

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

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

June 2003



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

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For more information about Ariel Mutual Funds, including fees, expenses and potential risks, call for a prospectus or write to the distributor. Please read it carefully before you send money. Ariel Distributors, Inc., 200 East Randolph Drive, Chicago, IL 60601.

# TABLE OF CONTENTS

❑ Background and Objectives.....	4
❑ Methodology.....	5
❑ Highlights of Previous and Current Studies.....	6
❑ Investing Patterns.....	11
❑ Attitudes and Behaviors in a Bear Market .....	19
❑ Saving For Retirement .....	33
❑ Real Estate vs. Stock Market .....	43
❑ Study Participant Profile .....	47

# BACKGROUND AND OBJECTIVES

- ❑ Ariel Mutual Funds and Charles Schwab & Co., Inc. (member SIPC/NYSE) commissioned Argosy Research to conduct the sixth 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, 2001 and 2002.
- ❑ 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 between January 22 and February 17, 2003.
- ❑ 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 17 minutes.

*Note: Throughout this report, a bolded number indicates that it is significantly higher from a statistical standpoint than the number to which it is being compared.*

# HIGHLIGHTS OF PREVIOUS STUDIES

## January, 1998

- ❑ 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.

## January, 1999

- ❑ The 1999 study helped 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.
- ❑ At the same time, this study also uncovered heightened interest in investing among African-Americans relative to Whites.
- ❑ Other areas explored included how women and men behave differently. Women are more likely than men to consider themselves beginner investors, are relatively underinvested, and are more likely to own conservative investments than men..

# HIGHLIGHTS OF PREVIOUS STUDIES (CONTINUED)

## April 2000

- ❑ The 2000 study found that family obligations, including children's education, dictate African-American savings.
  - More African-Americans than Whites expect to support adult children; also, more African-Americans expect to support aging parents.
  - 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.

## June 2001

- ❑ The 2001 study found that even after controlling for demographic and behavioral 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:
  - African-Americans become increasingly more likely to invest as they earn more. Income is not a determinant of investing among Whites.
  - Regardless of their income, Whites begin investing at fairly young ages, while for African-Americans the likelihood to invest does not track with age.
- ❑ 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 PREVIOUS STUDIES (CONTINUED)

## June 2002

- ❑ The percentage of high-income Blacks 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%.
- ❑ 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. In fact, the general mood among Blacks and Whites regarding financial matters is notably upbeat.
  - 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.
- ❑ 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," and far fewer Blacks than Whites (46% vs. 68% respectively) think the economy will improve within the next 12 months.
- ❑ The historical preference for real estate among Blacks rebounded this year with 49% of African-Americans calling real estate the "best investment overall," up from 40% last year and even higher than the 46% figure of 1998.



# HIGHLIGHTS OF THIS YEAR'S STUDY

- ❑ This year's study shows that many high income African-Americans are retreating from the stock market.
  - After five straight years of steady increases in the percentages of African-Americans who own stocks, only 61% of Blacks today have money in the stock market, down from 74% last year and approaching the 1998 level of 57%.
  - White stock ownership, meanwhile, is at 79% this year, which is virtually unchanged over the last six years.
- ❑ Real estate and other investments are increasingly in favor with both African-Americans and Whites.
  - With interest rates at 35-year lows, White attitudes toward real estate investing are suddenly approaching Black historical preferences for real estate investing.
  - This year, 50% of Blacks and 44% of Whites call real estate “the best investment overall,” compared to 49% of Blacks and just 31% of Whites last year.
  - When asked which is the “better investment” -- home improvements or stocks -- 76% of Blacks and 61% of Whites chose home improvements, while only 20% of Blacks and 33% of Whites chose stocks.
  - Among investors, 25% of Blacks and 31% of Whites sold some of their stocks or mutual funds in the past year, though very few Whites cashed out completely. Younger, lower-earning Blacks are the most likely group to have left the market. Additionally, 48% of Blacks and 27% of Whites plan on shifting more of their portfolios into cash in the coming year.

## HIGHLIGHTS OF THIS YEAR'S STUDY (CONTINUED)

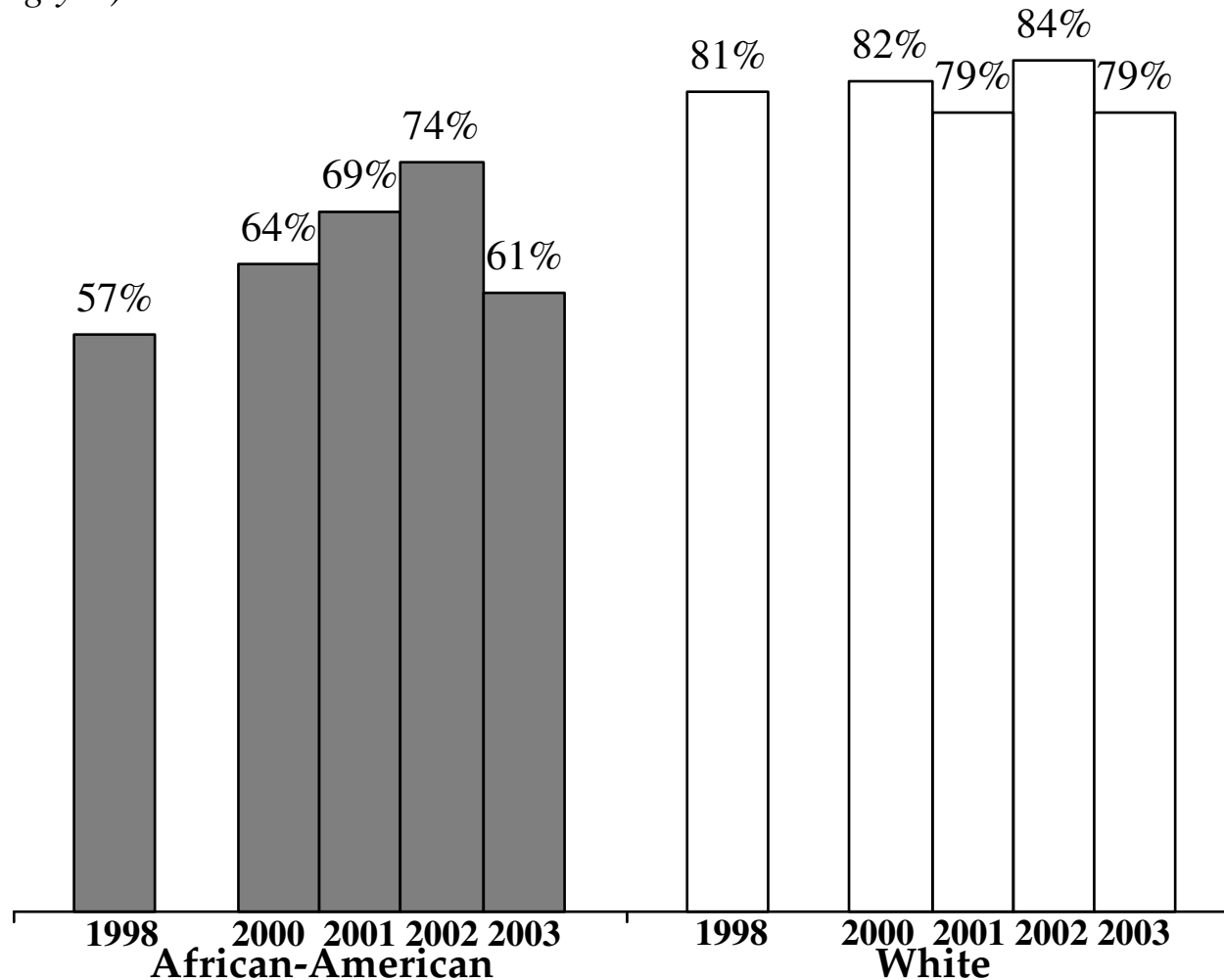
- ❑ African-Americans are bleaker than Whites about stocks in the short-term.
  - Over half of Blacks and 40% of Whites say they are “bearish” about the next 12 months.
  - The percentage of Blacks who “just don’t trust the stock market with [their] money” rose to 49% this year, compared to just 38% last year. For Whites, 33% don’t “trust” the market today, compared to 25% last year.
  - Blacks who say “the stock market continues to be the best place for long-term investing” has plunged from 67% to 46% since 2001, while the percentage of Whites agreeing with this statement has dropped from 82% to 62% since 2001.
  - On a positive note, 82% of Blacks and 89% of Whites remain “optimistic” about their financial future. Furthermore, 33% of Blacks and 38% of Whites say that lower stock prices would prompt them to either start investing or invest more in stocks.
- ❑ The survey, conducted in early 2003 before the war in Iraq began, shows that the threat of war and the unemployment rate both weighed more heavily on the minds of Blacks than Whites, but neither issue was affecting investment behavior as much as income levels or market trends.
  - Blacks were more likely than Whites to say they would start investing or invest more in stocks if there was “a peaceful resolution in Iraq,” (56% Black vs. 48% White), or “a drop in unemployment,” (52% Black vs. 43% White).
  - Among all those surveyed, however, the biggest reasons to start investing or invest more in stocks are rising household income levels (71% of Blacks and 73% of Whites) and “a perception that the market is turning around” (62% of Blacks and 67% of Whites).

