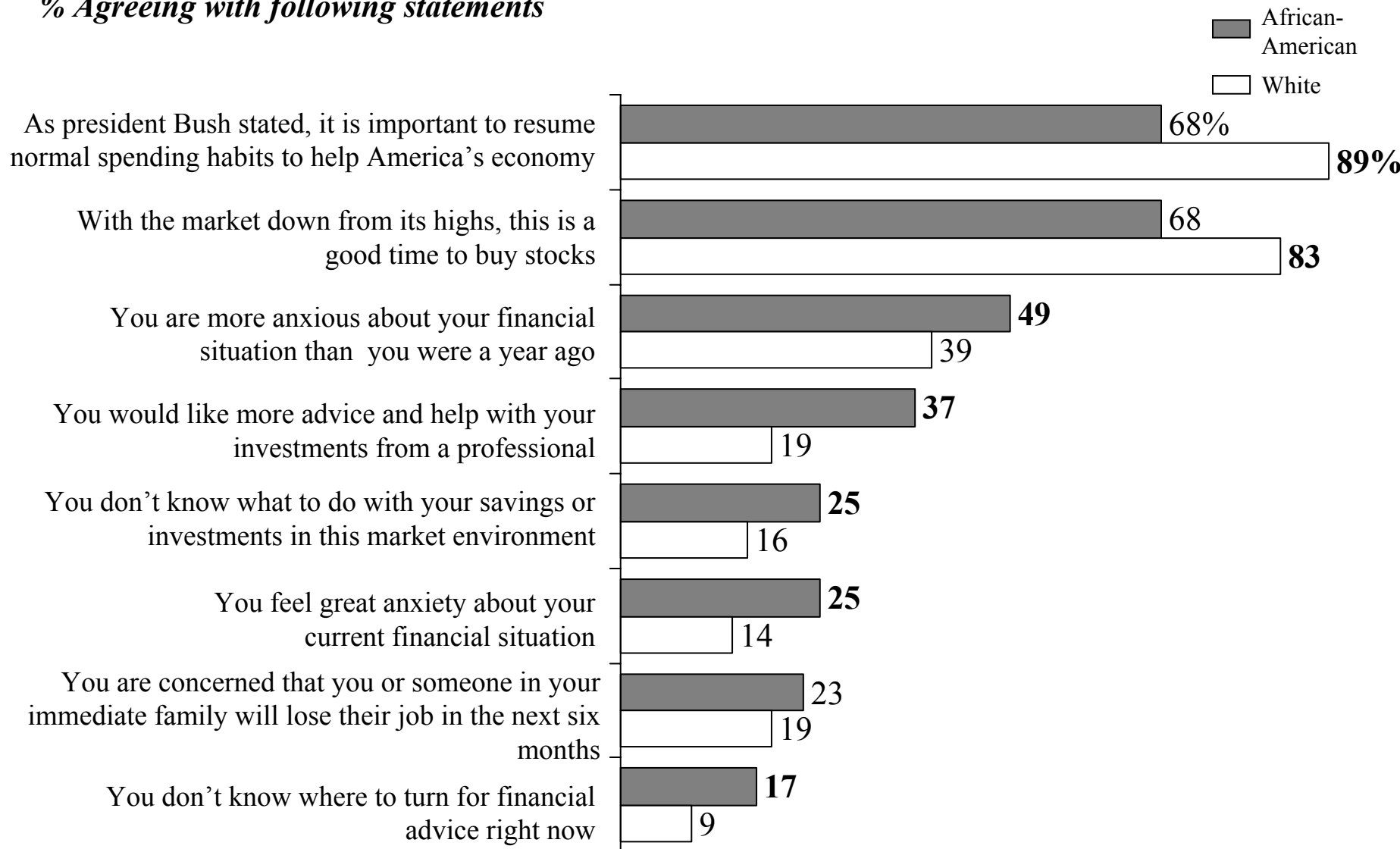


*Base: Have money in the stock market*



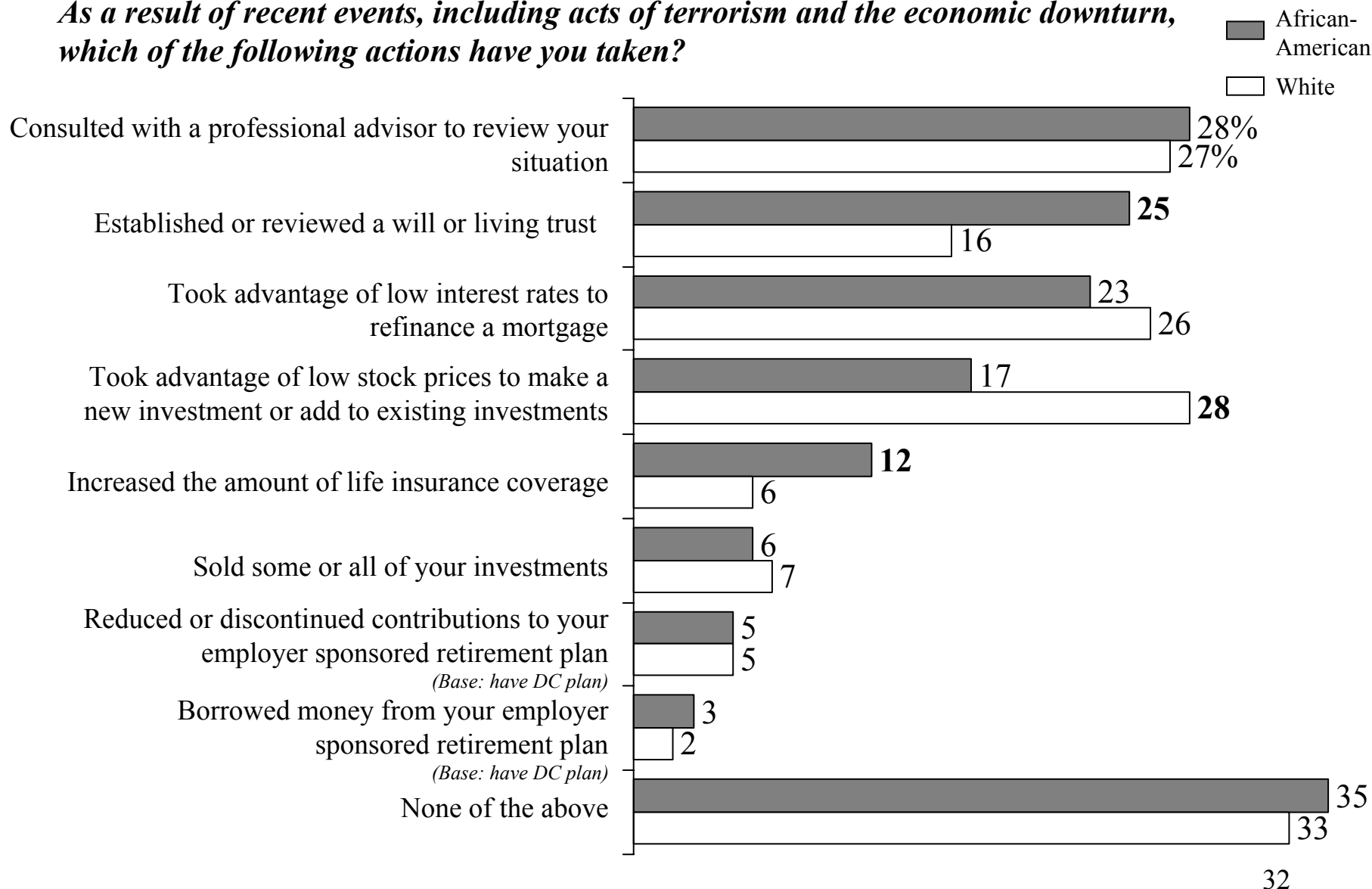
# ATTITUDES SINCE RECENT EVENTS

*% Agreeing with following statements*



# FINANCIAL ACTIVITIES SINCE RECENT EVENTS

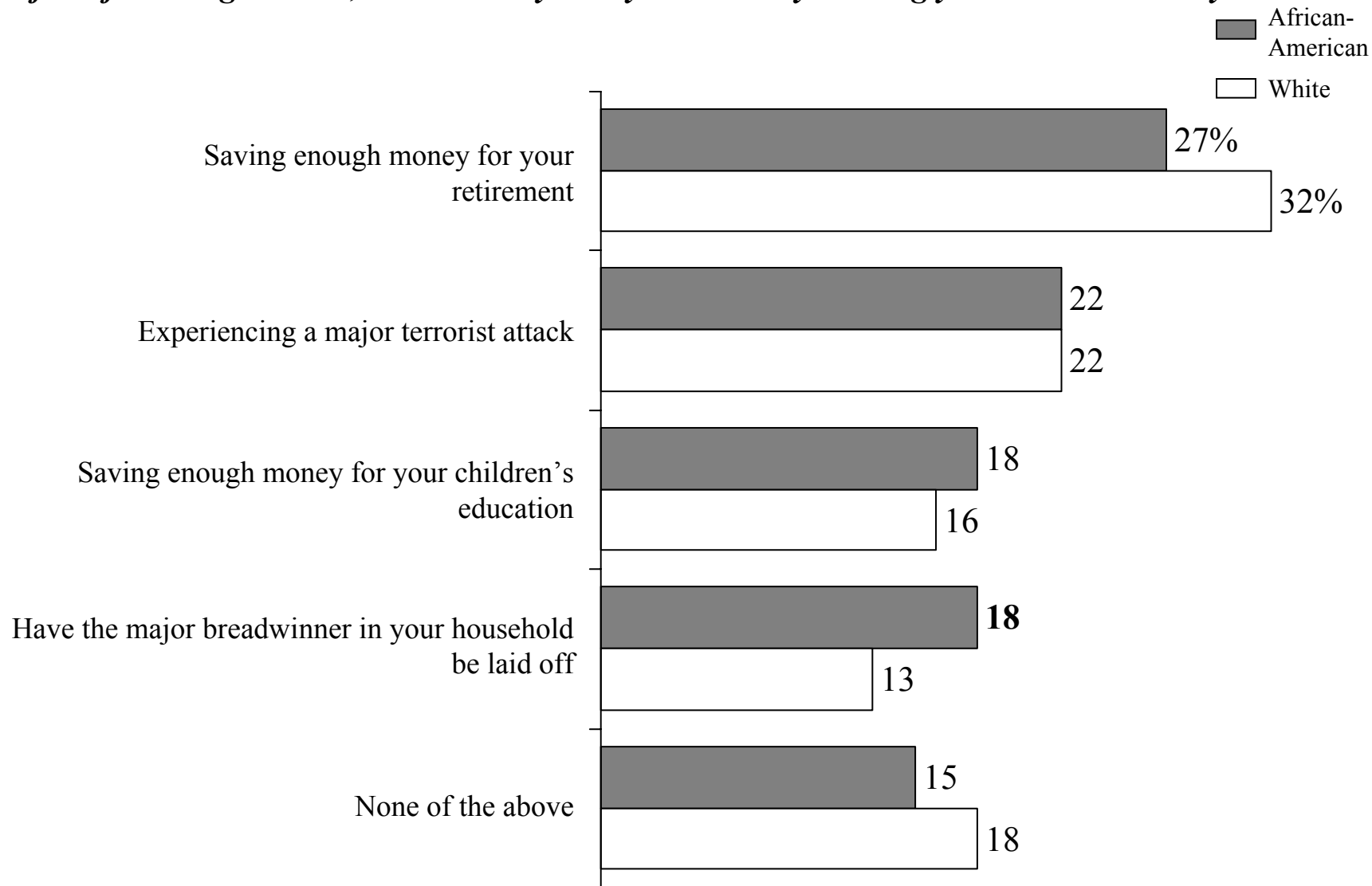
*As a result of recent events, including acts of terrorism and the economic downturn, which of the following actions have you taken?*





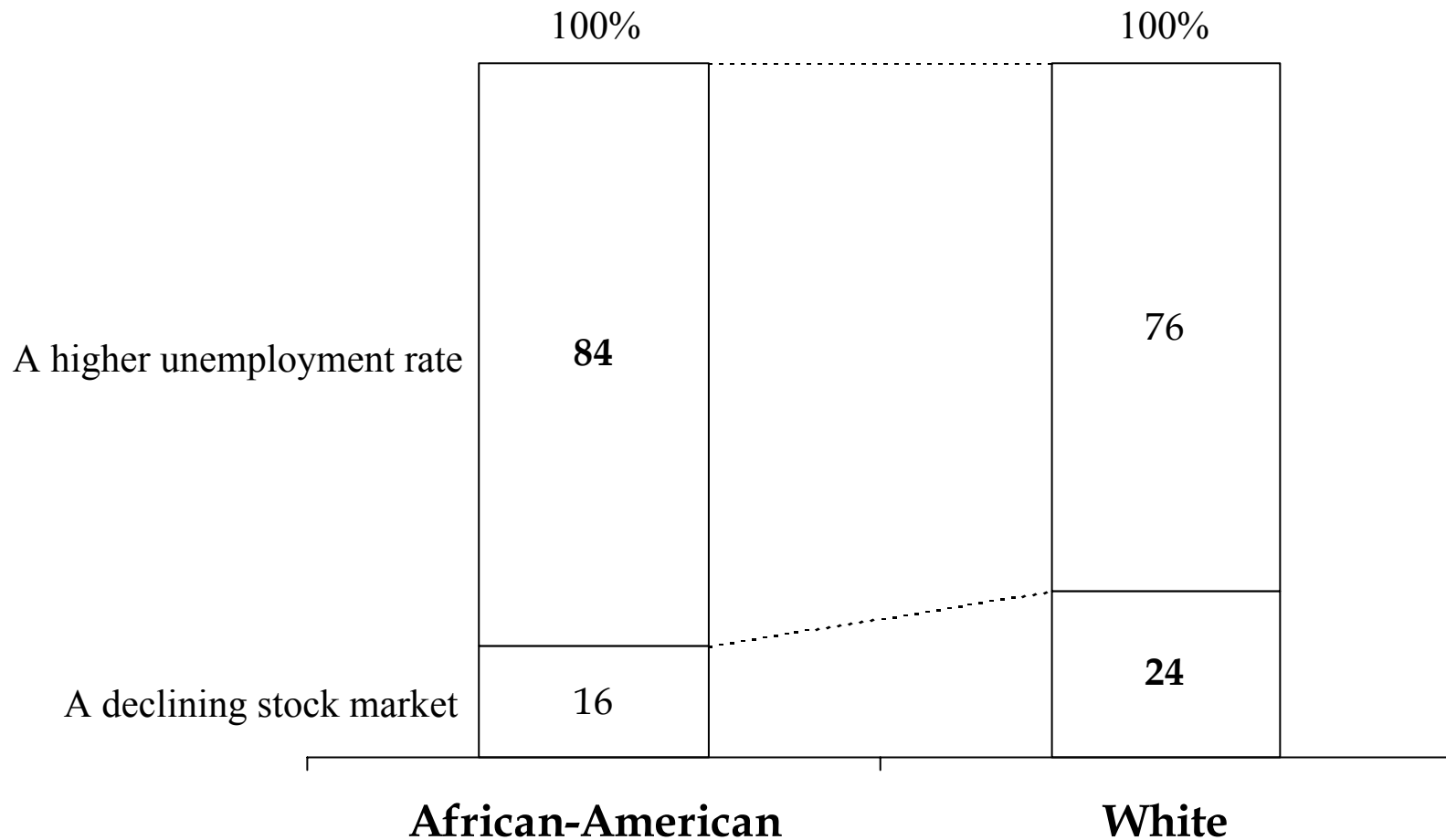
# CURRENT CAUSES OF GREATEST ANXIETY

*Of the following choices, what would you say is currently causing you the most anxiety?*



# CONCERNS: UNEMPLOYMENT VS. BEAR MARKET

*What concerns you more?*

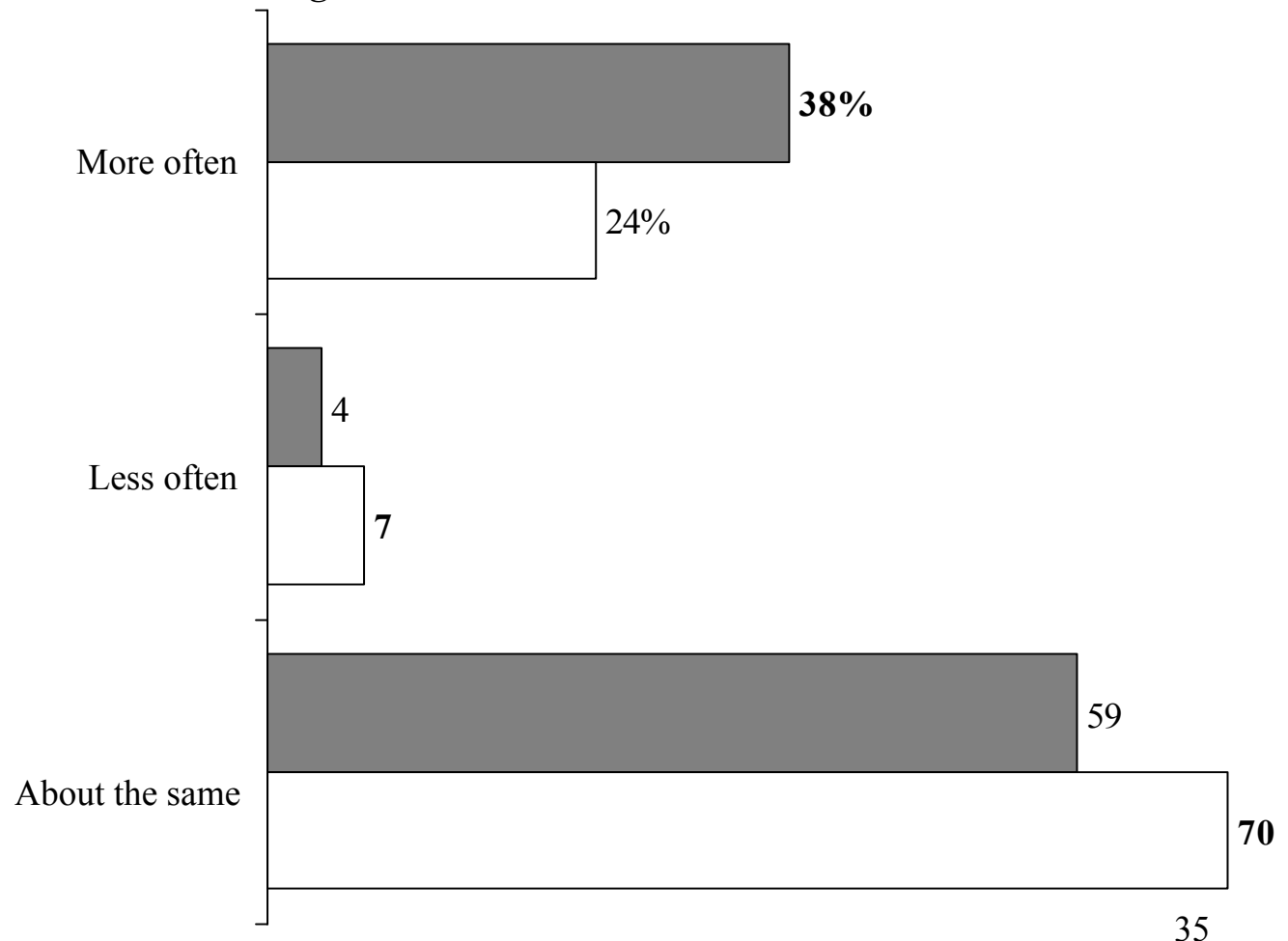


# FREQUENCY OF TRACKING INVESTMENTS, COMPARED TO YEAR AGO

*Compared to twelve months ago, are you checking your investments more often, less often, or about the same?*

*Base: Have money in the stock market right now*

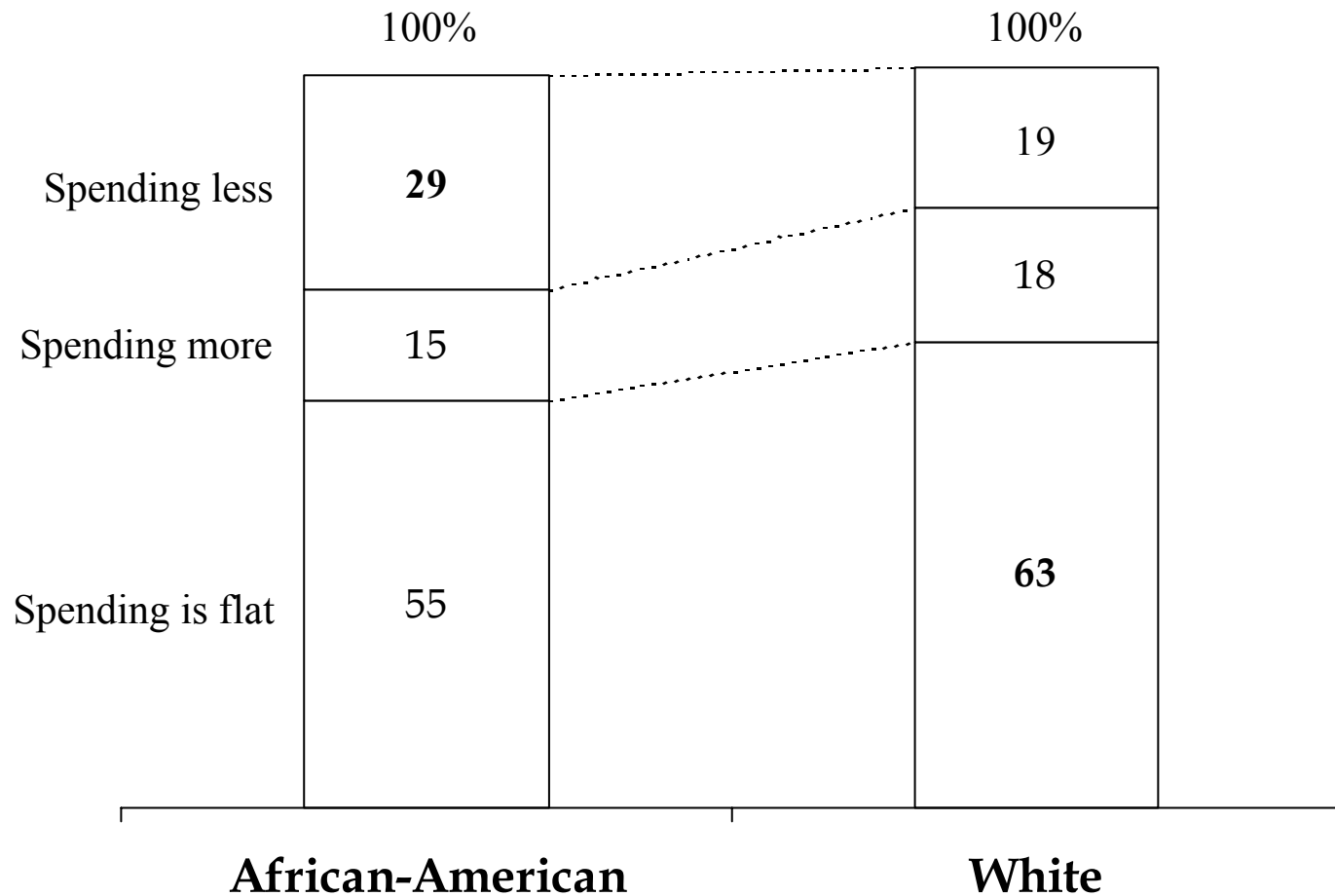
■ African-American  
□ White



35

# SPENDING PATTERNS OVER LAST YEAR

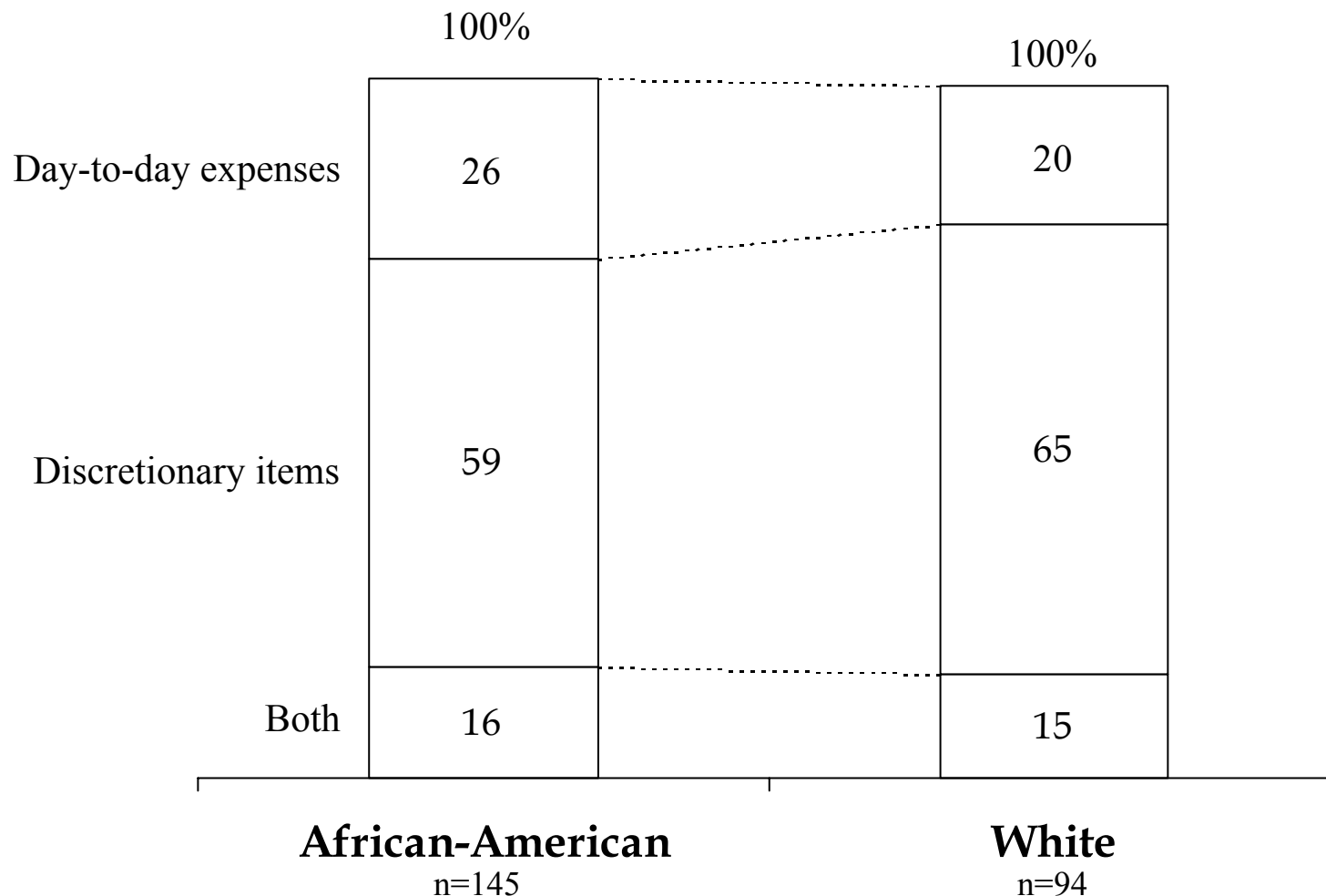
*In the last twelve months, have you been spending less money, more money, or has your spending remained about the same?*