# INVESTING PATTERNS

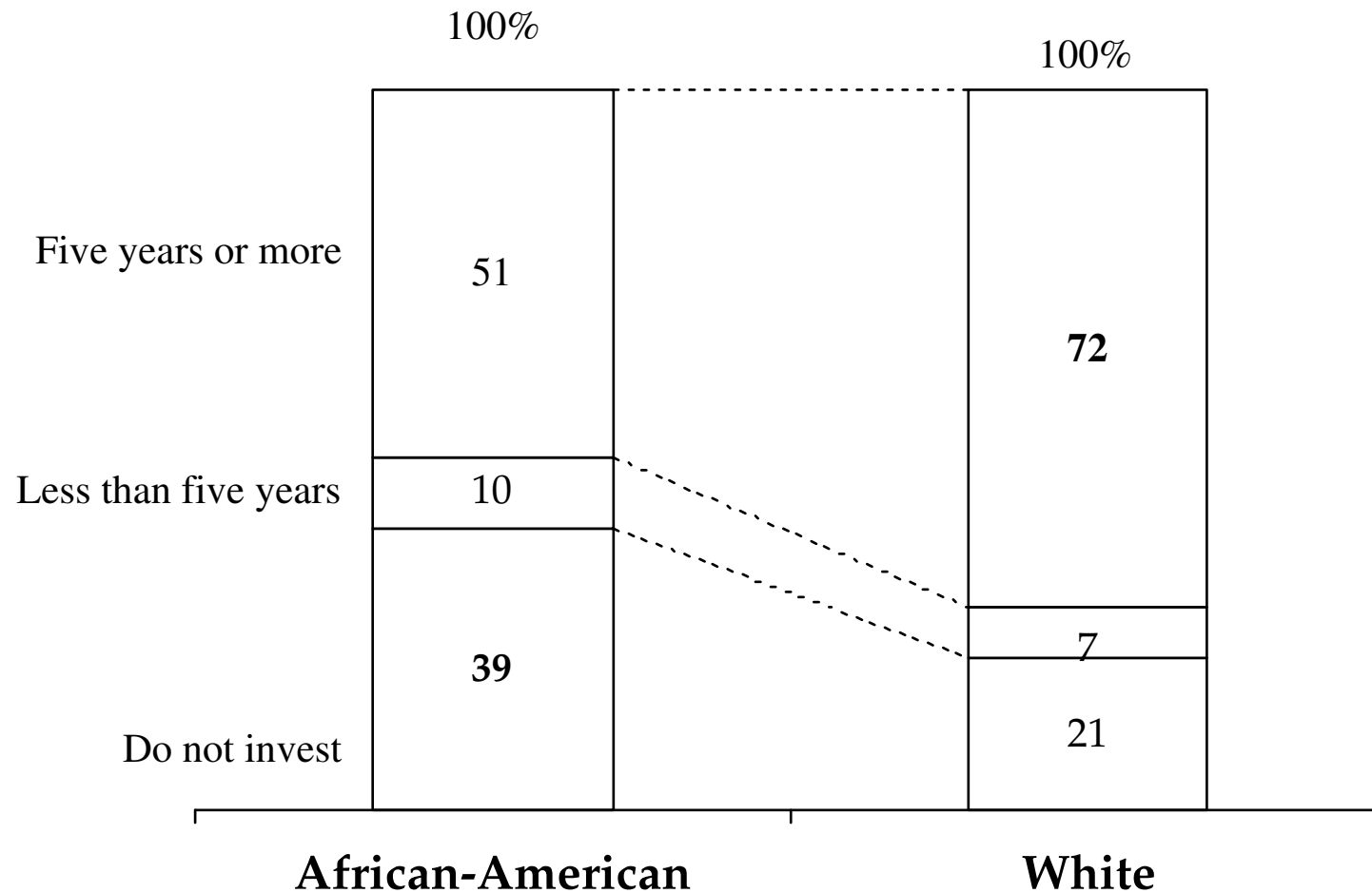
# TRENDS IN MARKET PARTICIPATION

*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)*

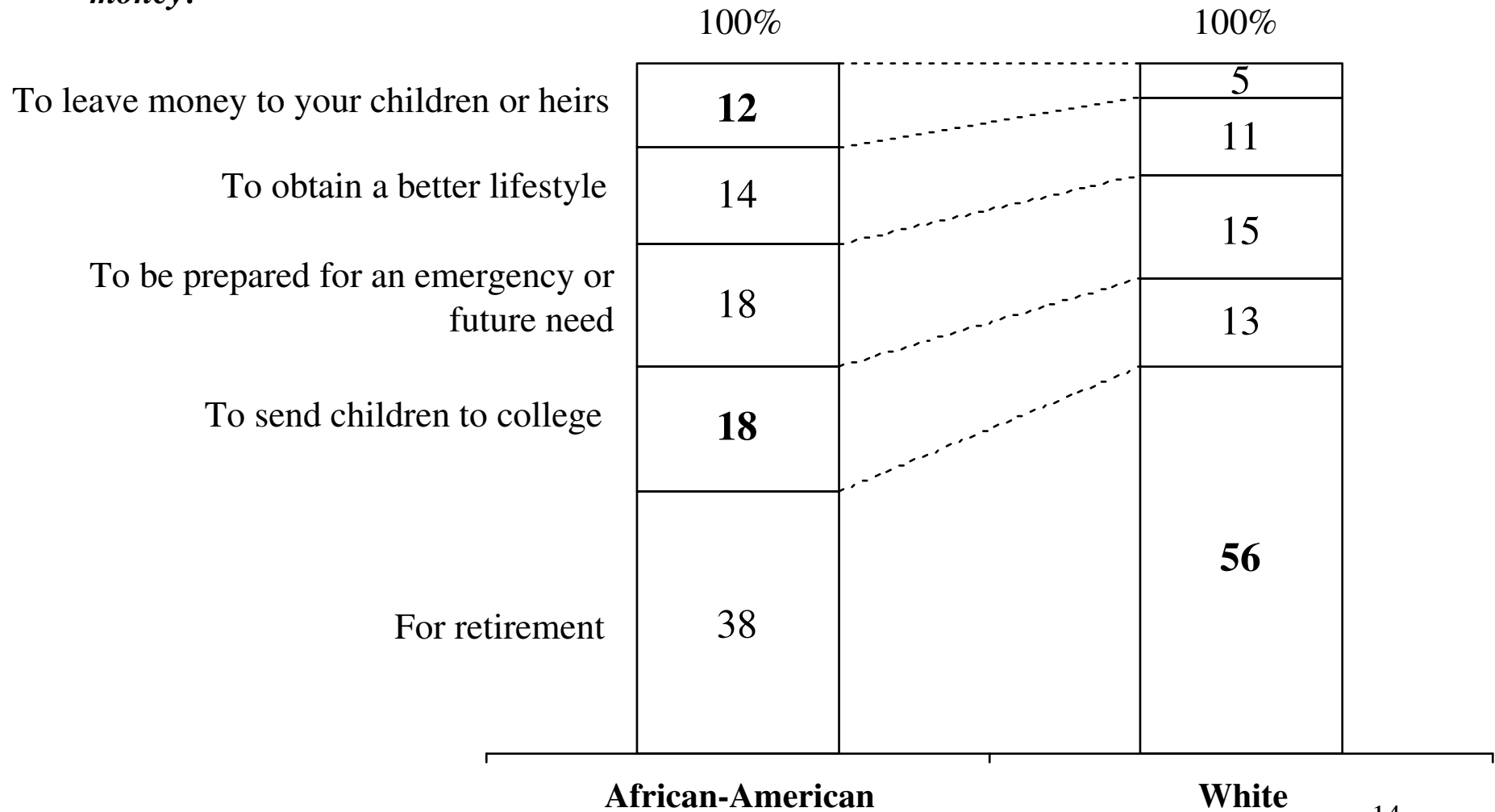


# LENGTH OF TIME INVESTING



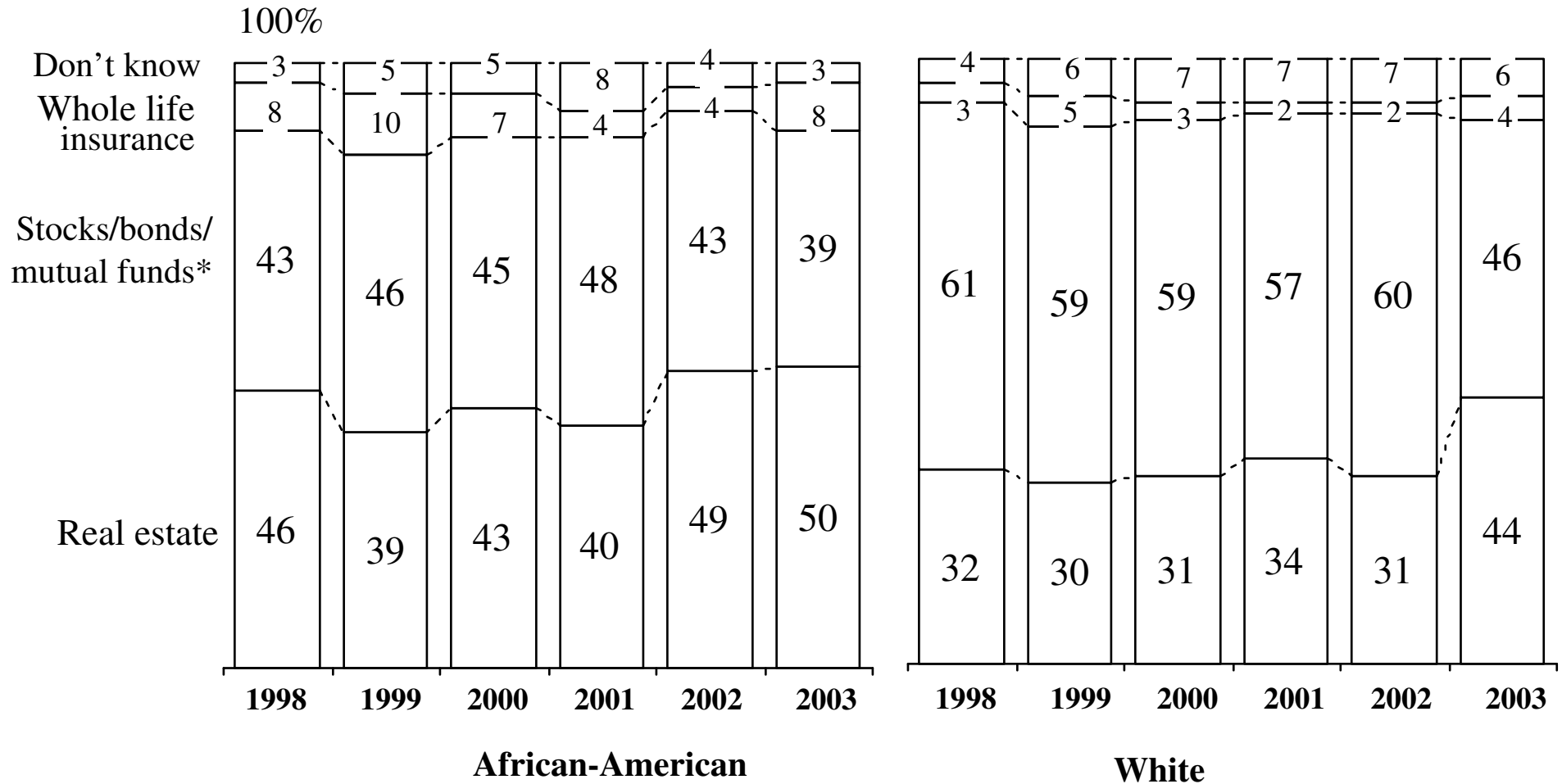
# GOAL FOR SAVINGS AND INVESTING

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



# PERCEPTIONS OF BEST INVESTMENTS OVERALL

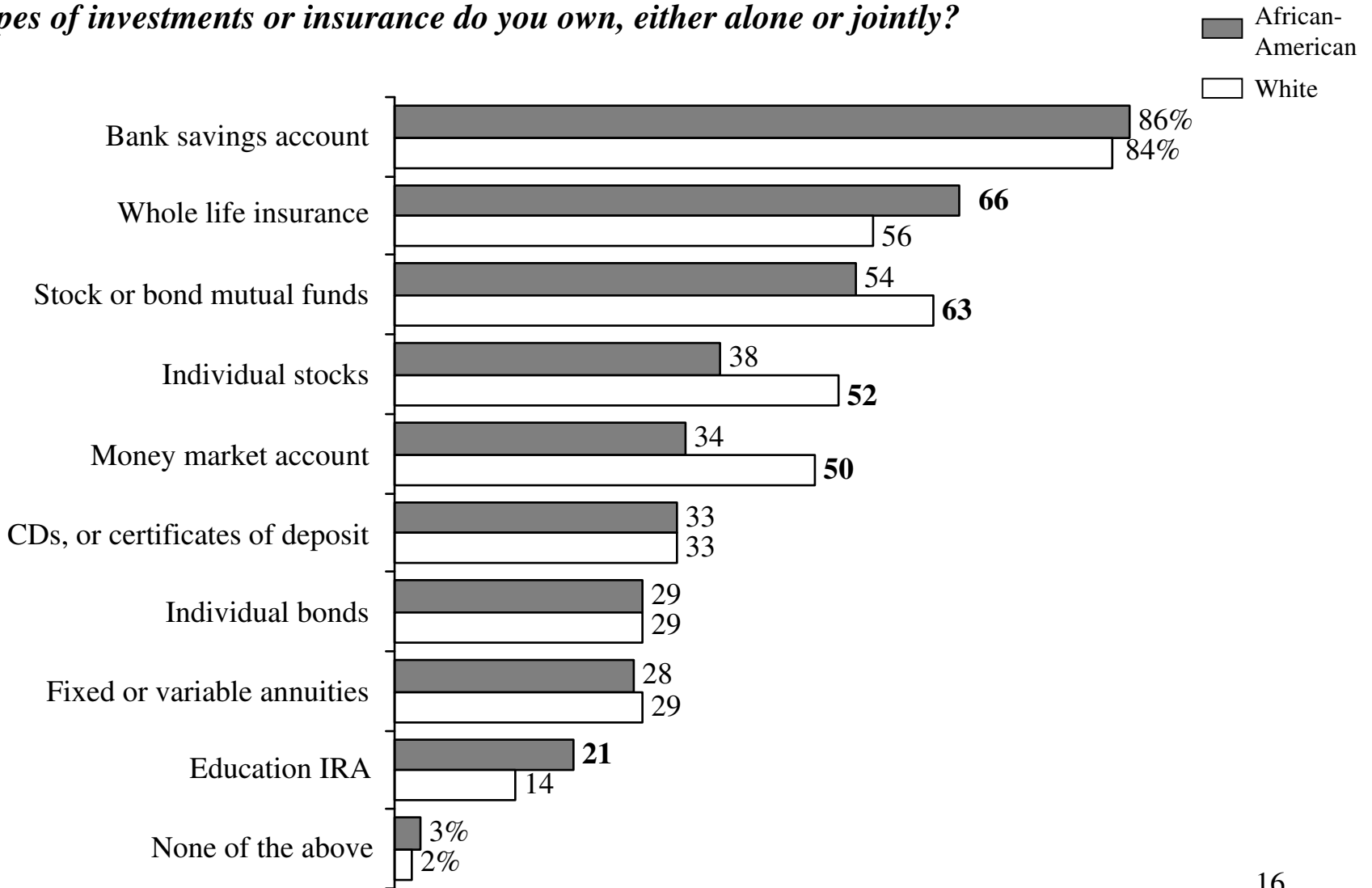
*Which of the following do you think is the best investment overall?*



\* Mutual funds added as a separate category in 2000

# PRODUCT OWNERSHIP

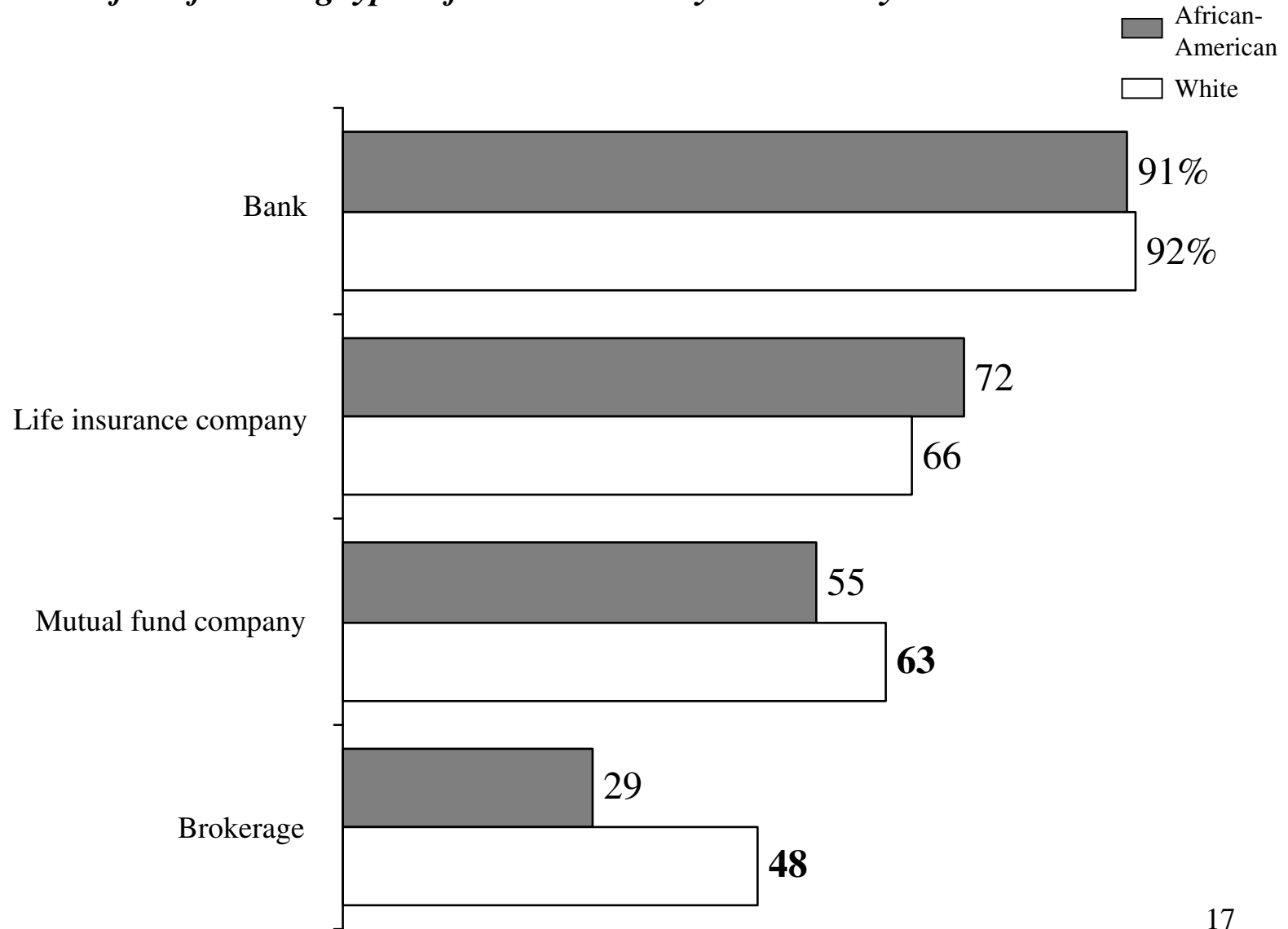
*Outside of a 401(k) plan or other employer sponsored retirement plan, which of the following types of investments or insurance do you own, either alone or jointly?*