# ALLOCATION OF EXPENDITURE CUTS

*Would you say that you are trying to spend less on day-to-day expenses, such as food, transportation and utilities, or only on more discretionary items, such as vacations and entertainment?*

*Base: Those spending less money in last twelve months*

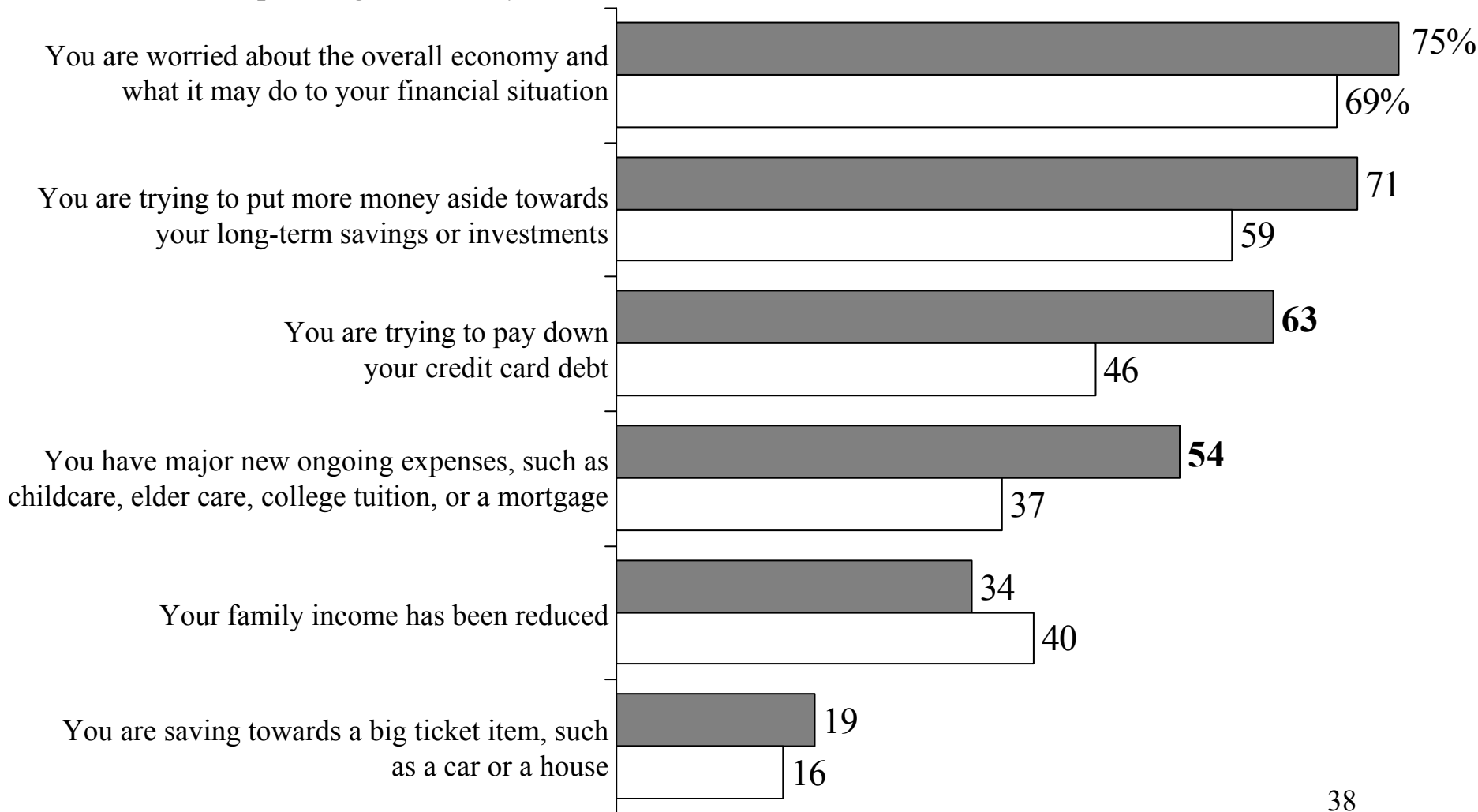


# DRIVERS OF EXPENDITURE CUTS

*Which of the following would you say are major reasons you have been spending less money?*

*Base: Those spending less money in last twelve months*

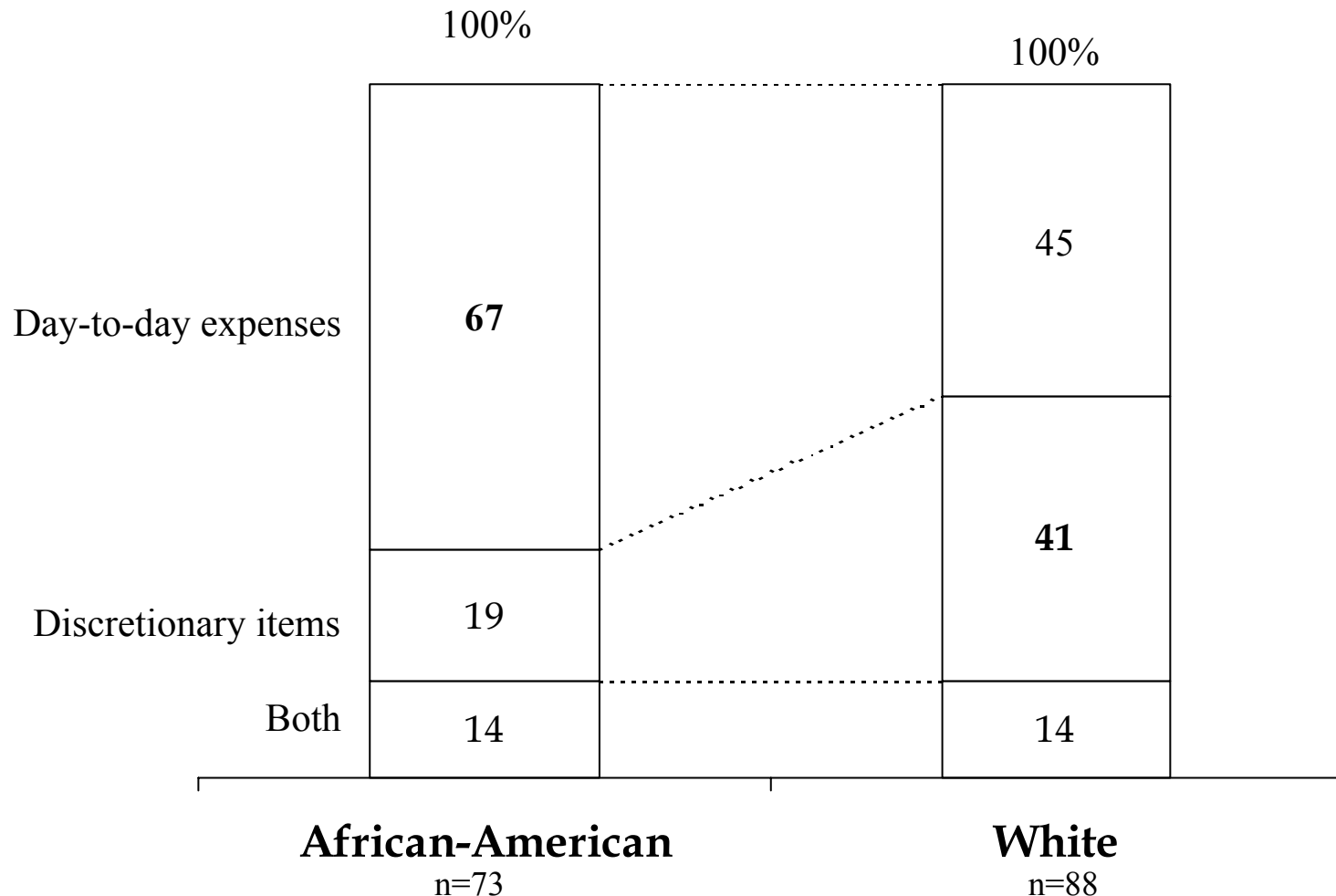
■ African-American  
(n=145)  
□ White (n=94)



# ALLOCATION OF EXPENDITURE INCREASES

*Would you say that you are spending more on day-to-day expenses, such as food, transportation and utilities, or only on more discretionary items, such as vacations and entertainment?*

*Base: Those spending more money in last twelve months*



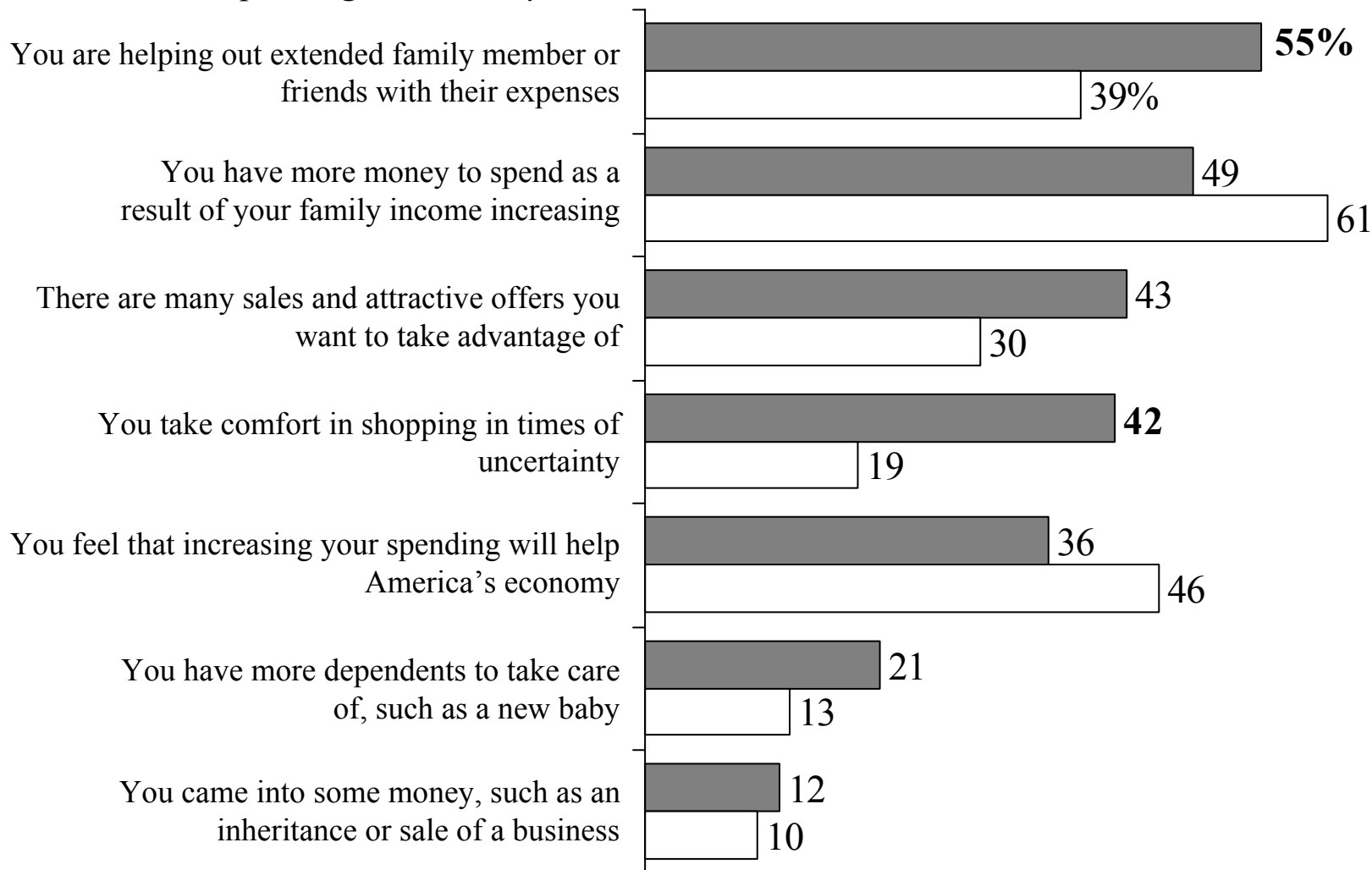
# DRIVERS OF EXPENDITURE INCREASES

*Which of the following would you say are major reasons you have been spending more money?*

*Base: Those spending more money in last twelve months*

■ African-American (n=73)

□ White (n=88)



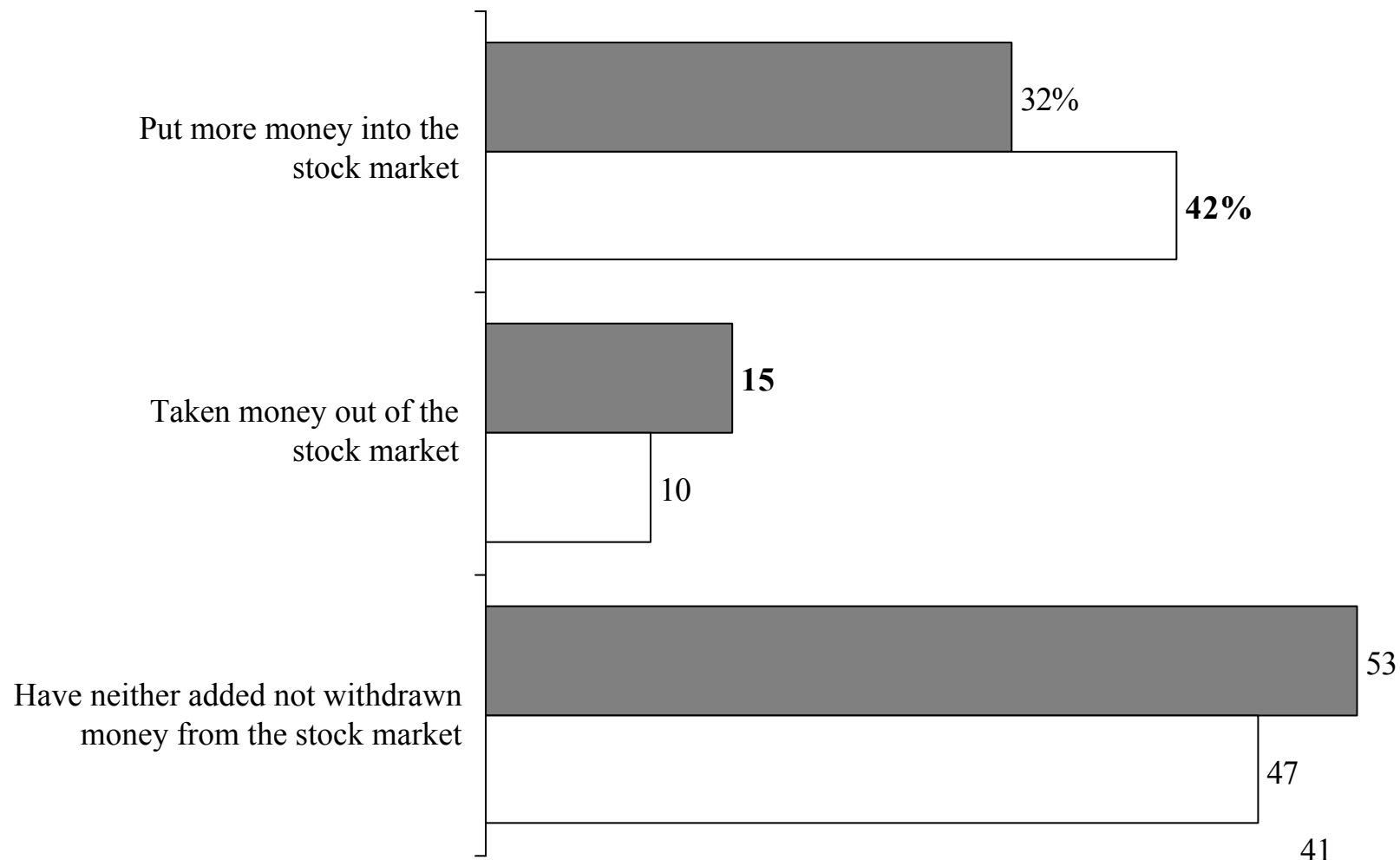


# INVESTMENT ACTIVITY OVER LAST YEAR

*In the past year, have you, on the whole. . . ?*

*Base: Have money in the stock market right now*

■ African-American  
□ White

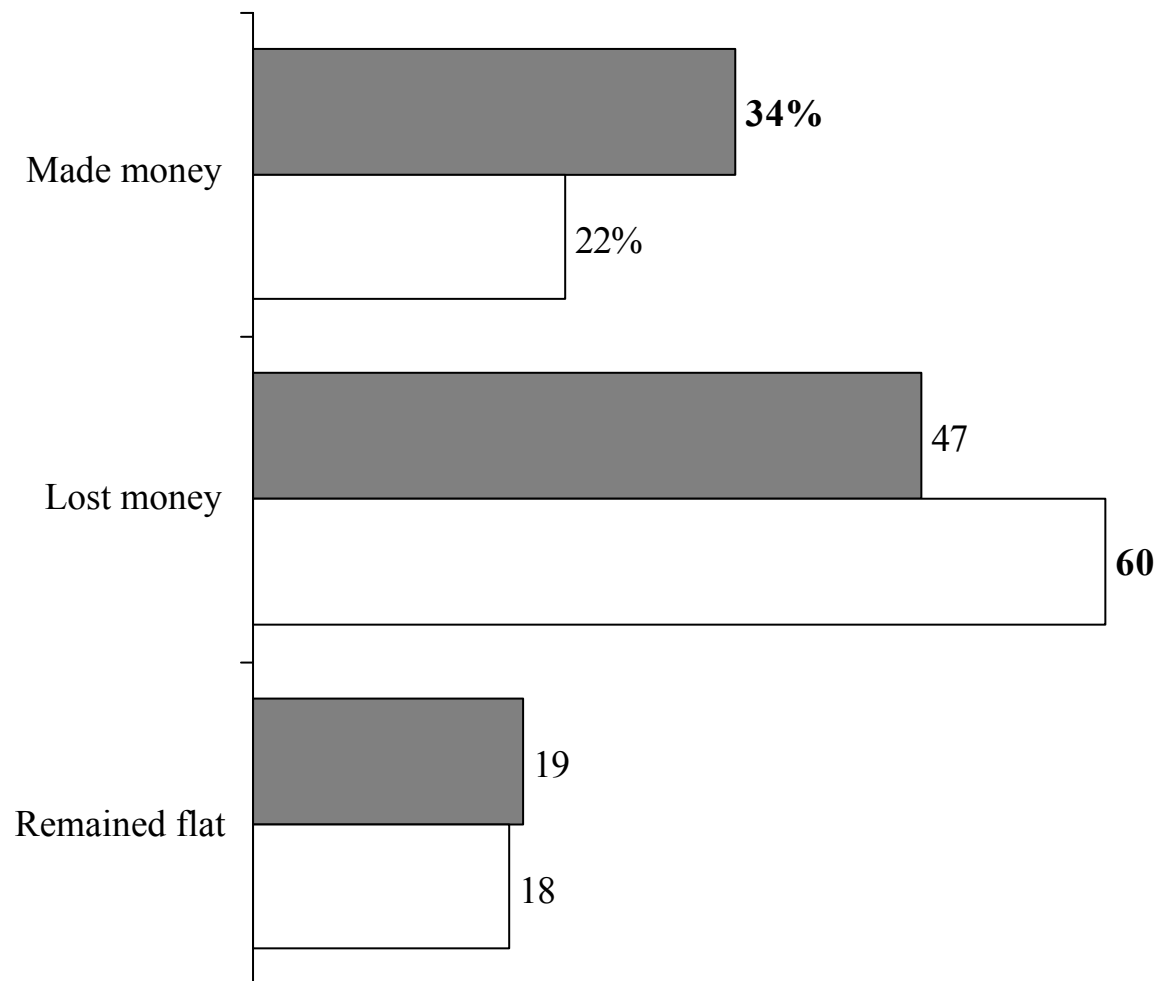


# INVESTMENT RESULTS OVER LAST YEAR

*In the past year, would you say your investments have overall made money, lost money, or remained flat ?*

*Base: Have money in the stock market right now*

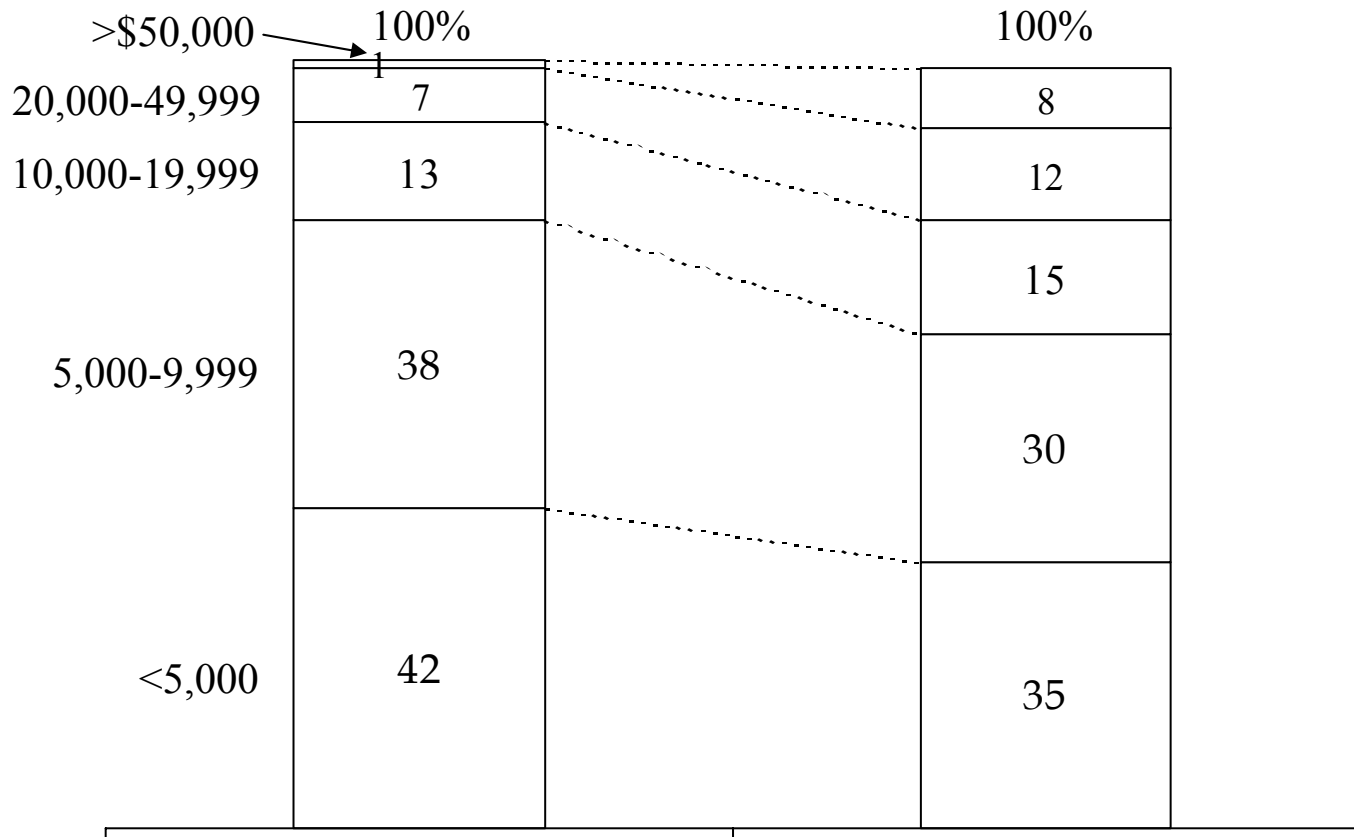
■ African-American  
□ White



# AMOUNT OF INVESTMENT INCREASE

*Which of the following categories best describes the amount your investments have increased by in the past year?*

*Base: Have money in the stock market right now and have overall made money*



**African-American**

n=120

**Mean** \$8,810

**Median** \$6,110

**White**

n=88

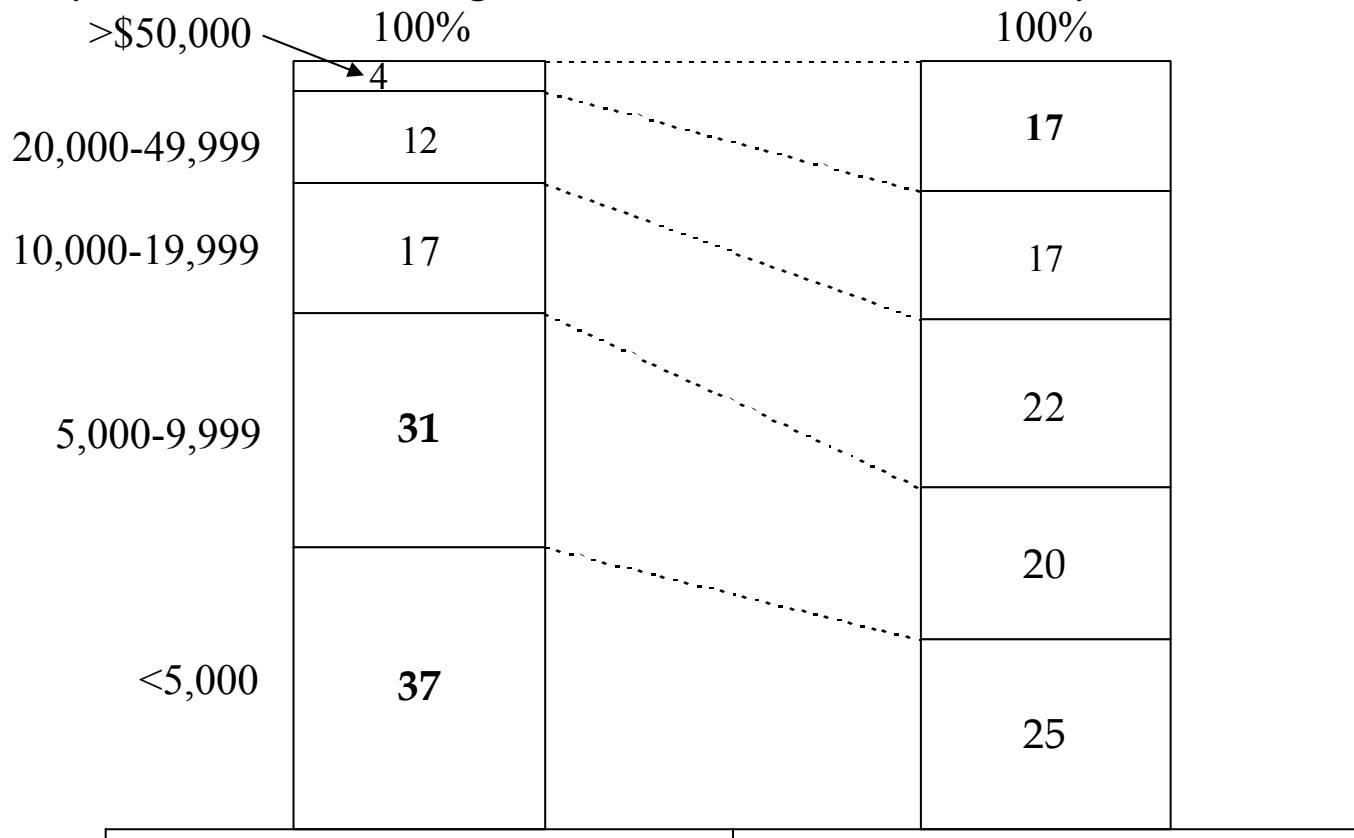
**\$15,650**

**\$7,500**

# AMOUNT OF INVESTMENT DECREASE

*Which of the following categories best describes the amount your investments have decreased by in the past year?*