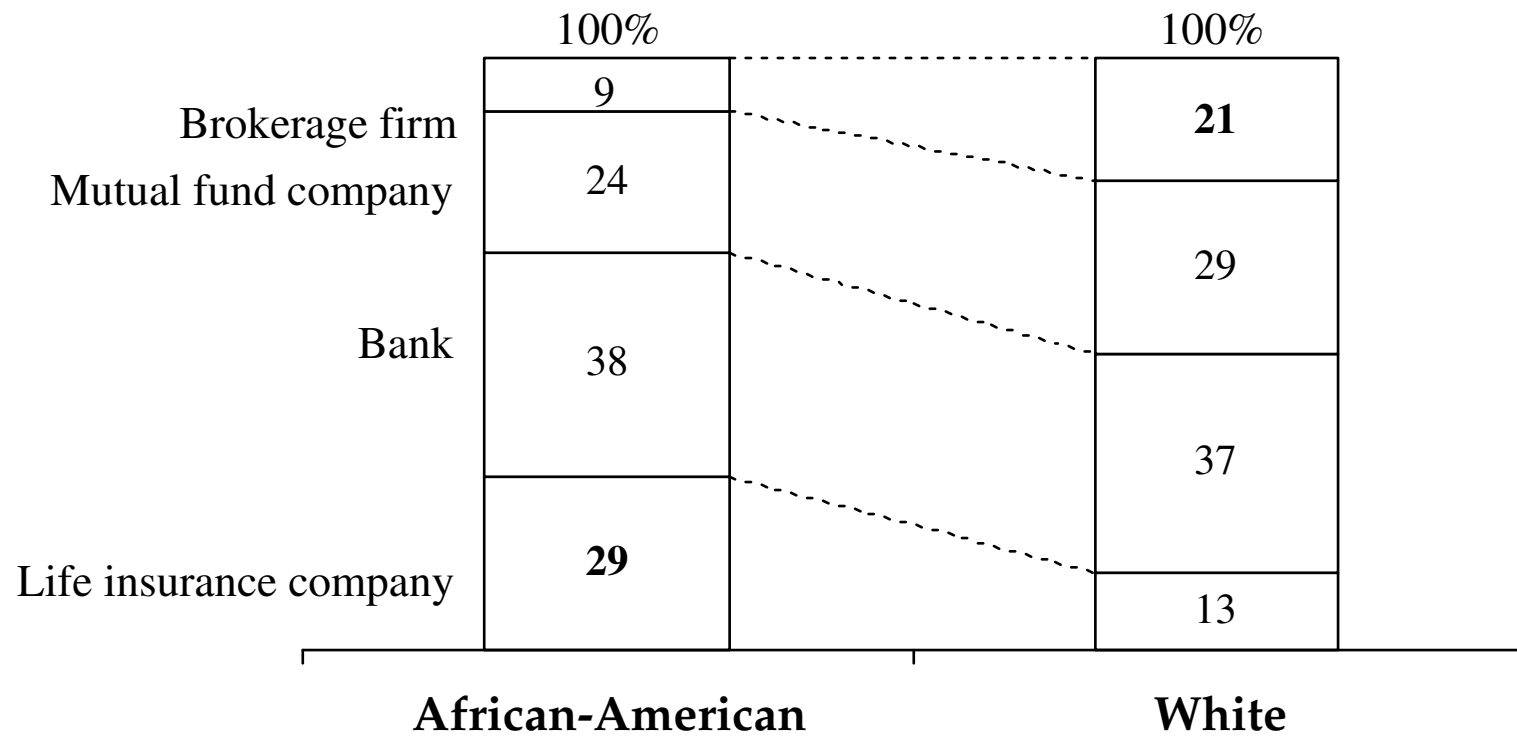
# ACCOUNTS WITH FINANCIAL INSTITUTIONS

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



# ASSETS WITH FINANCIAL INSTITUTIONS

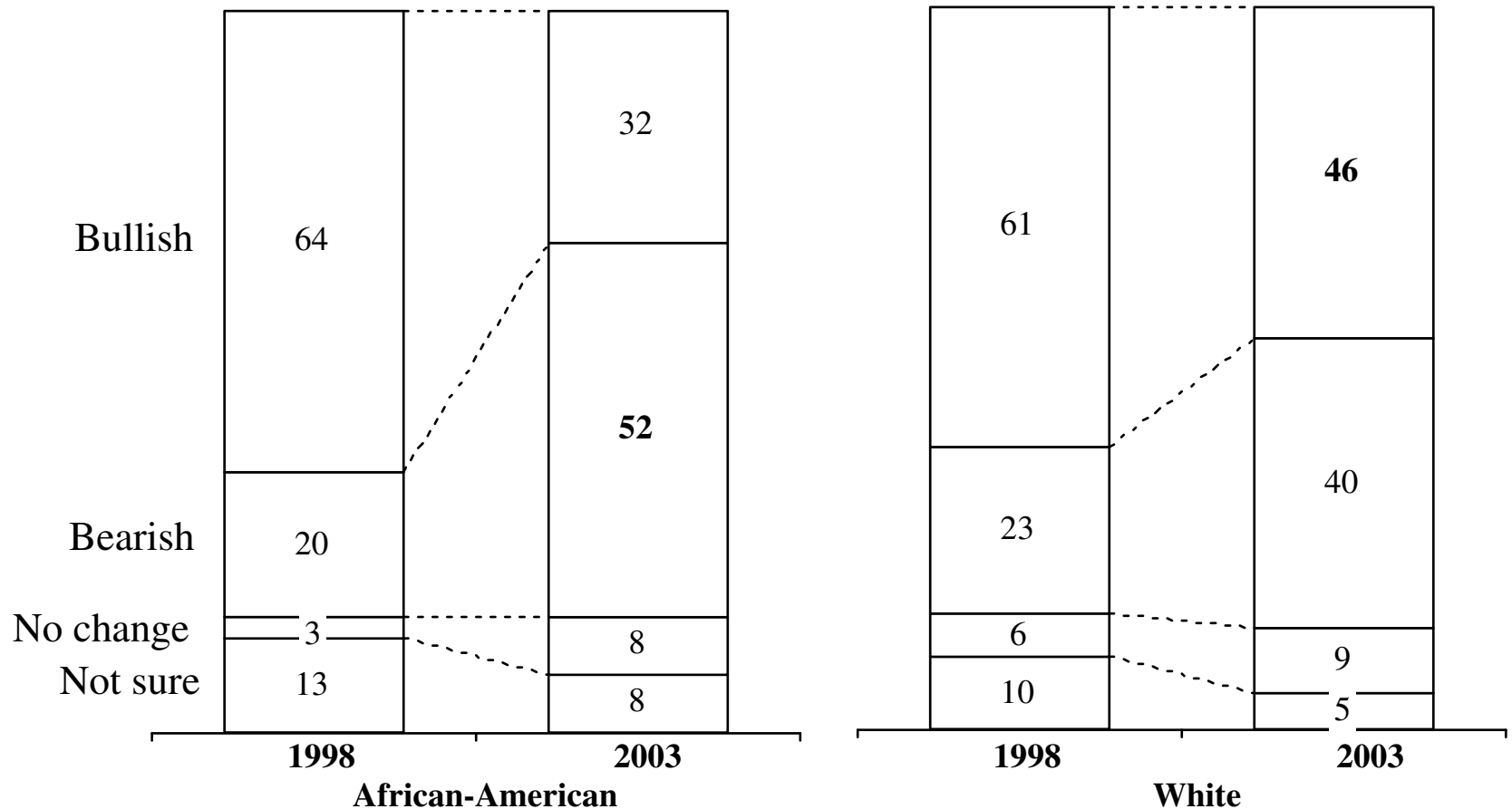
*With which type of institution do you have the most assets?*



# **ATTITUDES AND BEHAVIORS IN A BEAR MARKET**

# OUTLOOK FOR THE STOCK MARKET

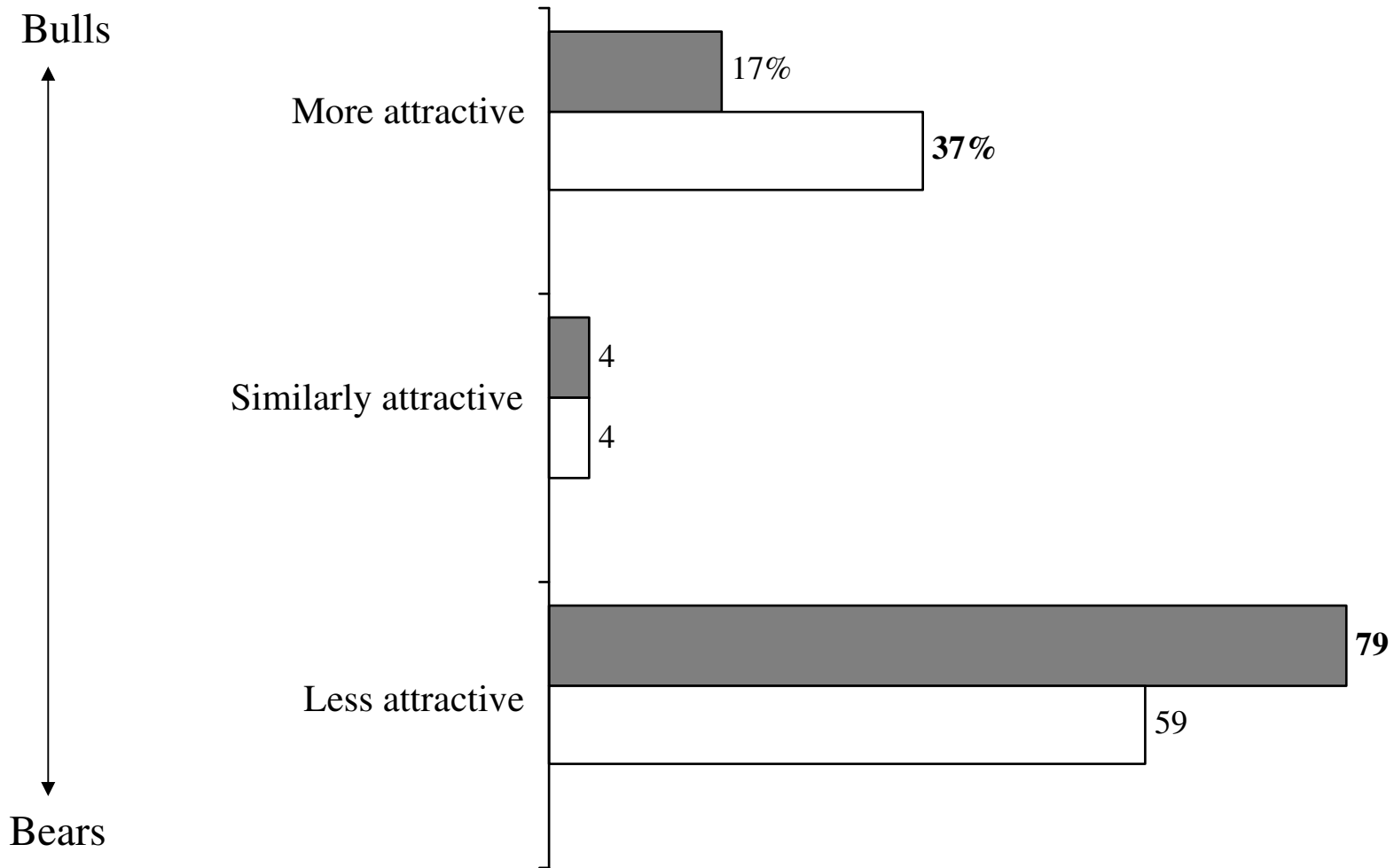
*Is your outlook for the stock market in the next twelve months generally bullish, that is you think it will go up, or bearish, that is, you think it will go down?*



# PERCEPTION OF MARKET'S ATTRACTIVENESS

*The last three years have been the worst bear market since the Depression in the 1930's. As a result, do you feel that stocks are currently less attractive or more attractive than three years ago as an investment?*