*Base: Have money in the stock market right now and have overall lost money*



**African-American**

**Mean** \$12,650

**Mean** \$7,160

**White**

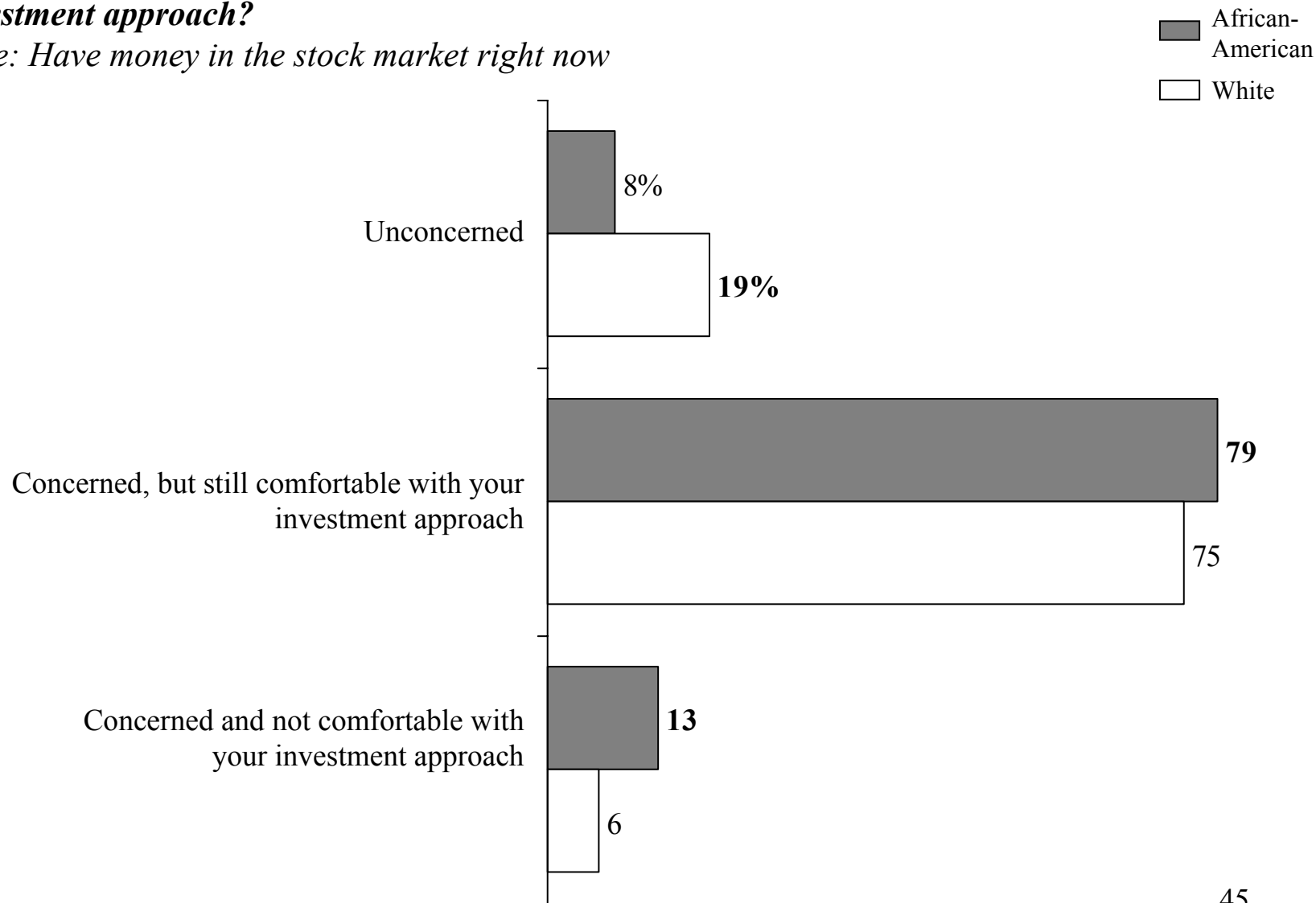
**\$23,820**

**\$12,550**

# ATTITUDES ABOUT INVESTMENT APPROACH

*At this point in time, which of the following best describes your feelings about your investment approach?*

*Base: Have money in the stock market right now*

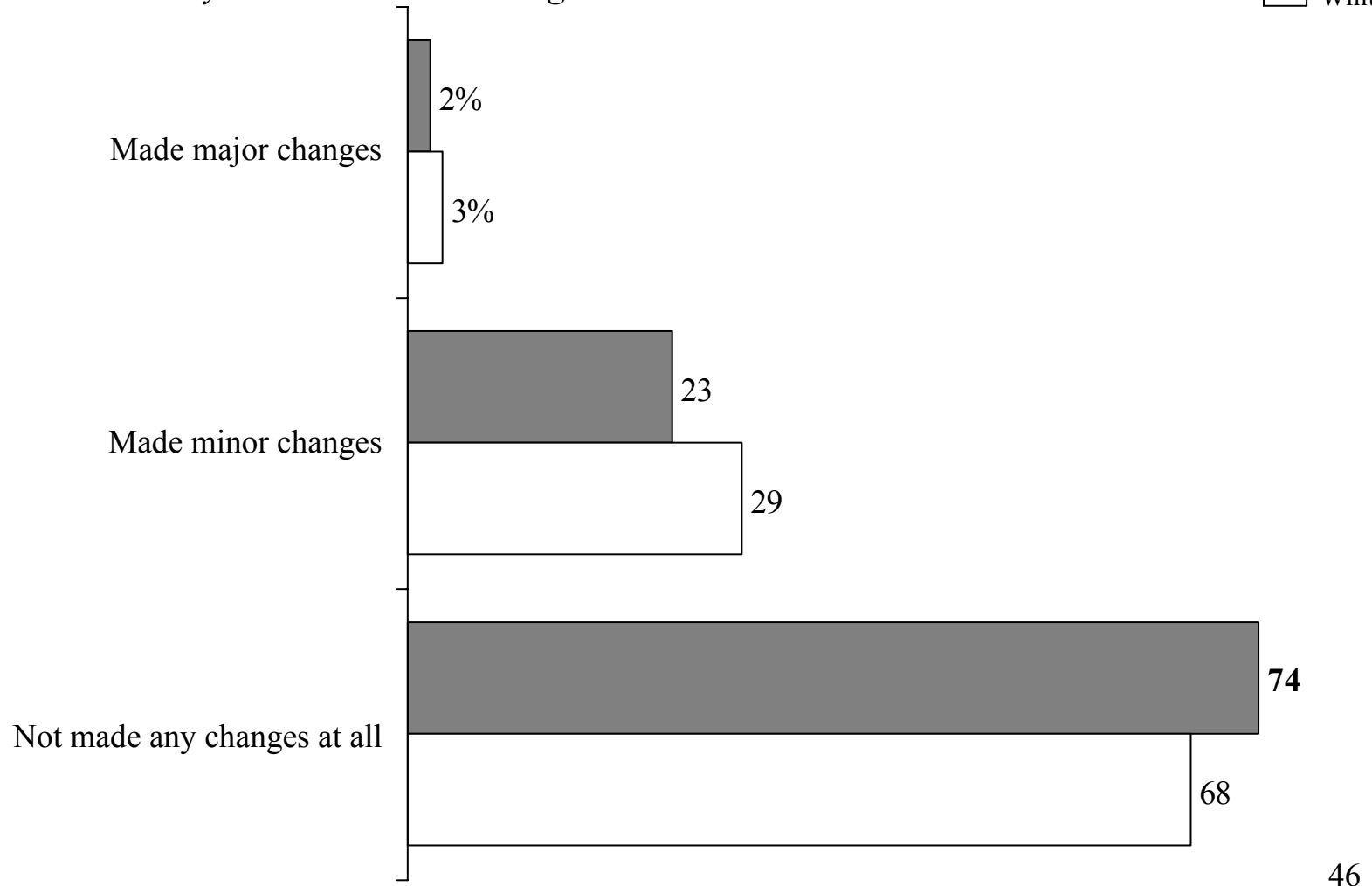


# CHANGES TO PORTFOLIO SINCE RECENT EVENTS

*Since the acts of terrorism and the economic downturn, have you made major changes to your investment portfolio, minor changes or not made any changes at all?*

*Base: Have money in the stock market right now*

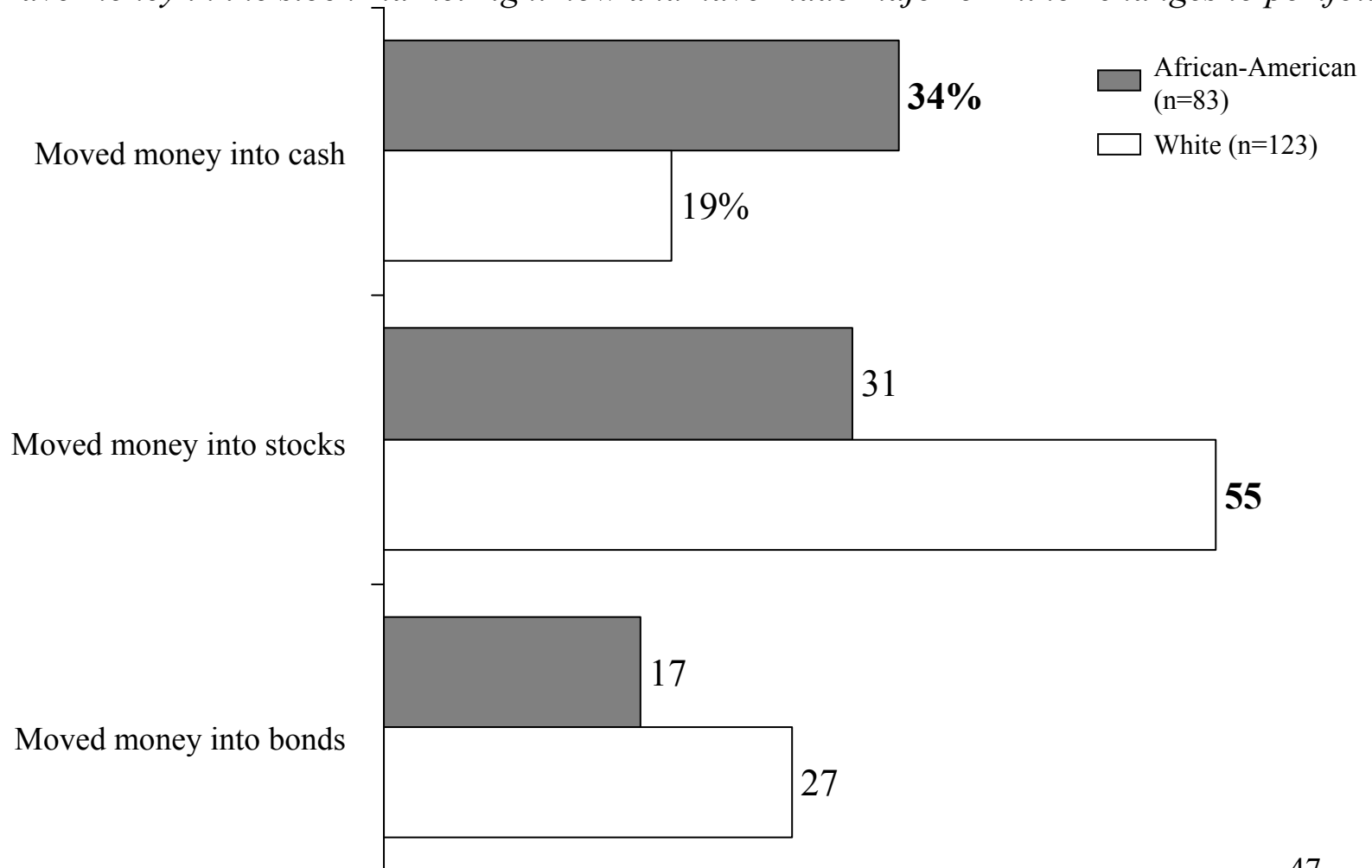
■ African-American  
□ White



# REALLOCATION OF PORTFOLIO SINCE RECENT EVENTS

*Which of the following changes to your investment portfolio did you make since the economic downturn and acts of terrorism?*

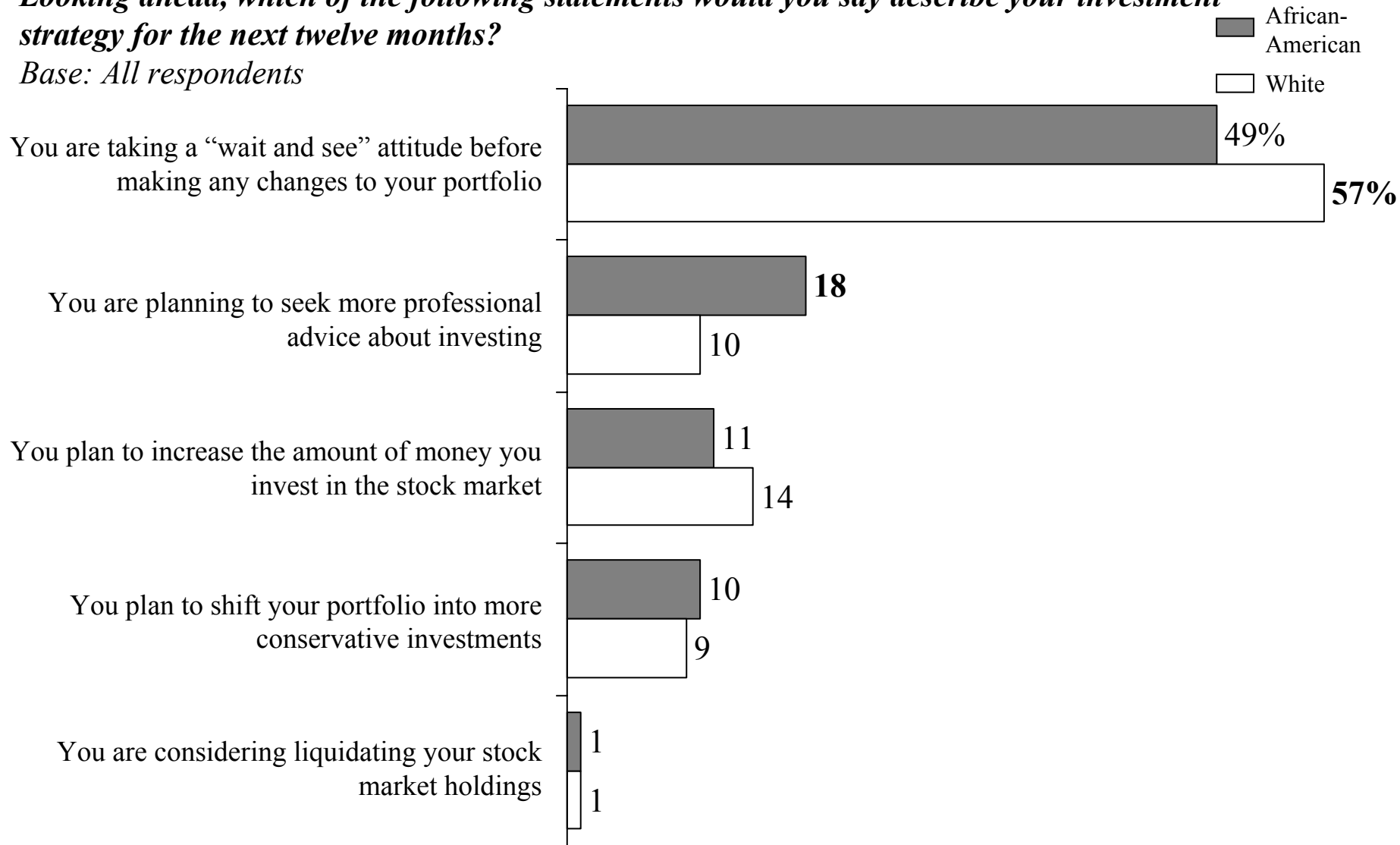
*Base: Have money in the stock market right now and have made major or minor changes to portfolio*



# INVESTMENT STRATEGY FOR NEXT YEAR

*Looking ahead, which of the following statements would you say describe your investment strategy for the next twelve months?*

*Base: All respondents*

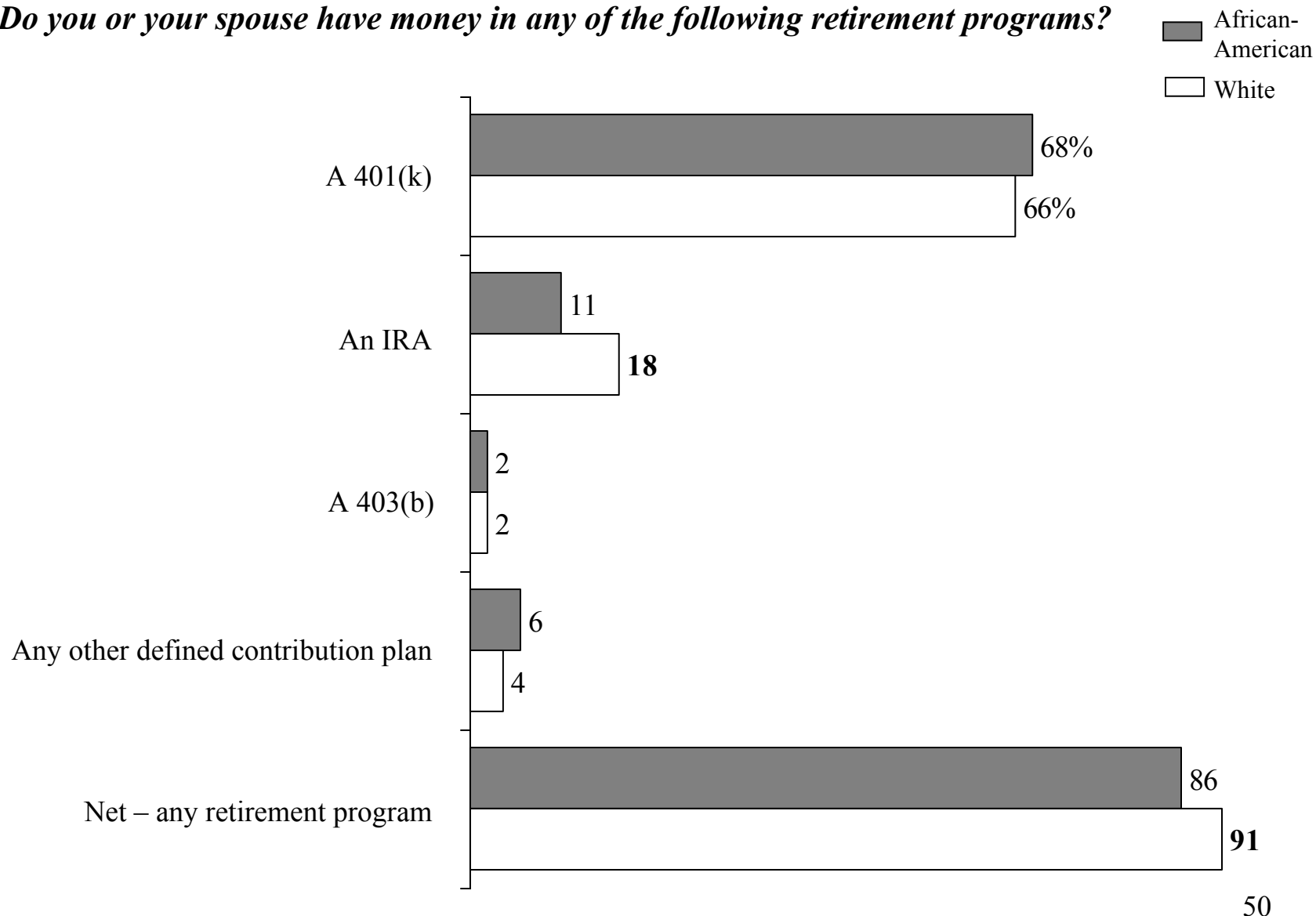




# **SAVING FOR RETIREMENT**

# RETIREMENT PLANS OWNED

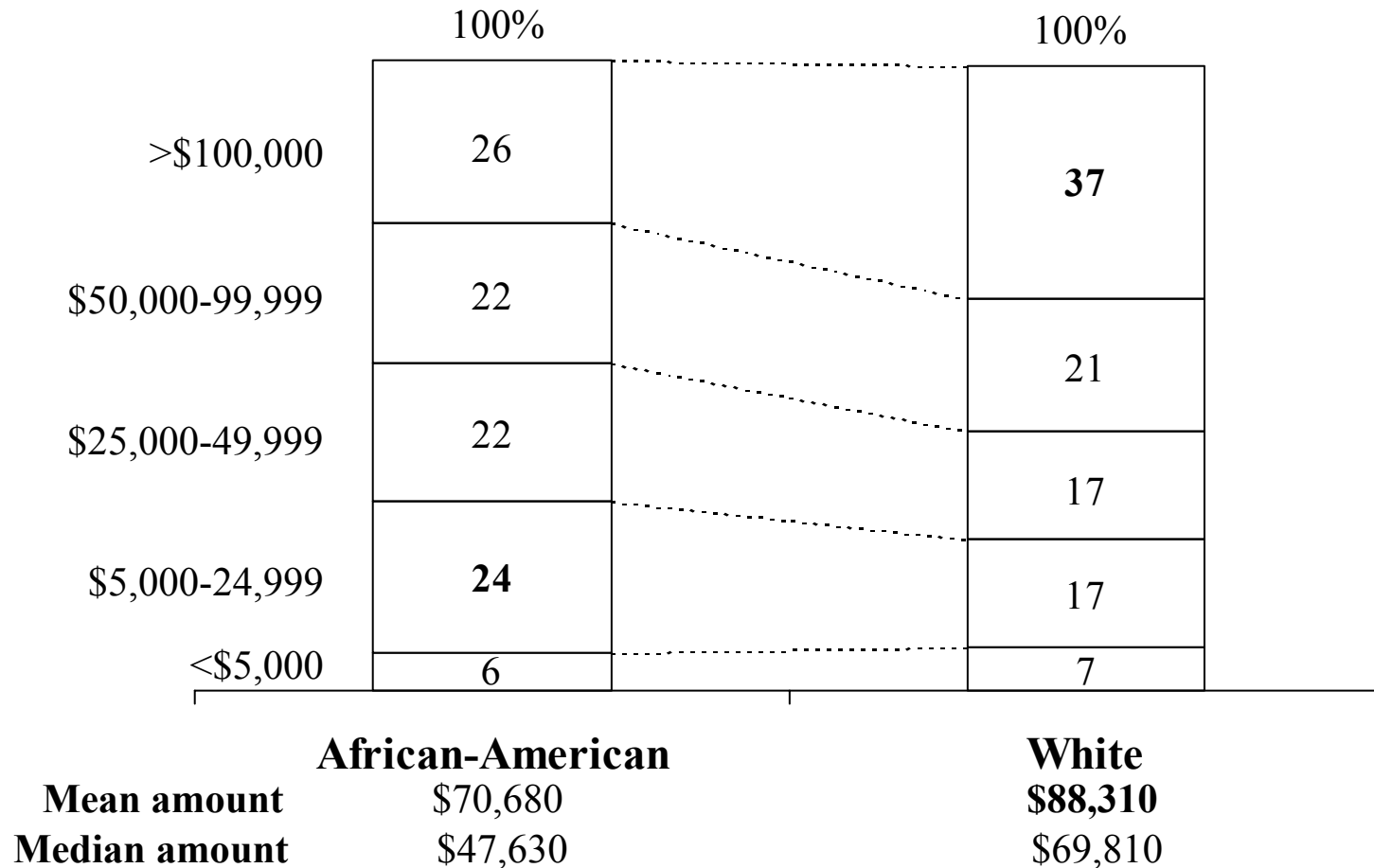
*Do you or your spouse have money in any of the following retirement programs?*



# RETIREMENT ACCOUNT SAVINGS

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

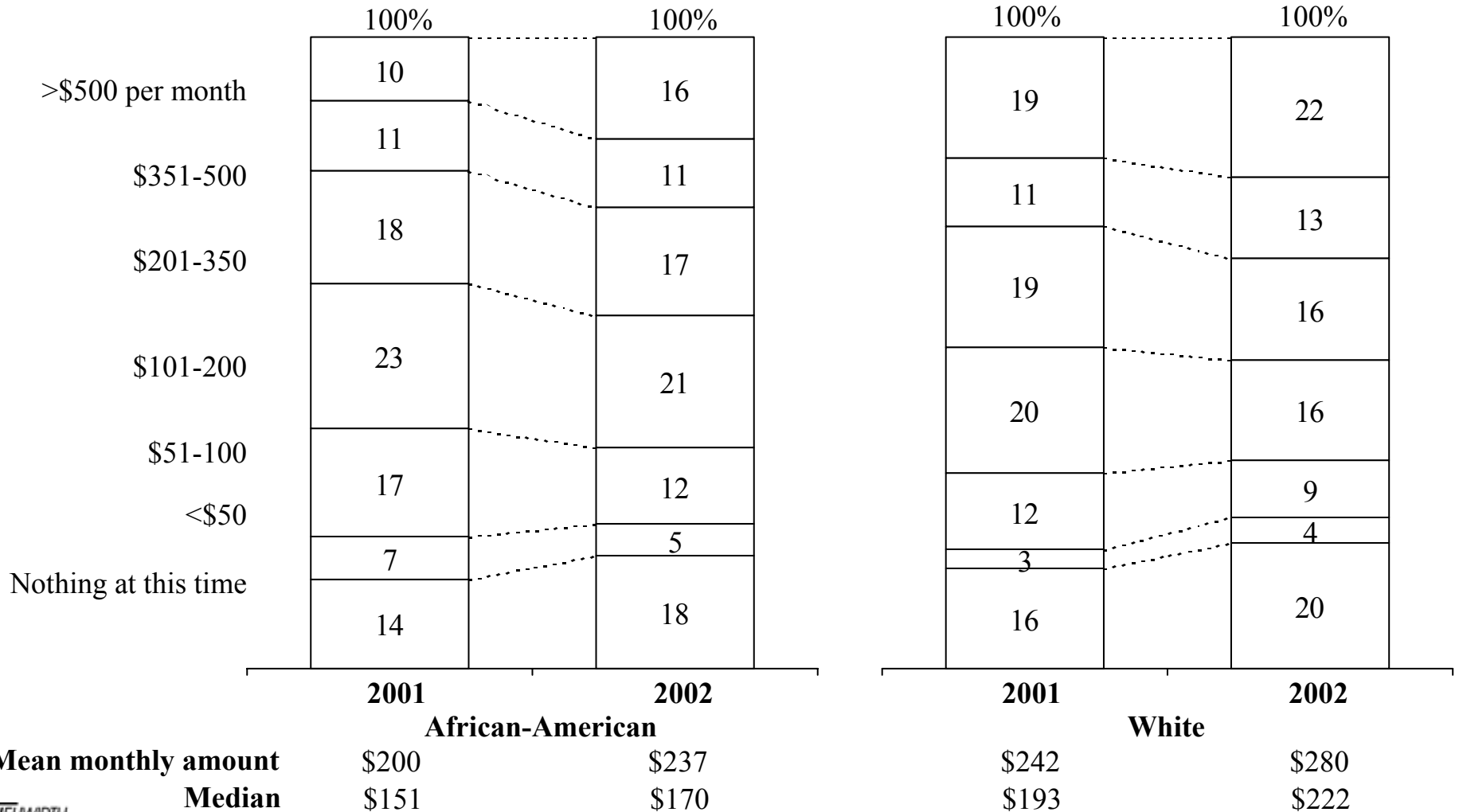
*Base: Have money in a 401(k), 403b(b) or another defined contribution plan*