■ African-American  
□ White

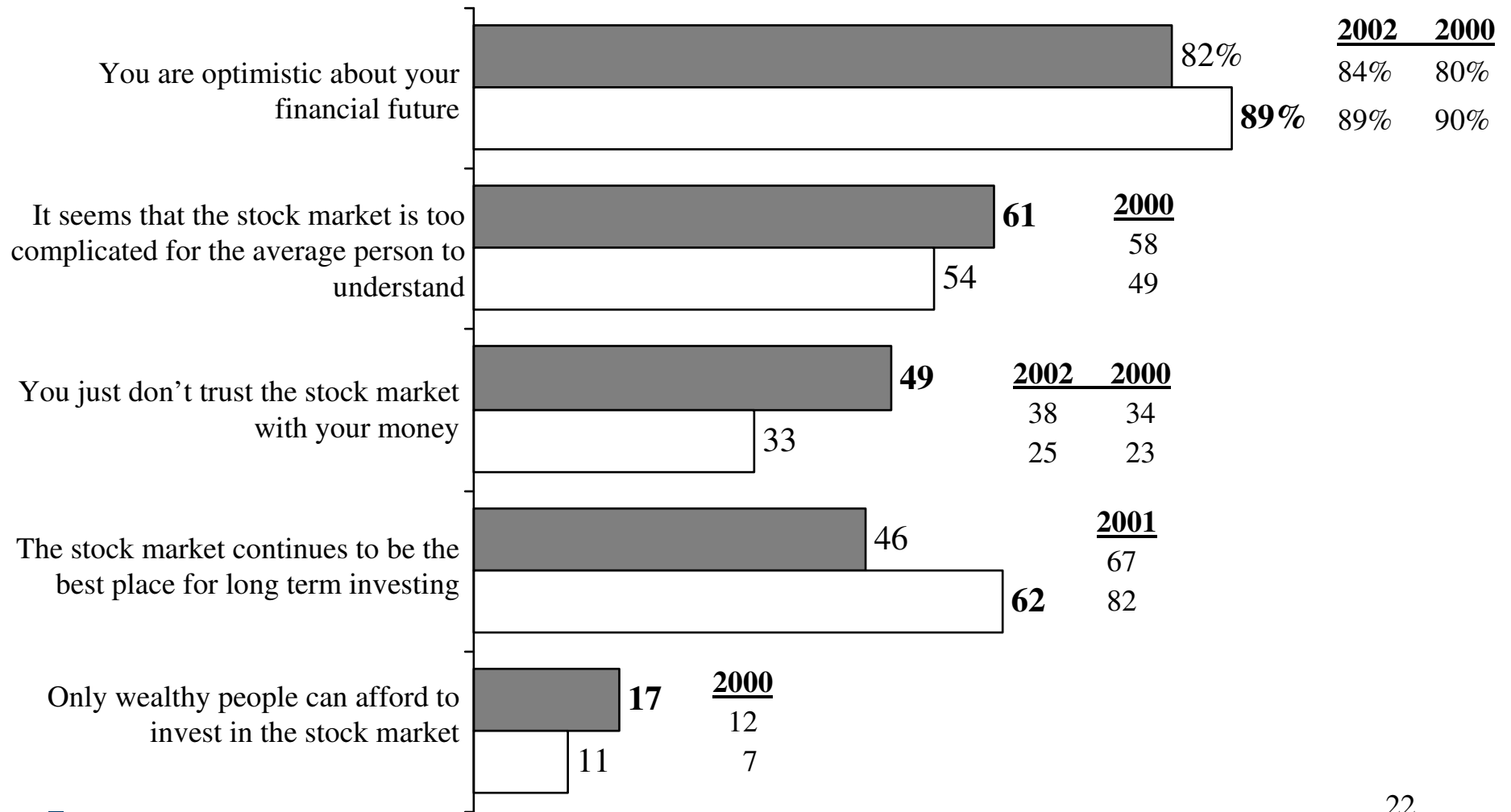


# ATTITUDES ABOUT THE STOCK MARKET



*% Agreeing with following statements.*

*Base: All respondents*

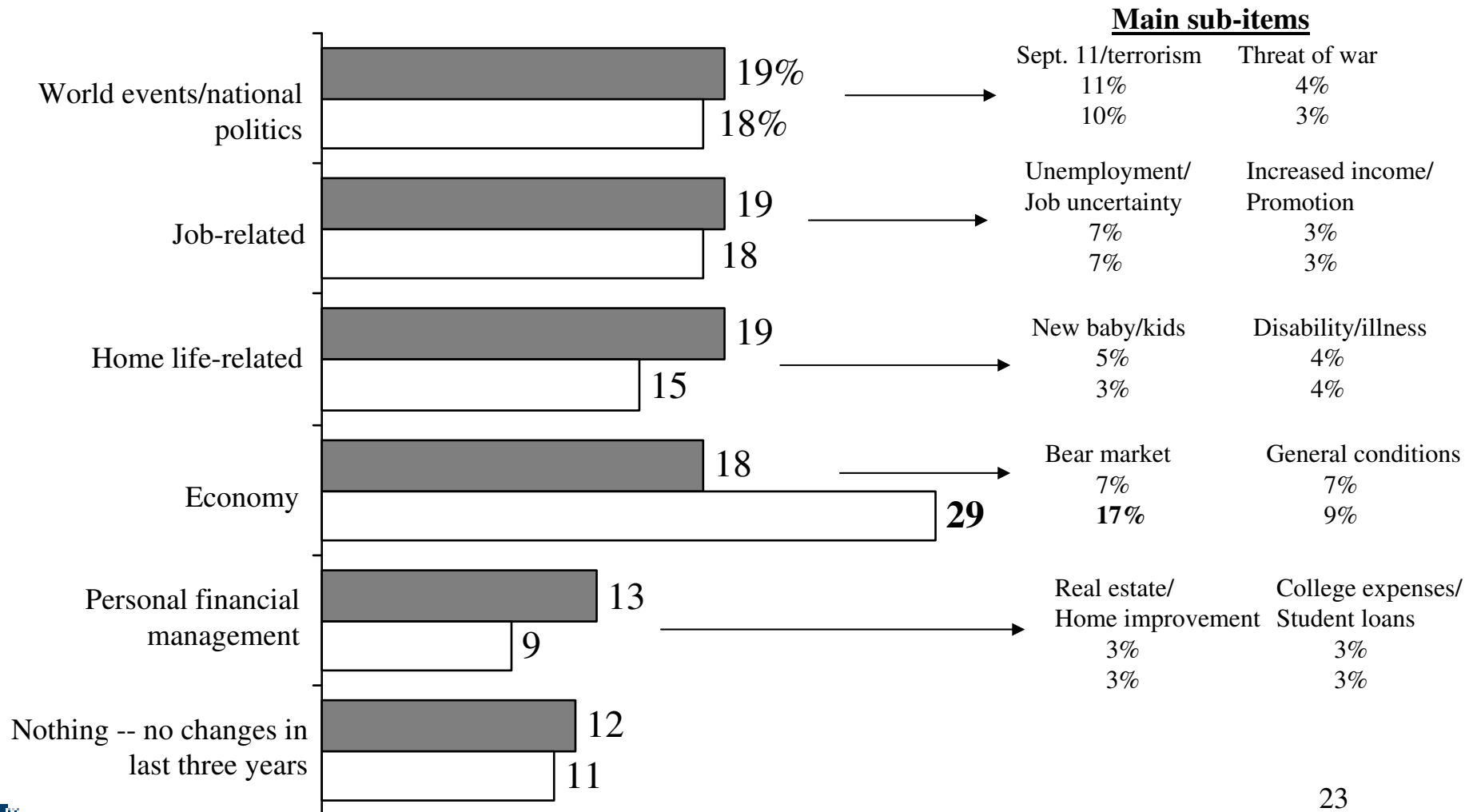
■ African-American  
□ White



# GREATEST IMPACT ON PERSONAL FINANCIAL SITUATION

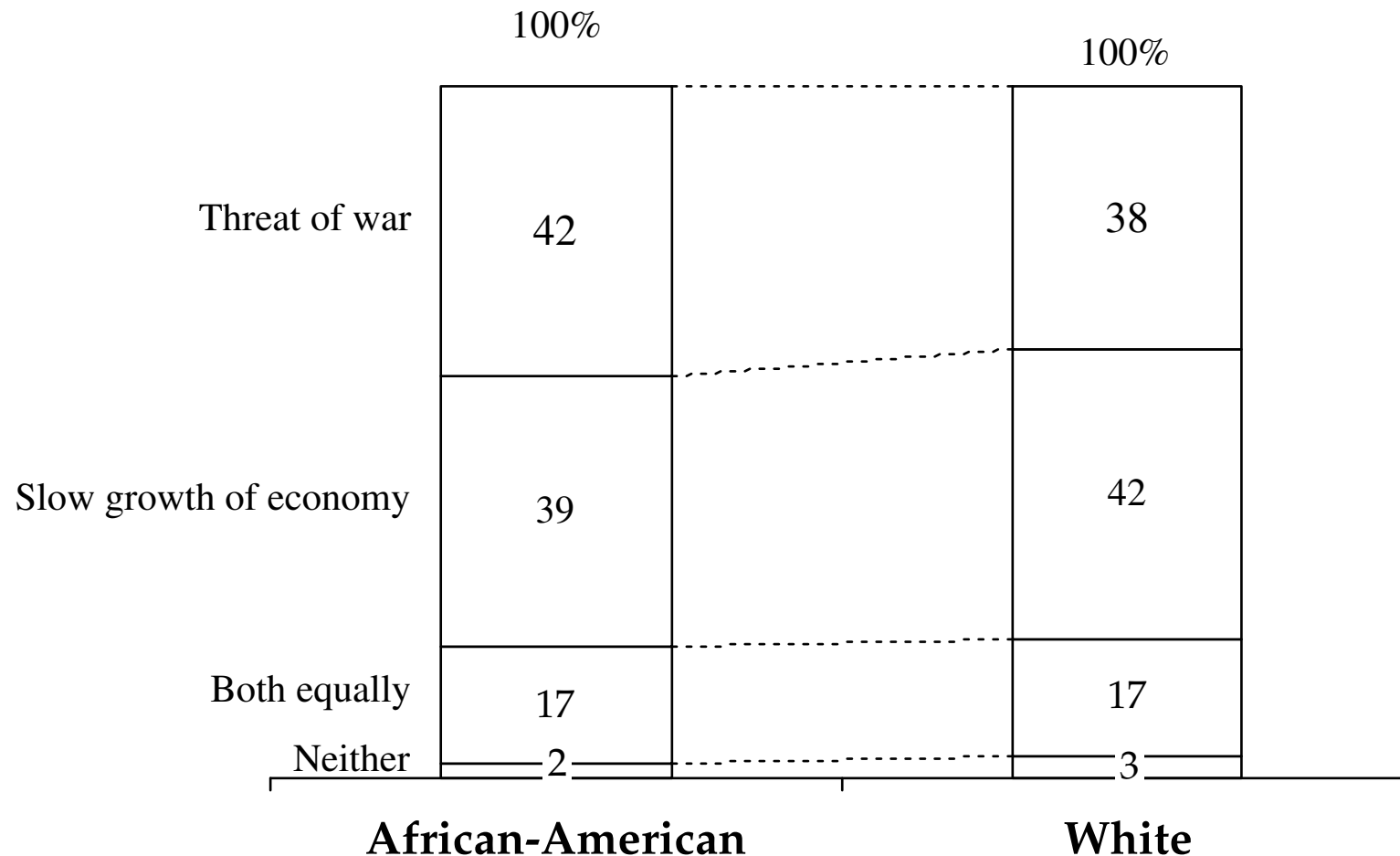
 African-American  
 White

*What single happening or circumstance, either in current events or your personal life, has most affected your personal financial situation over the last three years? [UNAIDED]*



# CONCERNS ABOUT ECONOMY VS. THREAT OF WAR

*From a financial perspective, are you personally more concerned about the threat of war, or about the continued slow growth of the economy?*



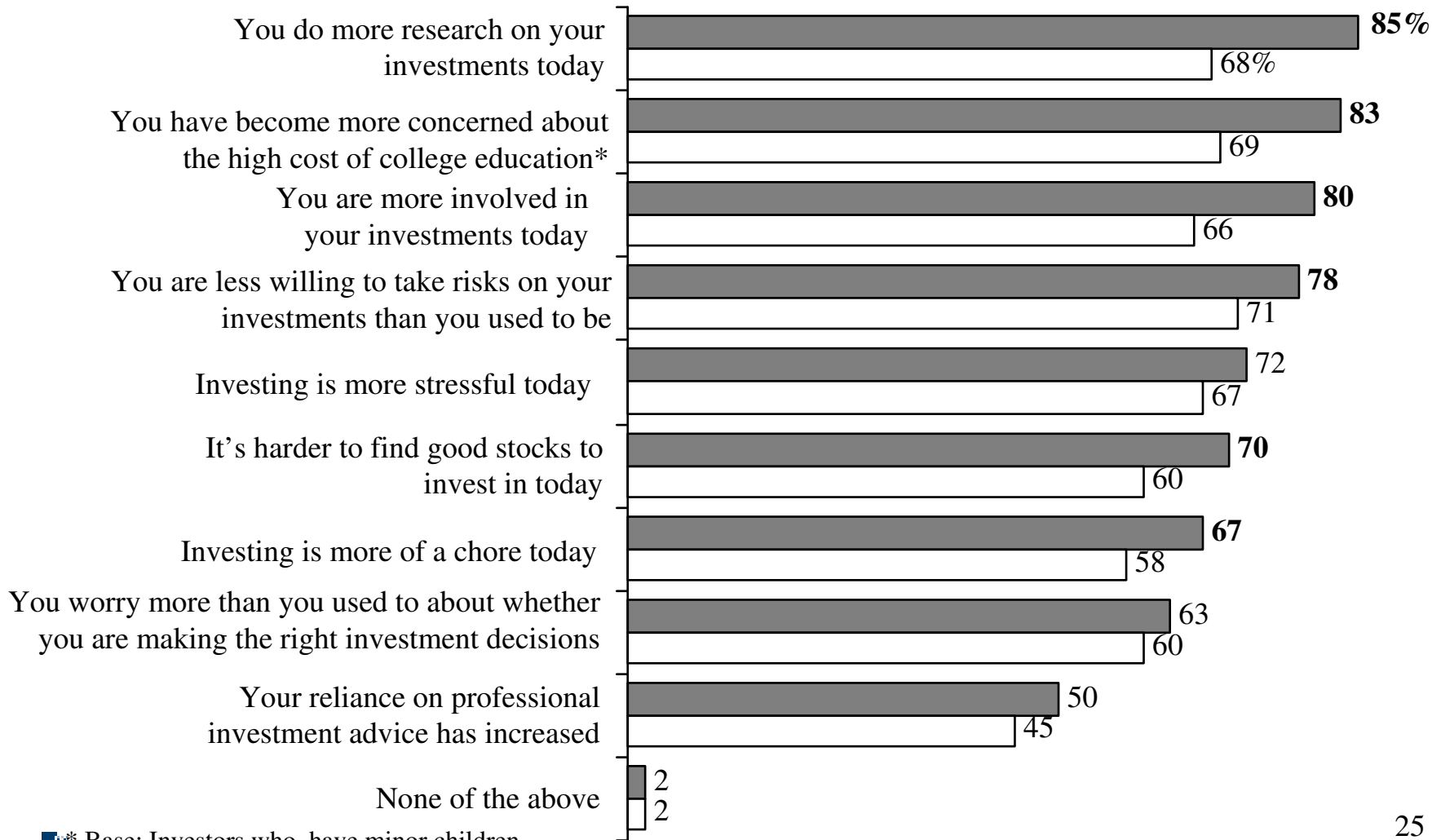


# CHANGES IN INVESTING IN LAST FIVE YEARS

*Thinking about how investing has changed for you personally in the last five years, would you agree or disagree that....?*

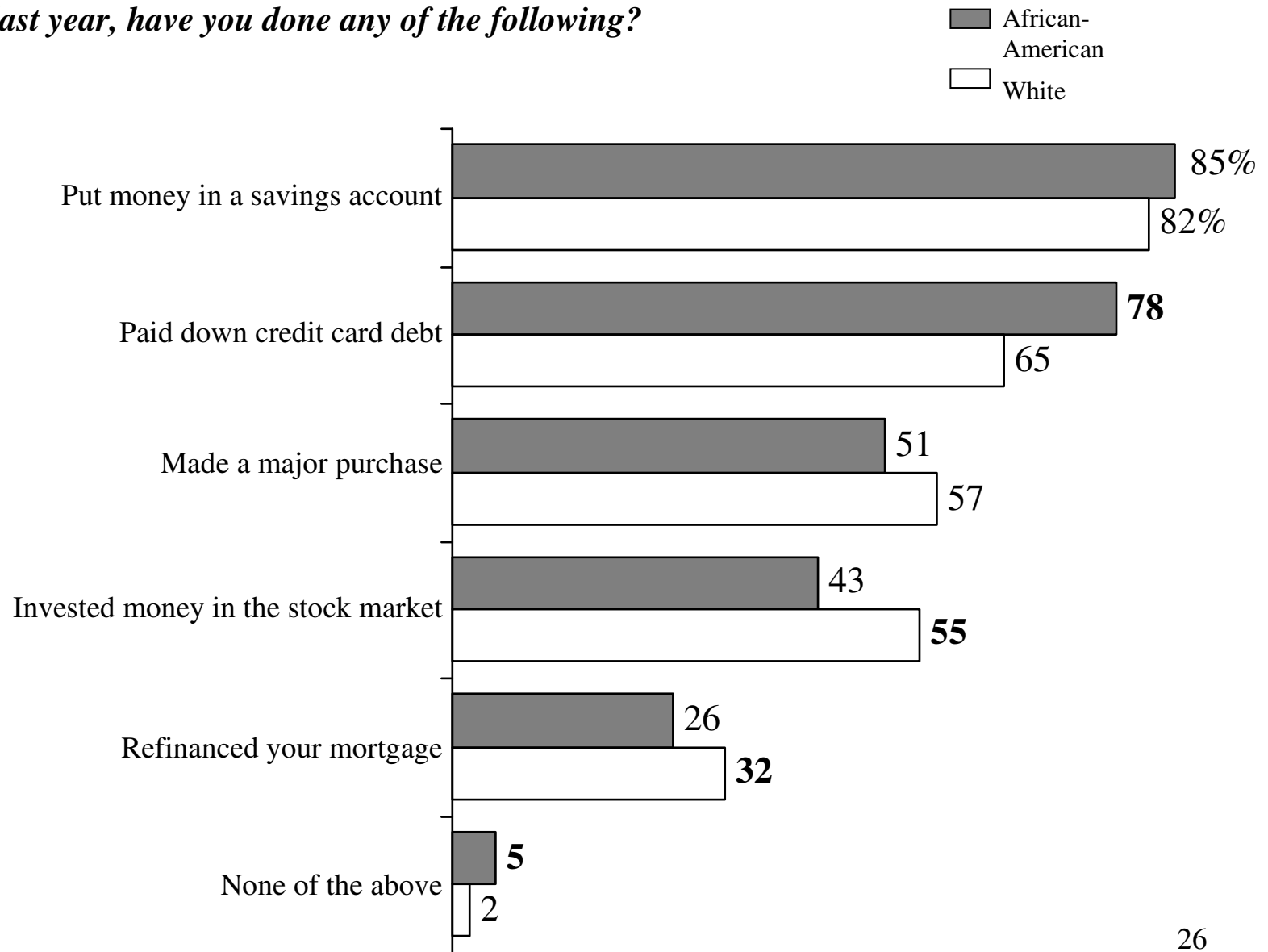
*Base: Have invested for five or more years*