# MONTHLY RETIREMENT ACCOUNT CONTRIBUTIONS

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

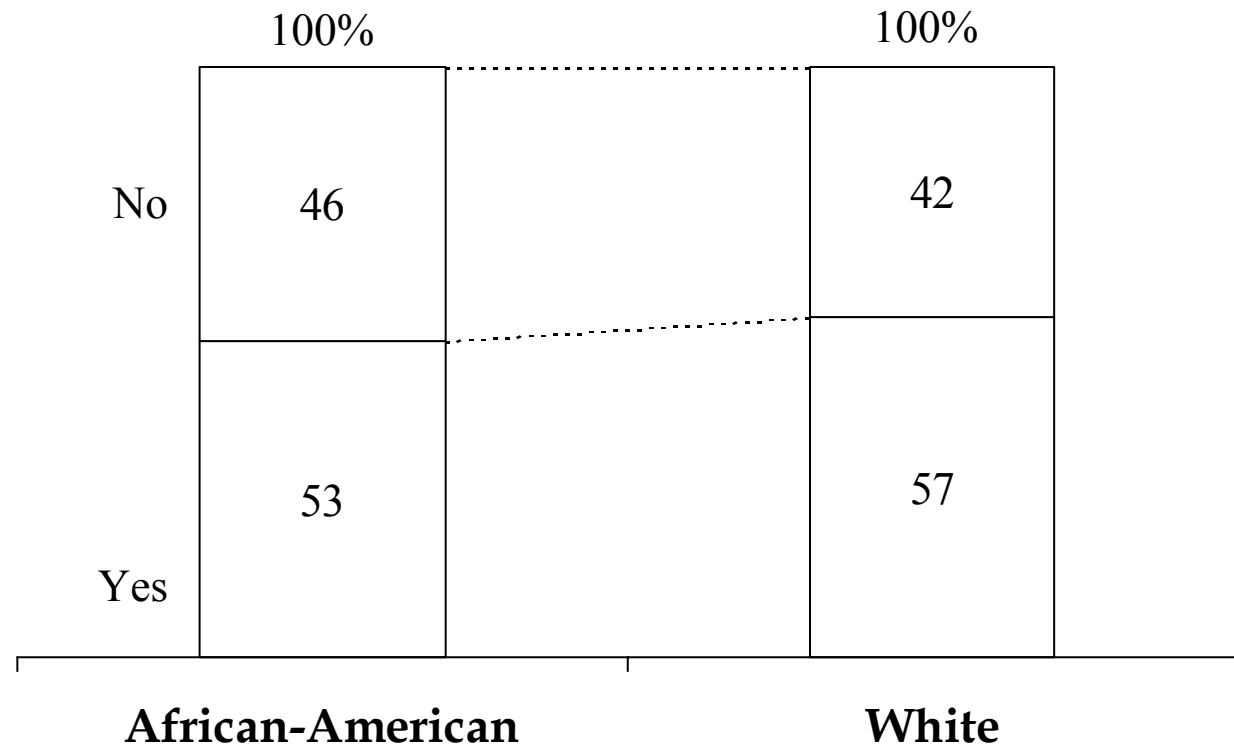
*Base: Have money in a 401(k), 403(b) or another defined contribution plan*



# MAXIMIZING CONTRIBUTIONS TO RETIREMENT PLAN

*Do you contribute the maximum amount allowable to your 401(k), 403(b) or 457 plan?*

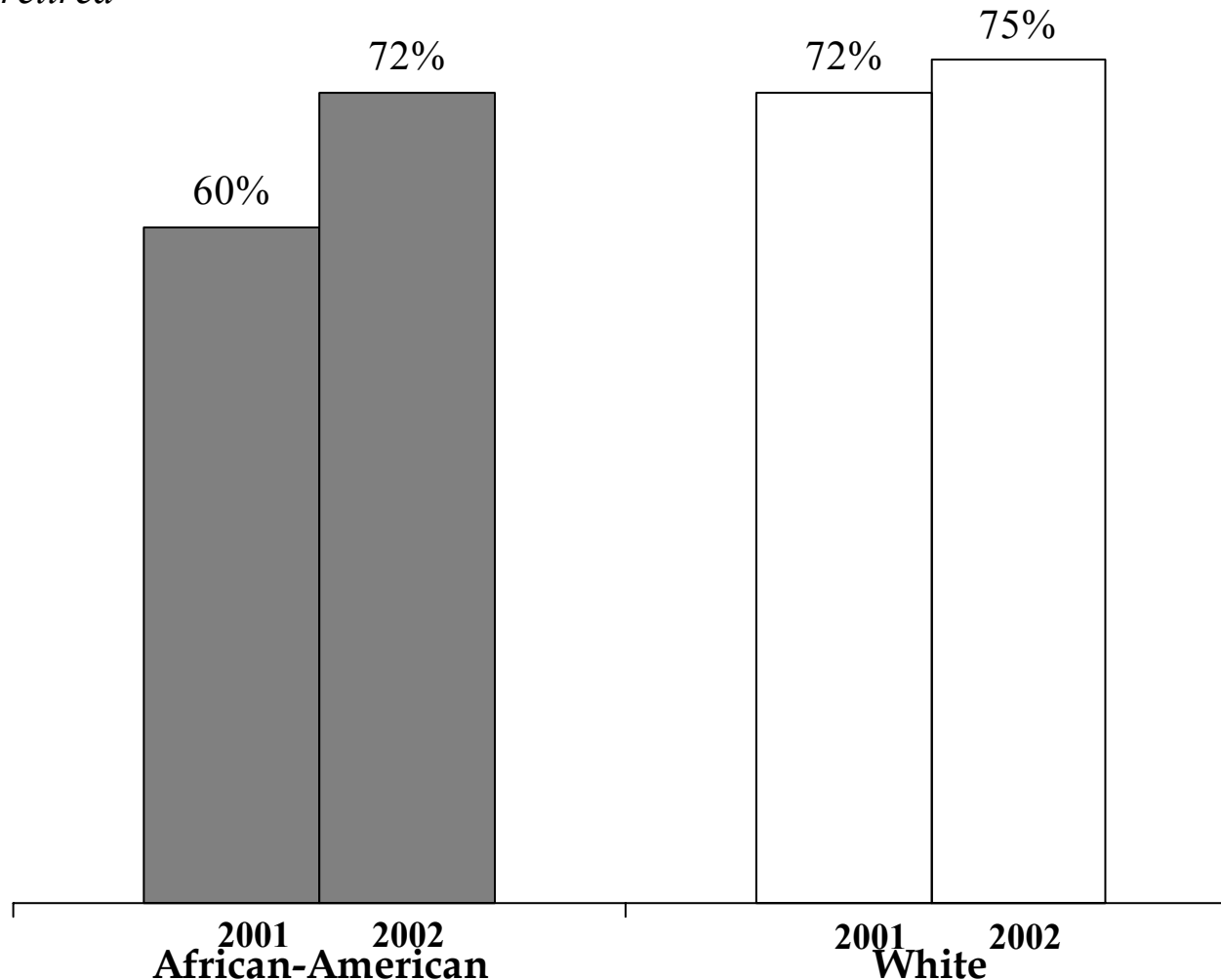
*Base: Have money in a 401(k), 403(b) or another defined contribution plan*



# CONFIDENCE IN COMFORTABLE RETIREMENT

*Do you think that you will have enough money to live comfortably in old age? (% yes)*

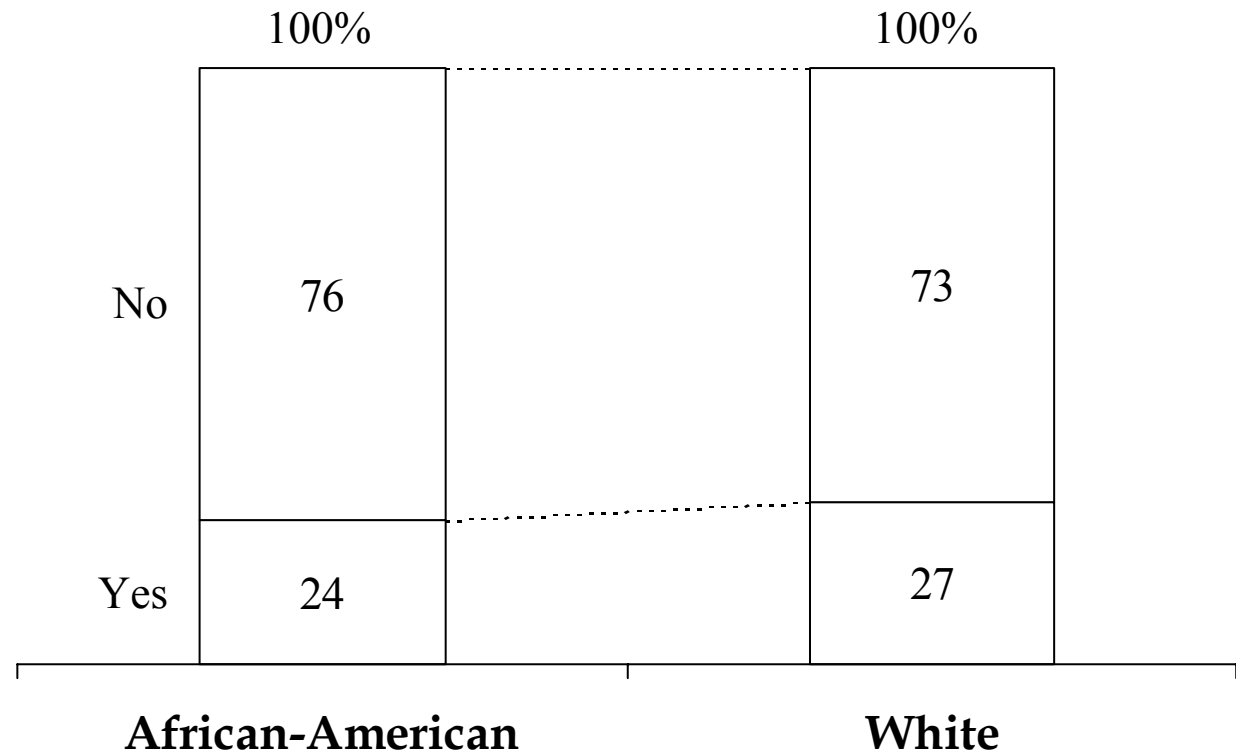
*Base: Not retired*



# ANTICIPATION OF DELAYED RETIREMENT

*As a result of the downturn in the economy, do you anticipate that you will have to delay your retirement?*