■ African-American  
□ White



# FINANCIAL ACTIVITIES IN LAST YEAR

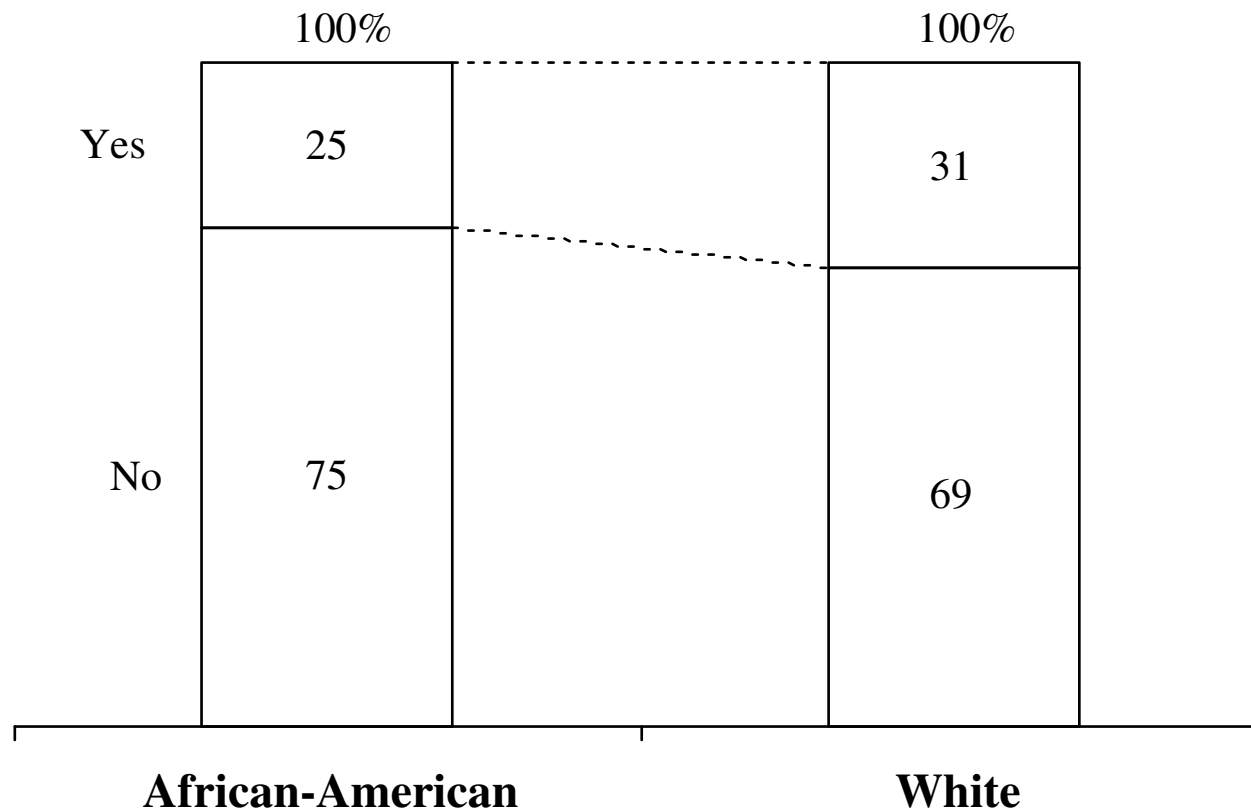
*In the last year, have you done any of the following?*



# RECENT STOCK OR MUTUAL FUND SALES

*Have you sold any stocks or stock mutual funds in the last 12 months?*

*Base: Investors*

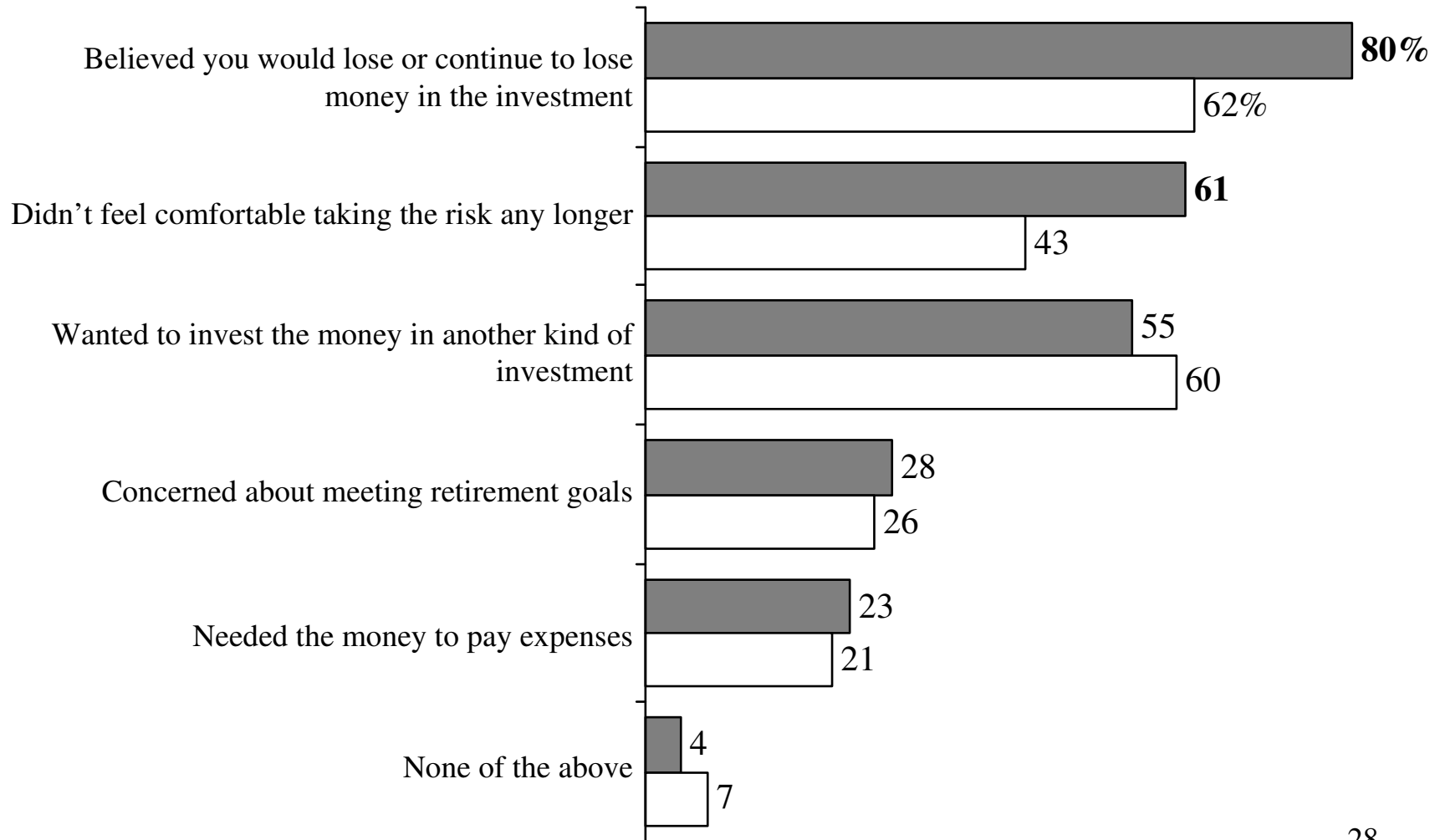


# REASONS FOR SELLING STOCKS OR MUTUAL FUNDS

*For which of the following reasons did you sell any stocks or stock mutual funds last year?*

*Base: Investors who sold stocks or stock mutual funds last year*

■ African-American  
□ White

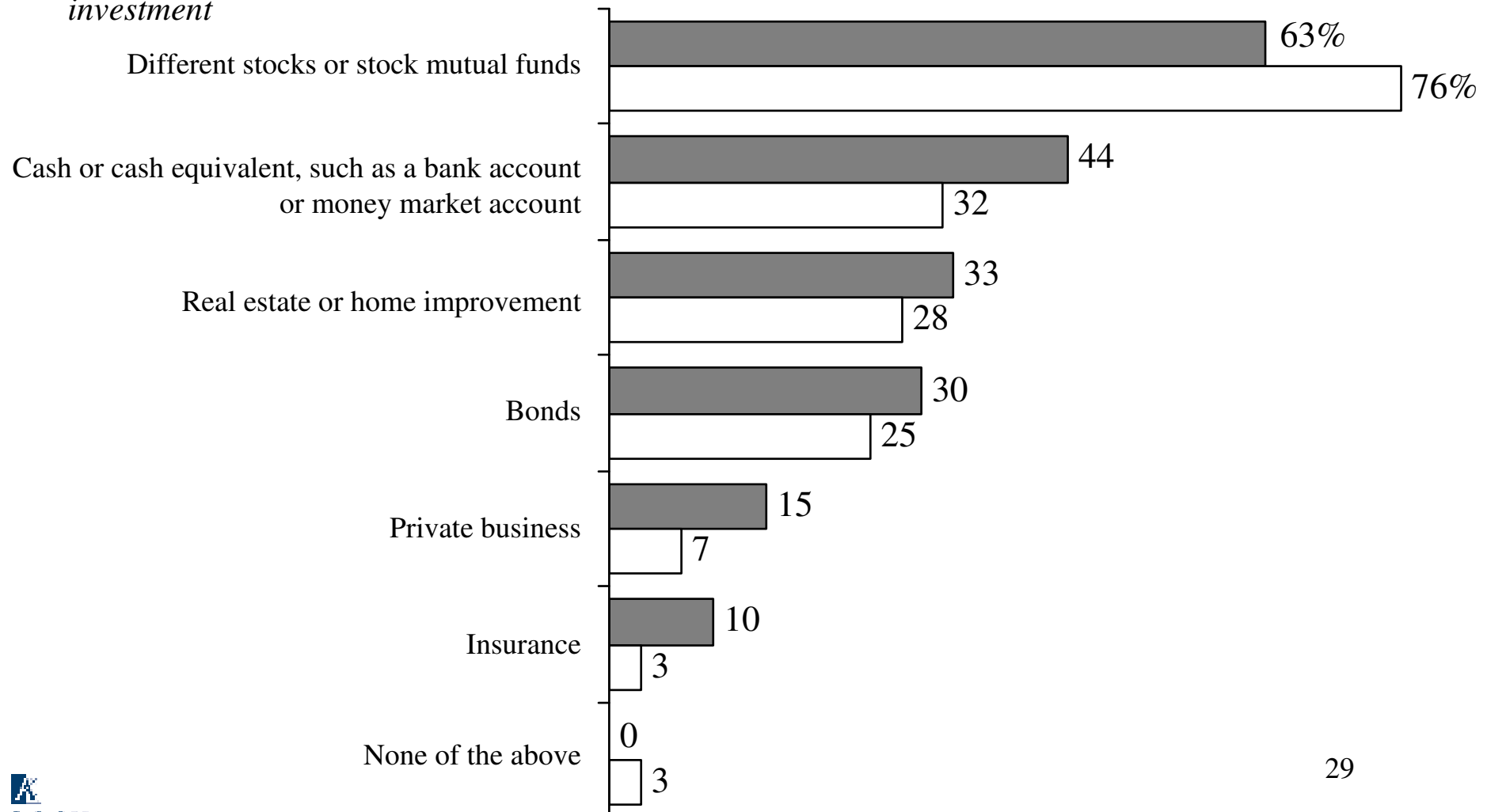


# STOCK OR MUTUAL FUND SALE PROCEED REINVESTMENT

*Which of the following kinds of investments did you make with proceeds from the sale of your stock or stock mutual funds?*

*Base: Sold stocks or mutual funds last year in order to invest in other kind of investment*

■ African-American (n=41)  
□ White (n=72)

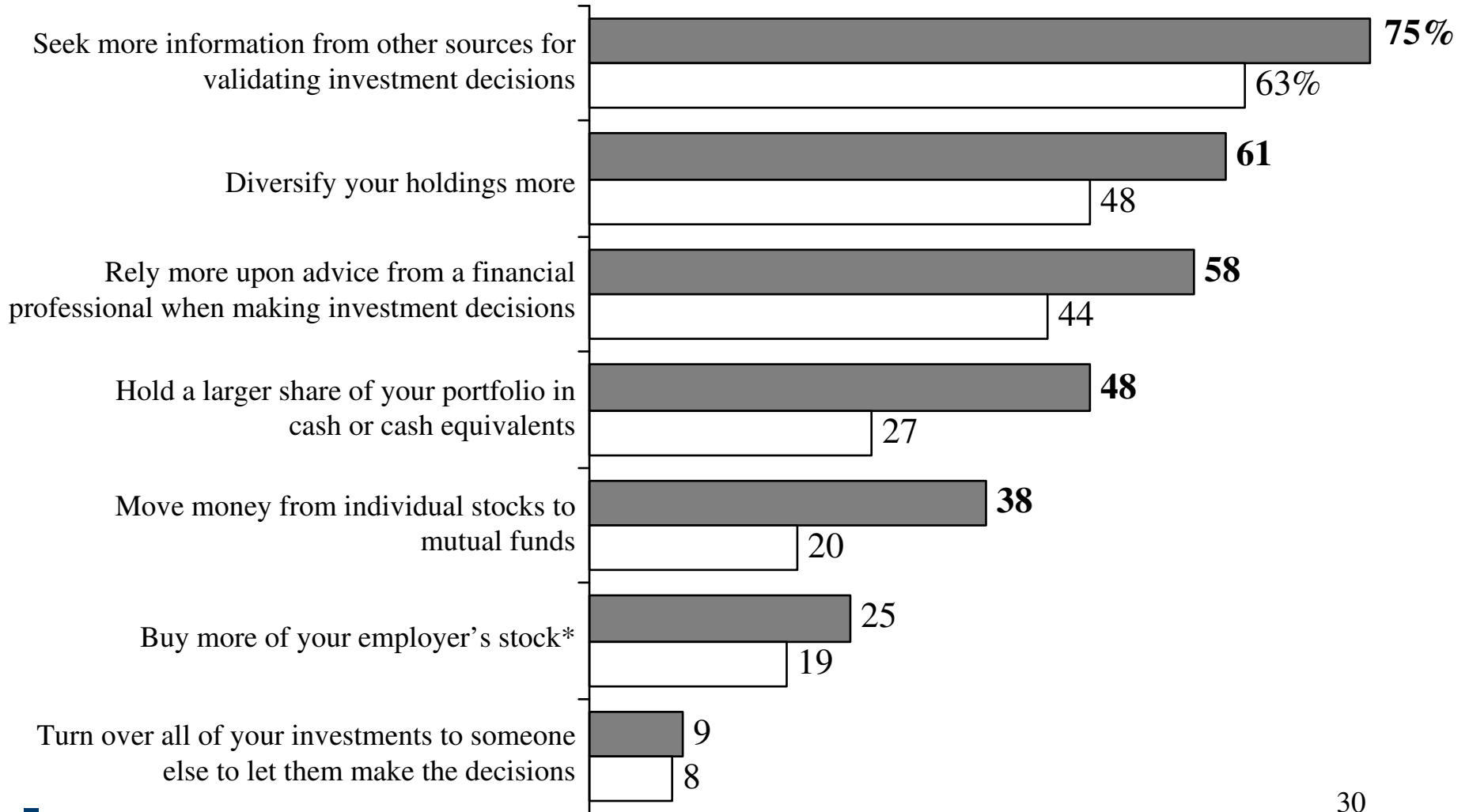


# INVESTMENT PLANS FOR NEXT TWELVE MONTHS

*In the next twelve months, do you plan to.....?*

*Base: Investors*

■ African-American  
□ White



\* Base: not retired

ARGOSY  
RESEARCH

The Ariel Mutual Funds/Charles Schwab & Co., Inc. 2003 Black Investor Survey 0303-8257

# “BEING ON THE SIDELINES” AS AN INVESTMENT STRATEGY

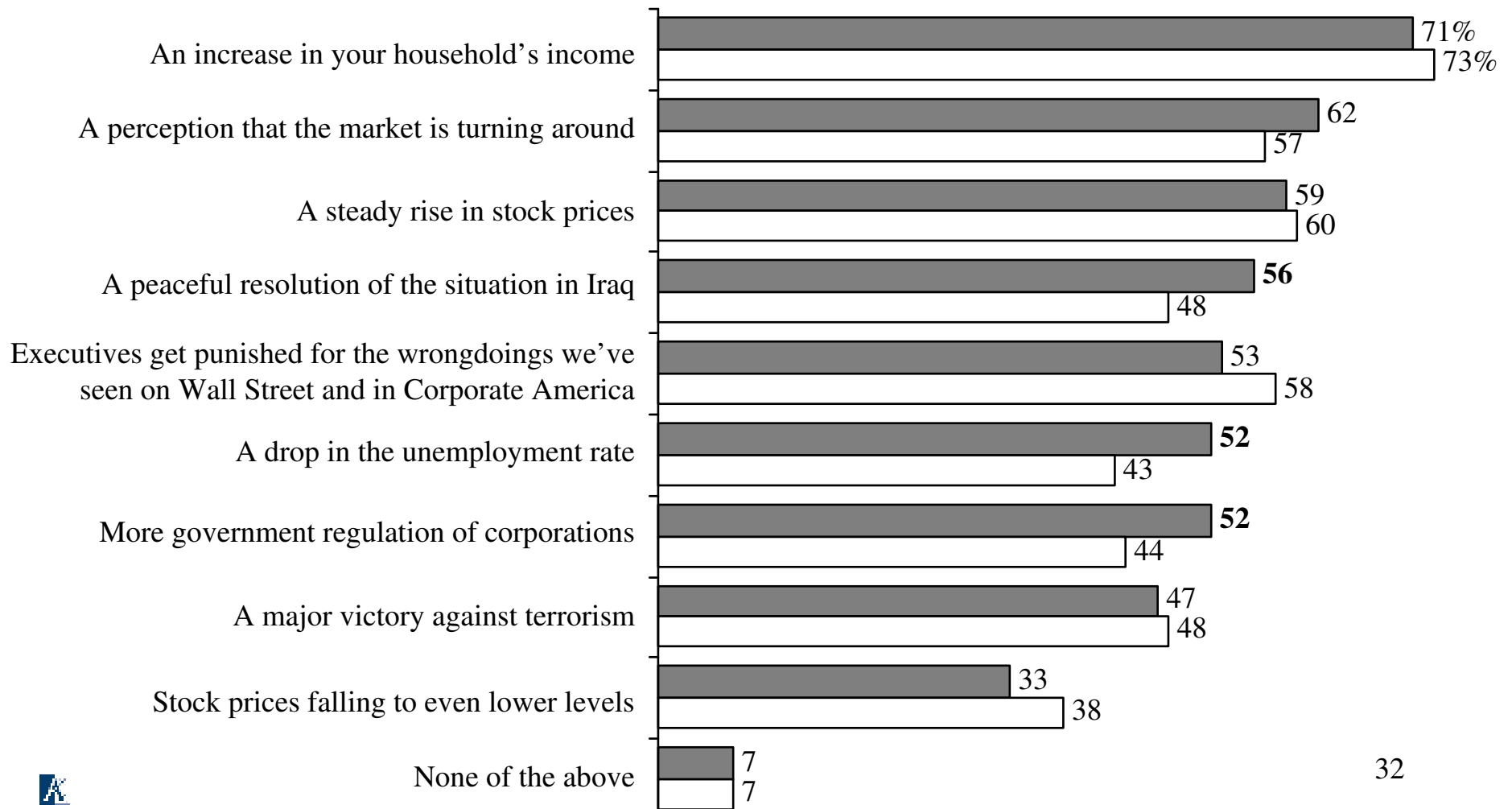
*Many people characterize their investing strategy today as “being on the sidelines.” Do you feel that this applies to you?*



# POTENTIAL TRIGGERS FOR STARTING INVESTING OR INCREASED INVESTING

*For each of the following possibilities, do you think it would make you more likely to add money to your existing stock or stock mutual fund investments or begin investing in stocks or stock mutual funds?*

■ African-American  
□ White

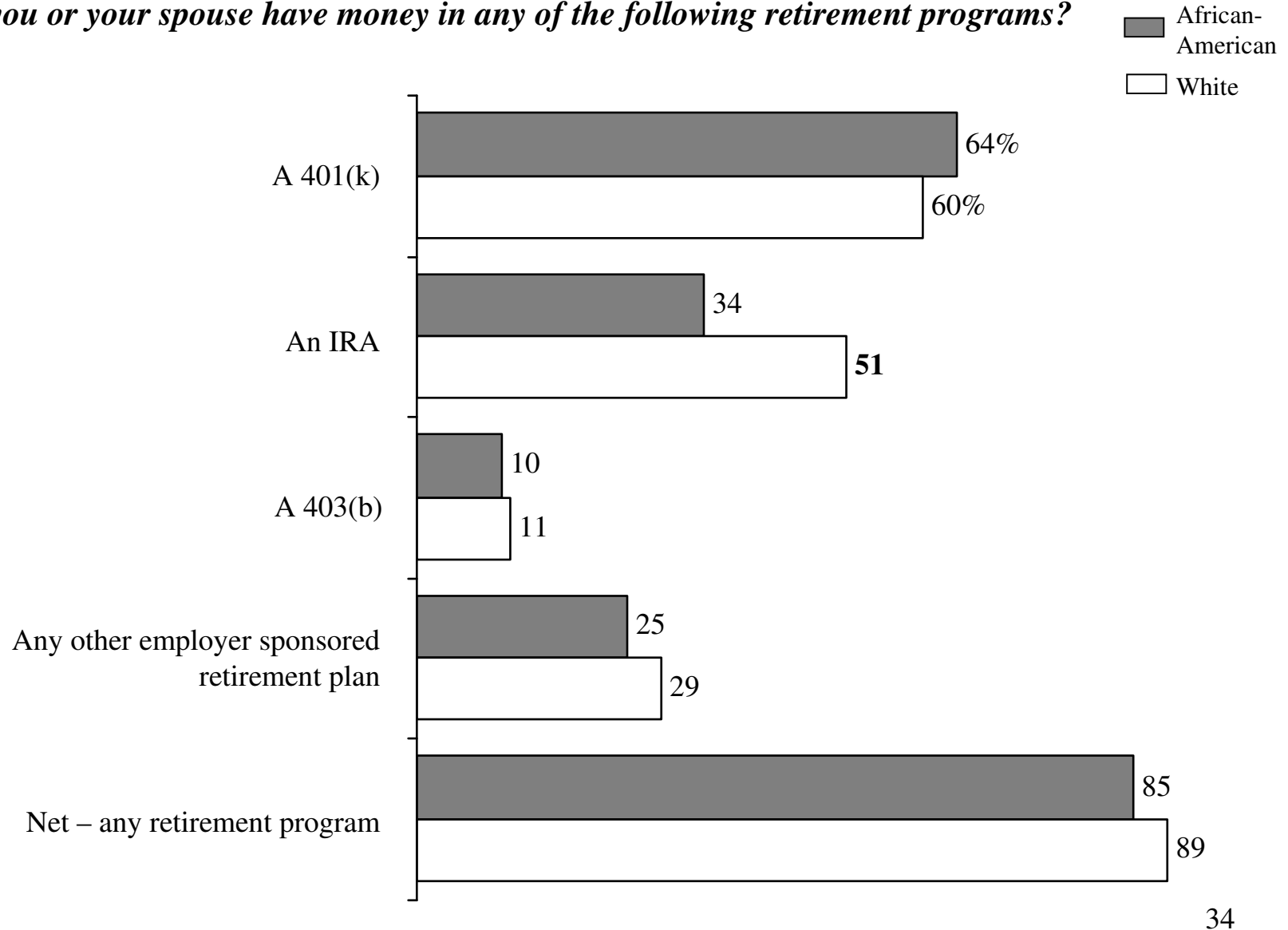




# SAVING FOR RETIREMENT

# RETIREMENT PLANS OWNED

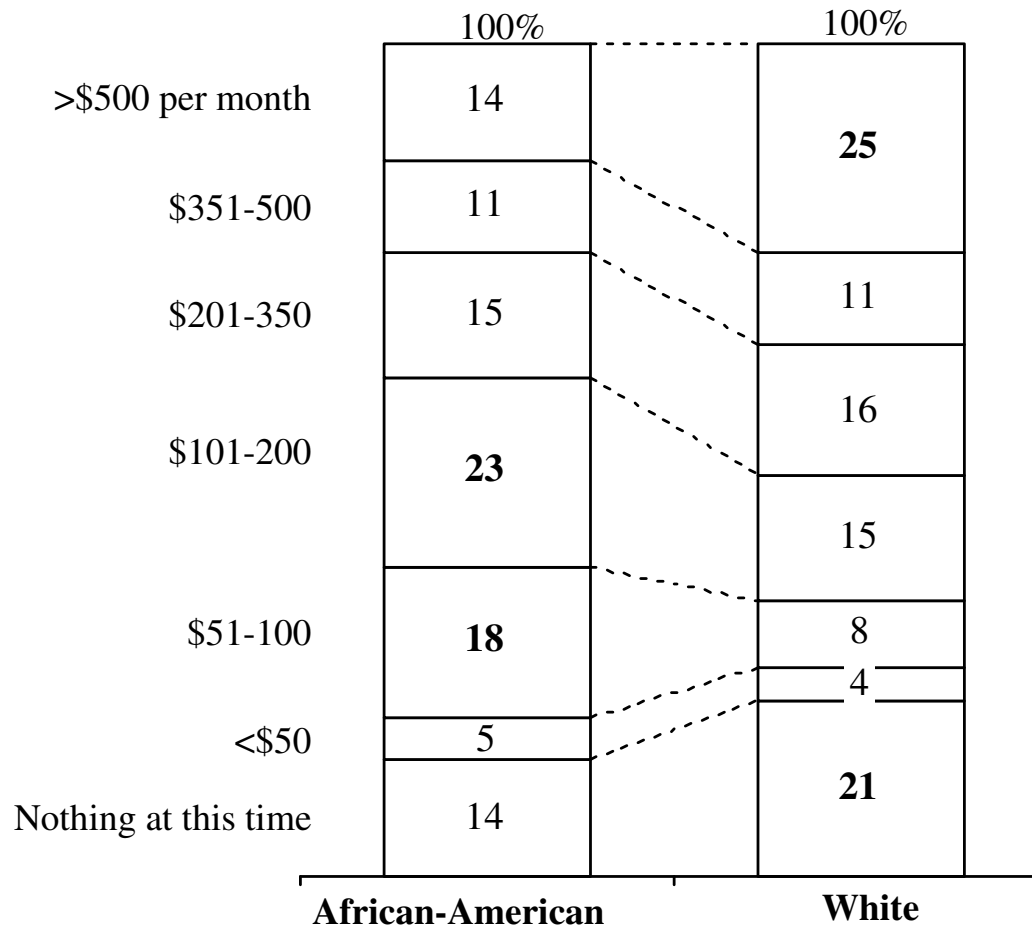
*Do you or your spouse have money in any of the following retirement programs?*