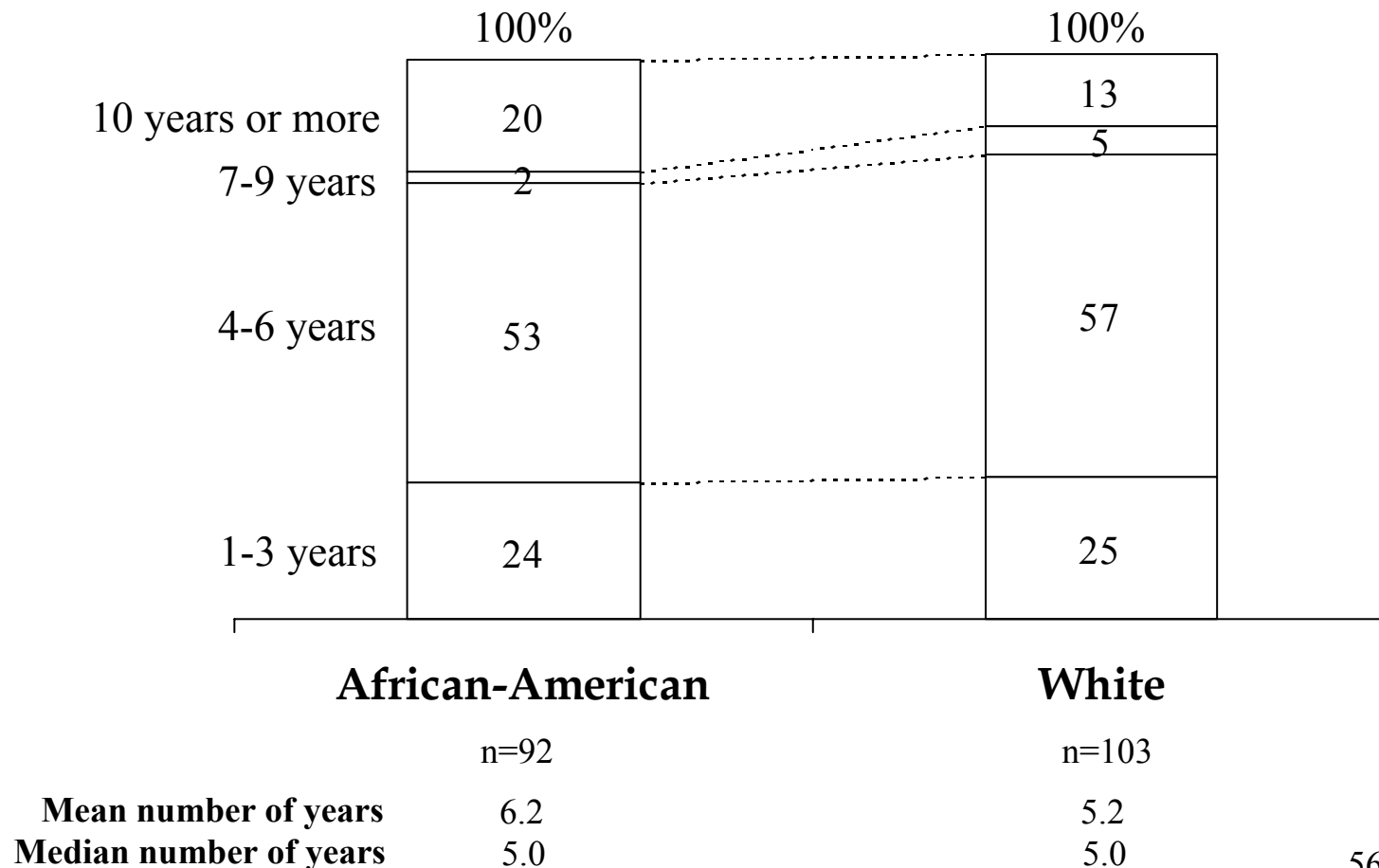
*Base: Not retired*



# NUMBER OF YEARS RETIREMENT DELAYED

*By how many years do you anticipate you will have to delay your retirement?*

*Base: Those who anticipate a delay in retirement*



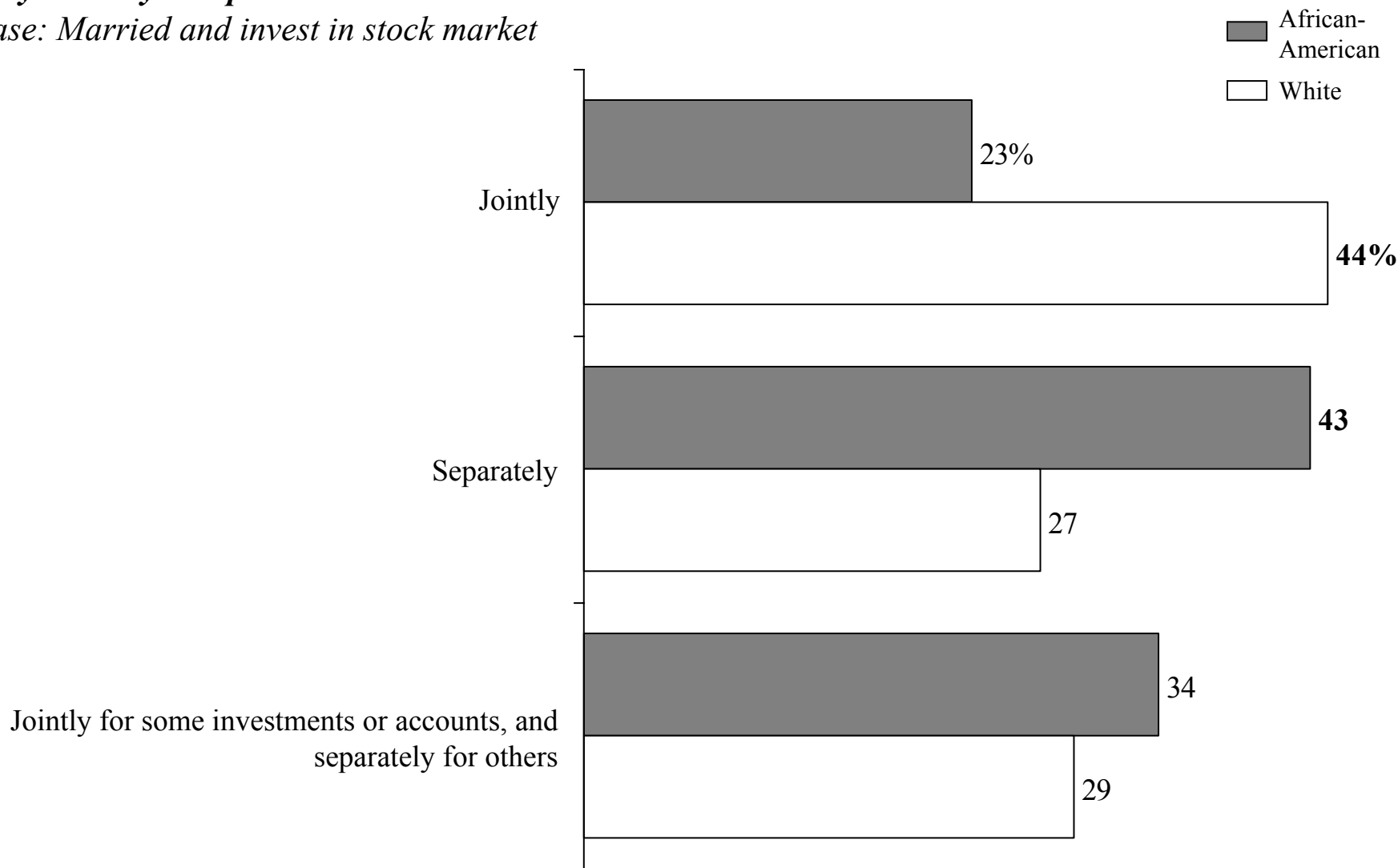


# MISCELLANEOUS

# INVESTING WITH SPOUSE

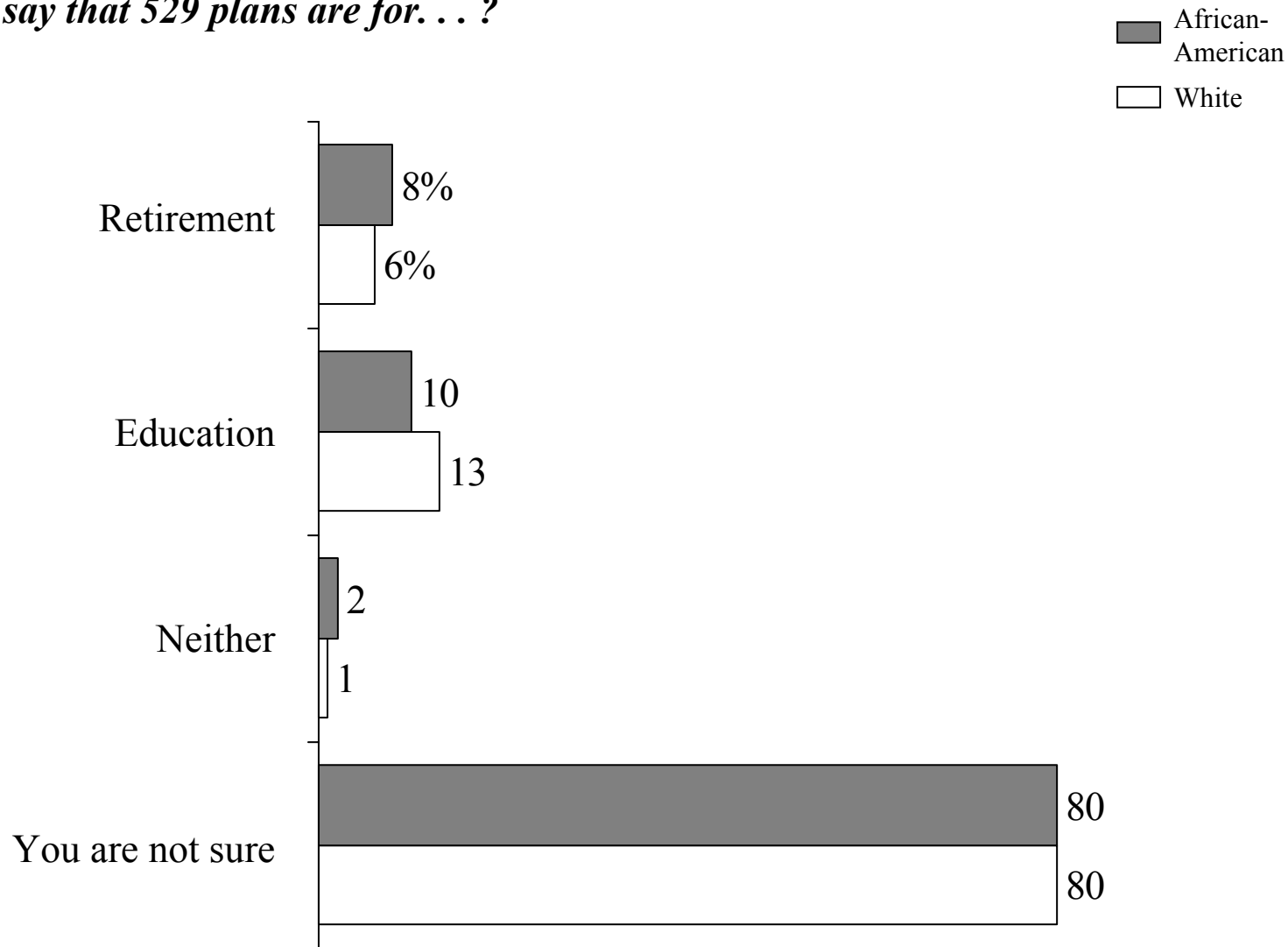
*Do you and your spouse invest in the stock market.....?*

*Base: Married and invest in stock market*



# KNOWLEDGE OF 529 PLANS

*Would you say that 529 plans are for. . . ?*



# **STUDY PARTICIPANT PROFILE**

# DEMOGRAPHIC PROFILE

## GENDER

	African-American	White
	%	%
Male	53	52
Female	47	48

## AGE

	African-American	White
	%	%
18-29	2	5
30-39	18	21
40-49	32	30
50-64	43	36
65+	4	9
Mean	49	48
Median	48	48

## EDUCATION

	African-American	White
	%	%
Some HS or less	1	1
HS graduate	17	15
Some college	28	25
College graduate	27	33
Postgraduate study	27	26

## HOUSEHOLD INCOME

	African-American	White
	%	%
\$50,000-74,999	44	43
\$75,000-99,999	30	29
\$100,000-149,999	21	20
\$150,000-250,000	5	6
Over \$250,000	1	3
Mean	\$90K	\$101K
Median	\$80K	\$83K

## EMPLOYMENT STATUS

	African-American	White
	%	%
Employed full time	76	72
Retired	15	13
Employed part-time	4	6
Unemployed	3	2
Homemaker	2	6
Full-time student	1	1

## TYPE OF EMPLOYER

(of those employed)

	African-American	White
	%	%
Private co.	49	65
State/fed. gov't	39	22
Not-for-profit	12	12

# DEMOGRAPHIC PROFILE (CONTINUED)

## MARITAL STATUS

	African-American	White
	%	%
Single/never married	12	8
Not married/living together	1	1
Married	74	81
Divorced/separated	8	6
Widowed	4	3

## HAVE CHILDREN

	African-American	White
	%	%
Yes	88	83
No	12	17

## NON-SPOUSE ADULTS IN HOME

	African-American	White
	%	%
Other adults present	25	19
No other adults present	75	81

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

	African-American	White
	%	%
None	51	55
One	21	18
Two	18	19
Three or more	10	8

## LOCATION OF PRIMARY RESIDENCE

	African-American	White
	%	%
City	53	36
Suburbs	40	41
Rural area	7	23

# FINANCIAL PROFILE

## VALUE OF SAVINGS AND INVESTMENTS (ex. real estate)

	African-American	White
	%	%
>\$1,000,000	1	<b>5</b>
\$500,00-\$999,999	4	<b>7</b>
\$250,000-\$499,999	14	16
\$100,000-\$249,999	25	31
\$50,000-\$99,999	<b>25</b>	18
\$25,000-\$49,999	14	11
\$5,000-\$24,999	14	11
<\$5,000	<b>3</b>	2
Mean	\$169K	<b>\$264K</b>
Median	\$88K	\$142K

## MONTHLY SAVINGS/INVESTMENTS

	African-American	White
	%	%
\$2,500+	2	4
\$1,001-\$2,500	5	<b>10</b>
\$501-\$1,000	11	<b>17</b>
\$351-\$500	17	15
\$201-\$350	17	15
\$101-\$200	<b>21</b>	16
\$51-\$100	11	8
<\$50	<b>5</b>	2
Nothing at this time	10	12
Mean	\$405	<b>\$581</b>
Median	\$226	\$314