# MONTHLY RETIREMENT ACCOUNT CONTRIBUTIONS

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

*Base: Have money in a retirement plan*

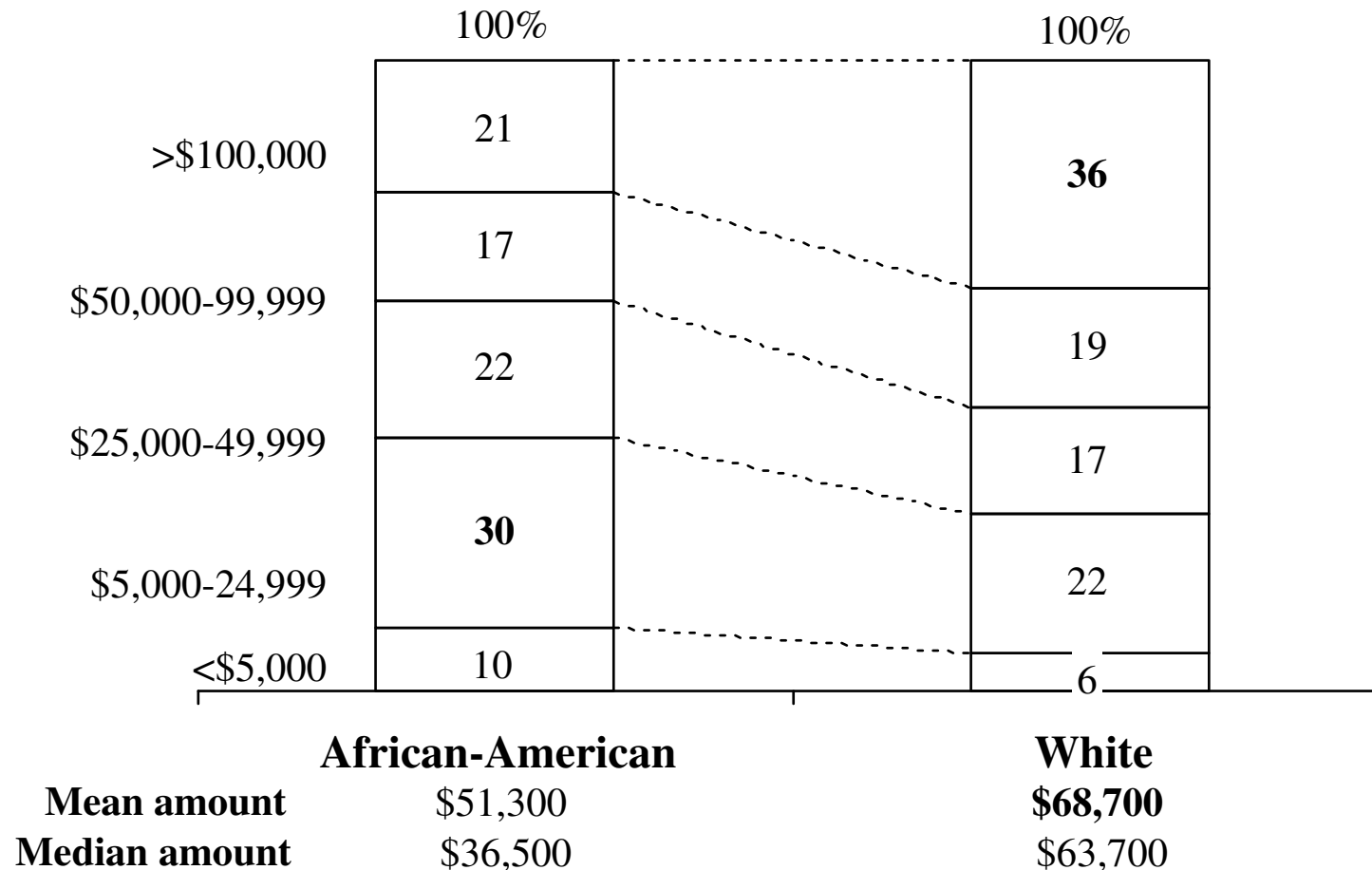


Mean monthly amount	\$217	\$256
Median	\$160	\$215

# 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?*

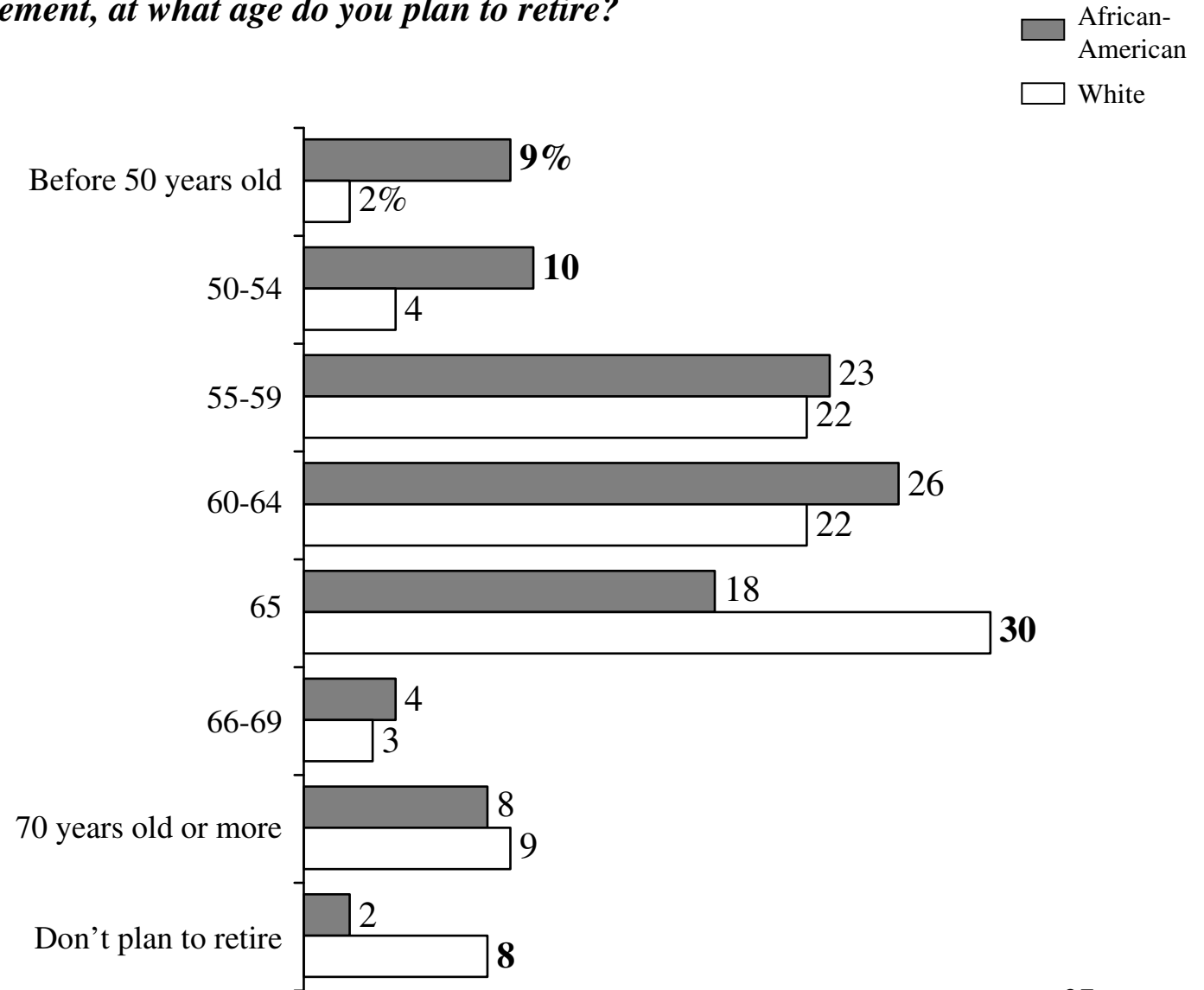
*Base: Have money in a retirement program*



# PLANNED AGE OF RETIREMENT

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

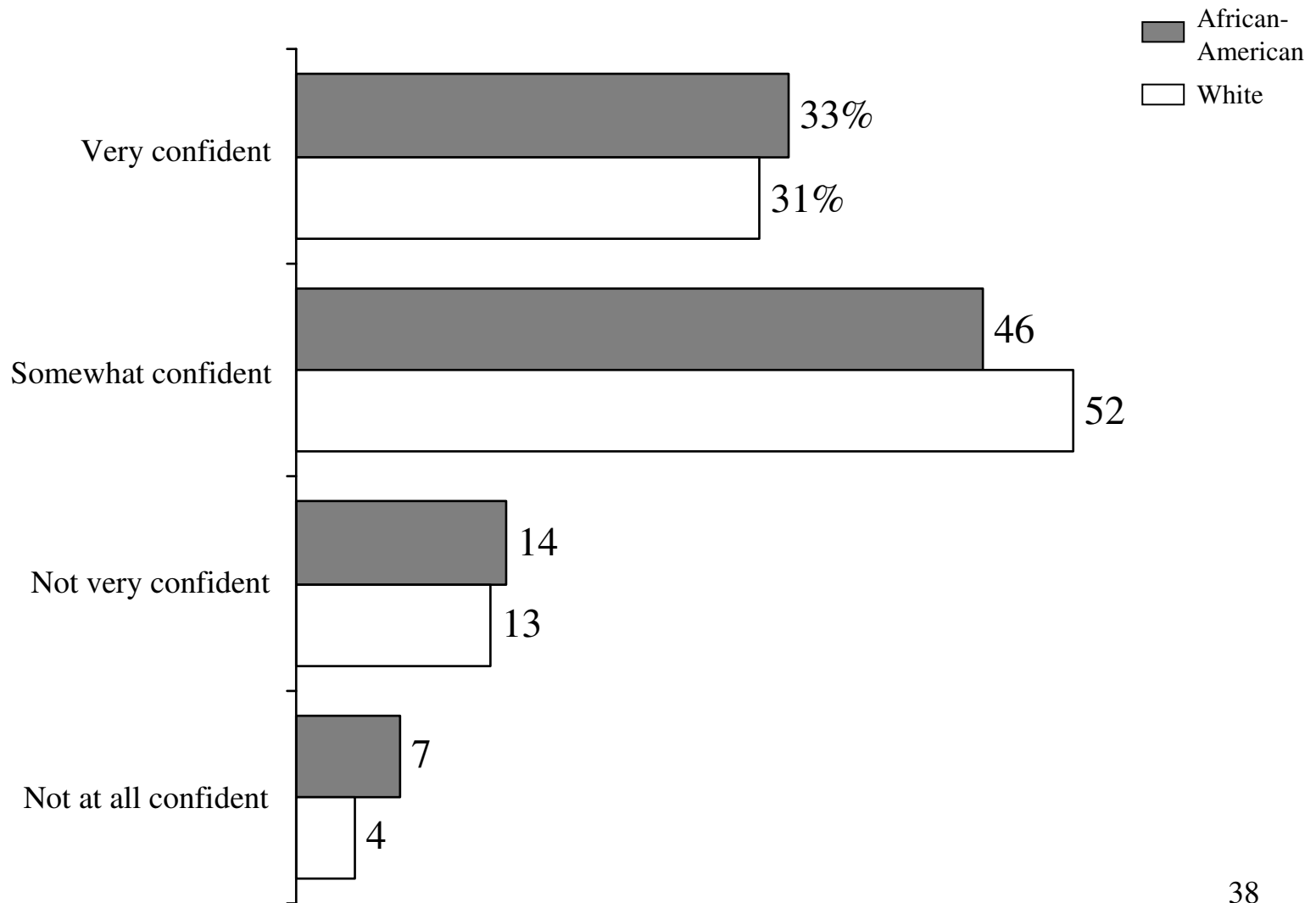
*Base: Not retired*



# CONFIDENCE IN COMFORTABLE RETIREMENT

*How confident are you that you will have enough money for a comfortable retirement?*

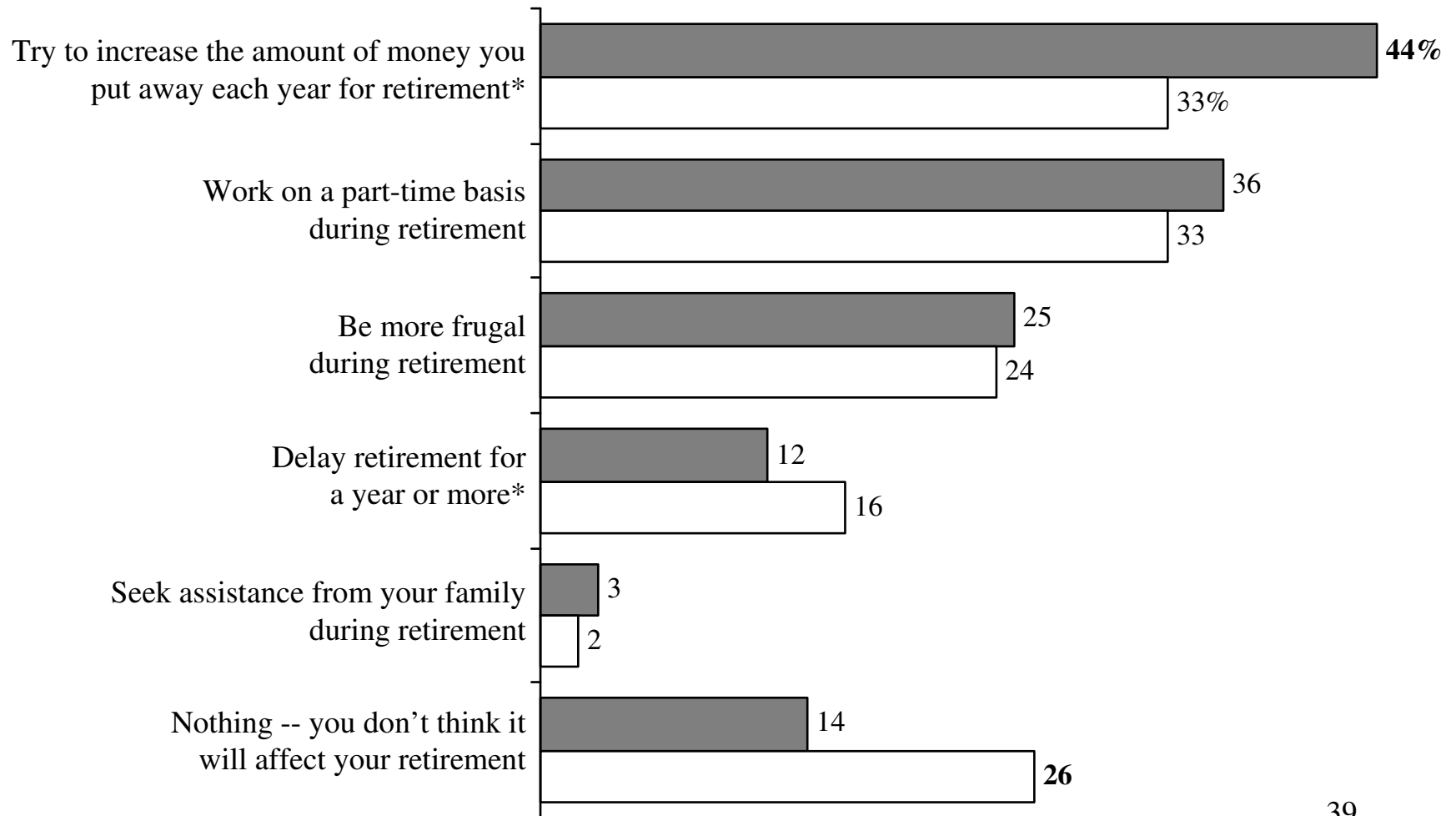
*Base: Not currently retired*



# ADJUSTING RETIREMENT PLANS

*As a result of the stock market downturn and general economic conditions of the last year, which of the following do you think you will do?*

■ African-American  
□ White

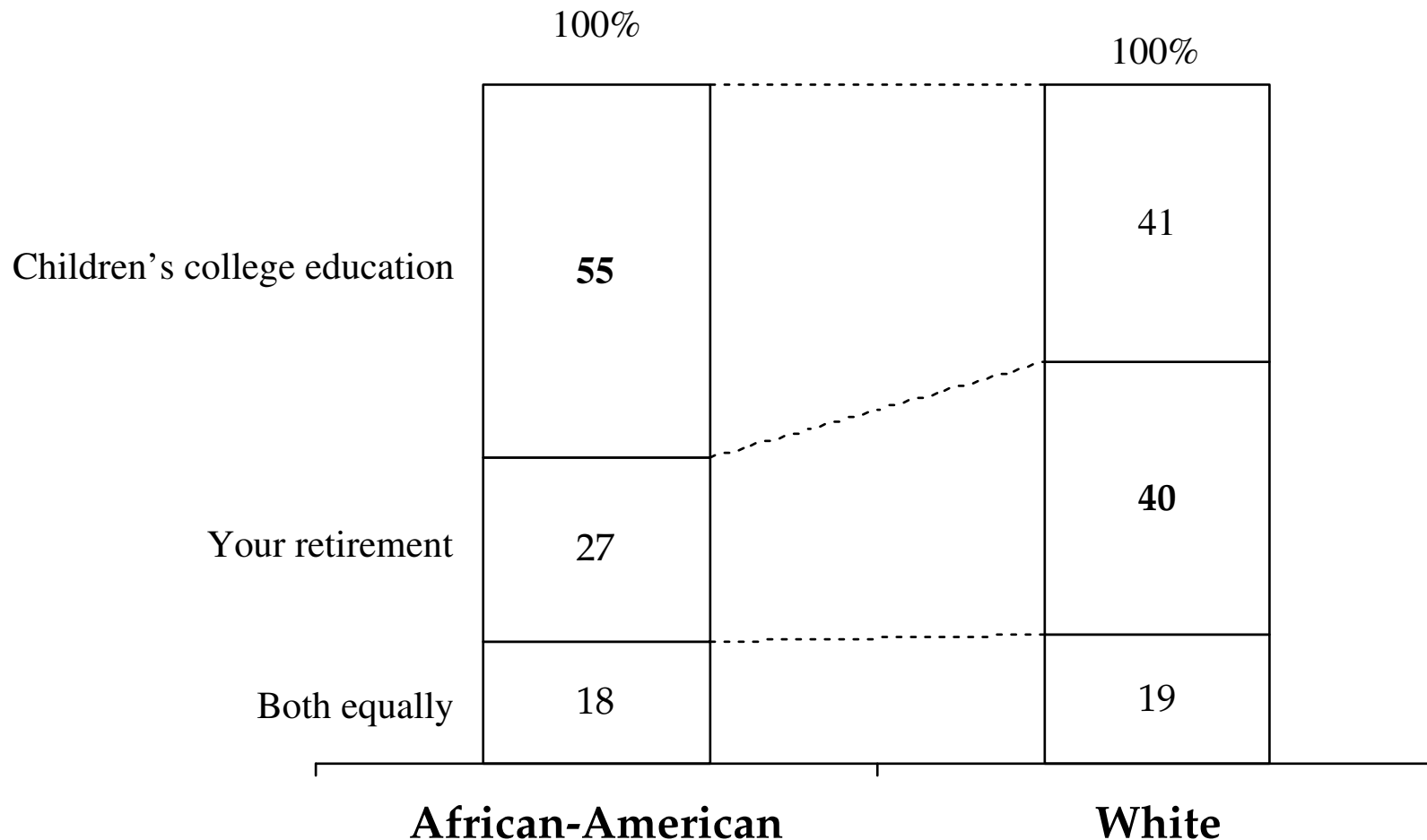


\* Asked only if not currently retired

# IMPORTANCE OF COLLEGE VS. RETIREMENT

*What is more important to you right now: saving for children's college education, or saving for your retirement?*

*Base: Not retired and have minor children*

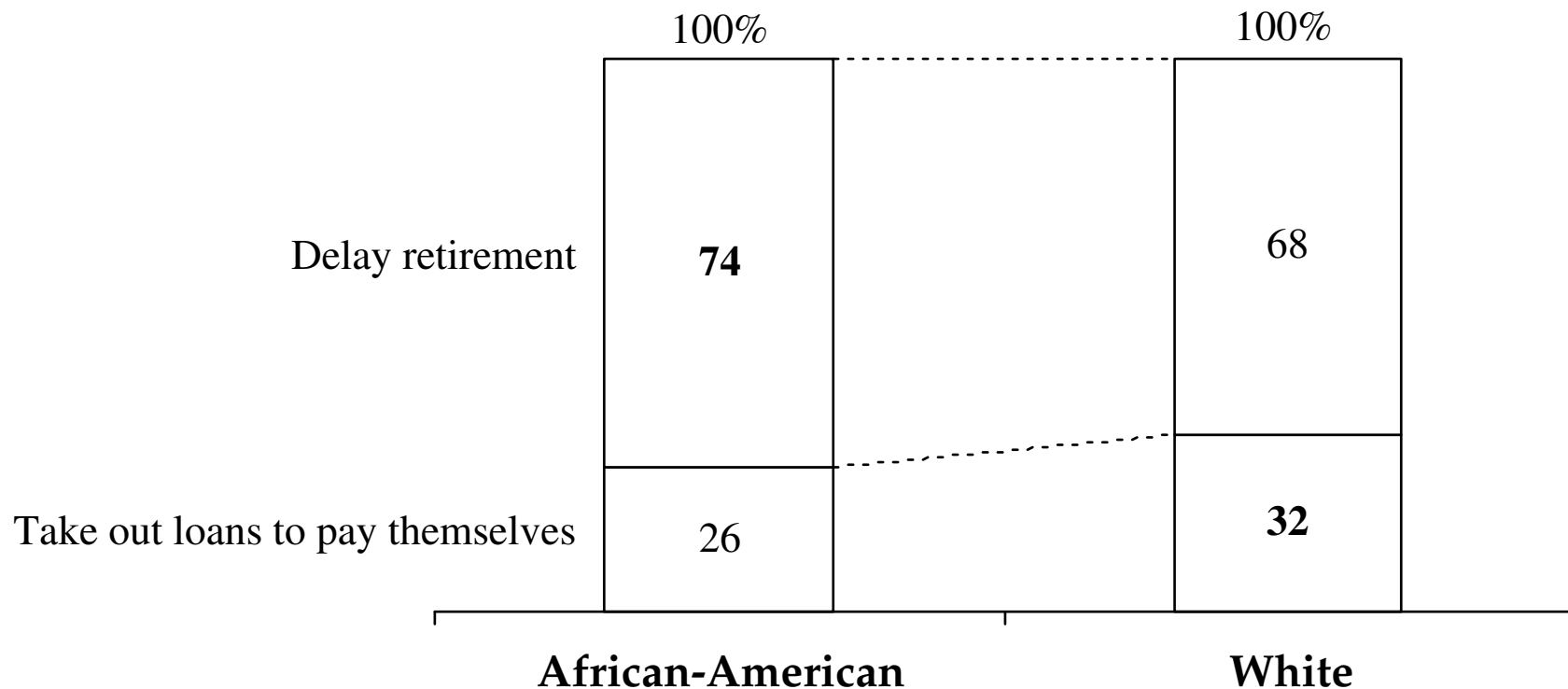




# DELAYING RETIREMENT VS. TAKING OUT COLLEGE LOANS

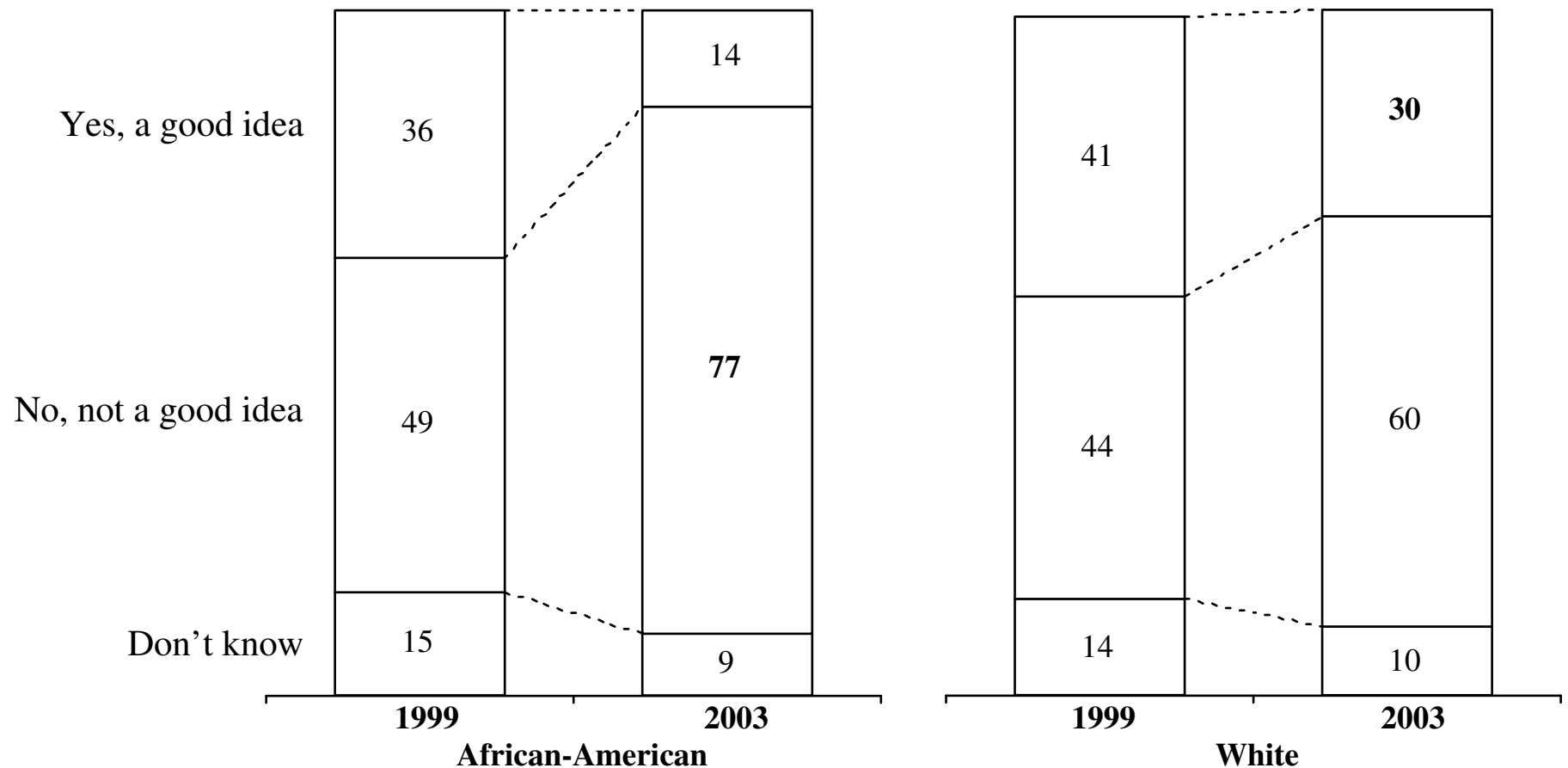
*If you had to choose between delaying your retirement to pay for your children to attend college, or having your children take out loans to pay for their own college education, which would you choose?*

*Base: Not retired and have minor children*



# REACTIONS TO SOCIAL SECURITY PROPOSAL

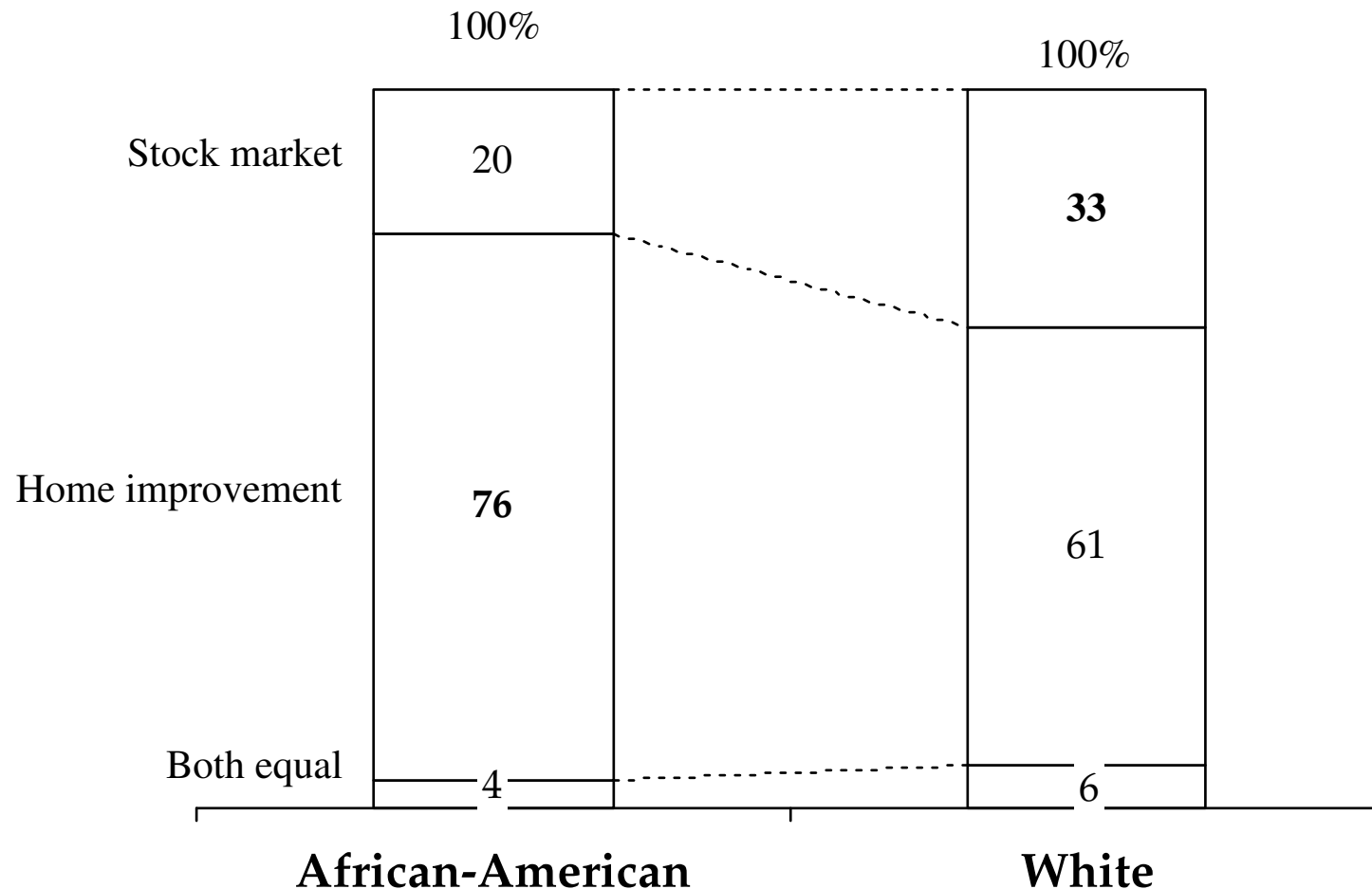
*Some people in Washington are talking about investing Social Security reserves in the stock market. Do you think this is a good idea, or not?*



# REAL ESTATE VS. STOCK MARKET

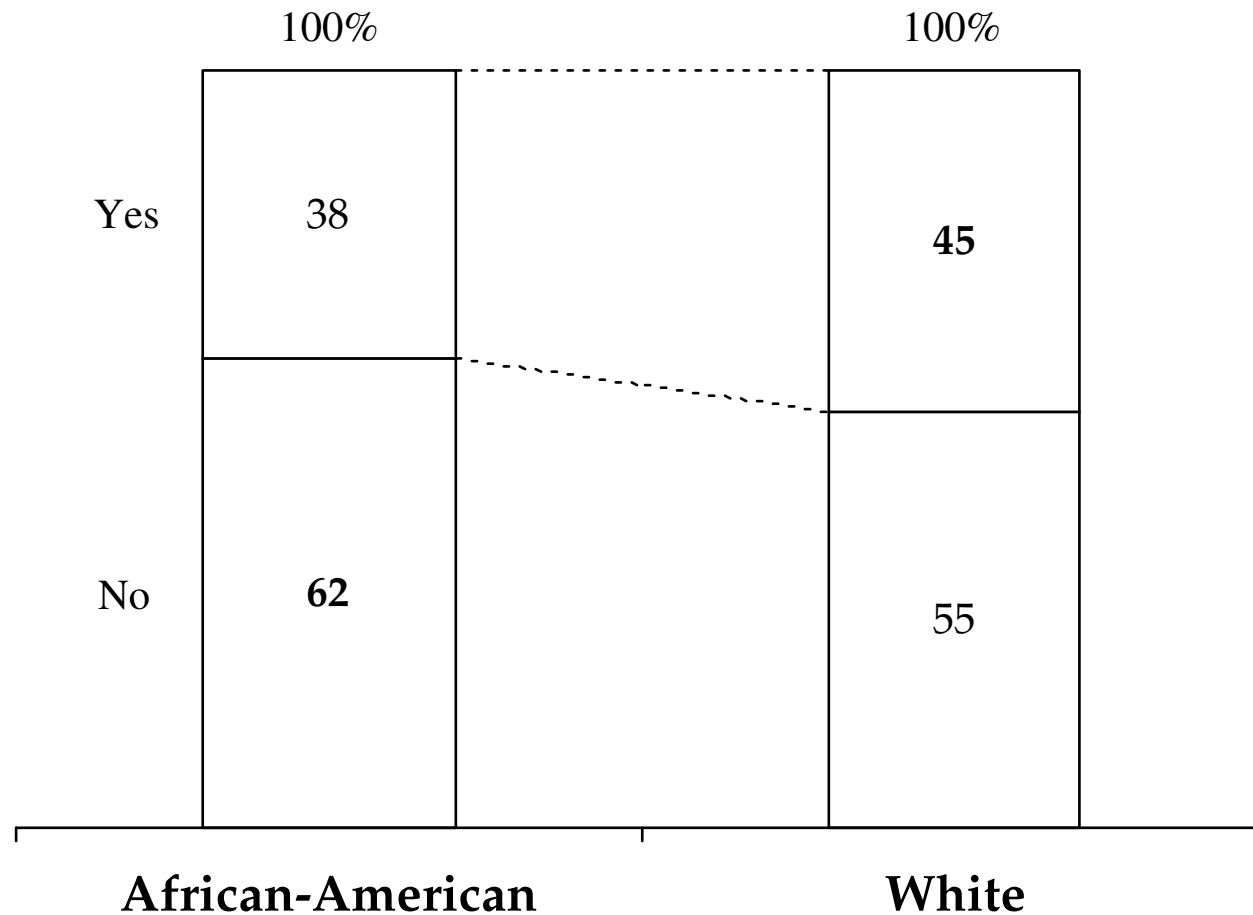
# INVESTING IN THE MARKET VS. INVESTING IN HOME IMPROVEMENT

*Which do you think is a better investment: an investment in the stock market, or an investment in improving your home?*



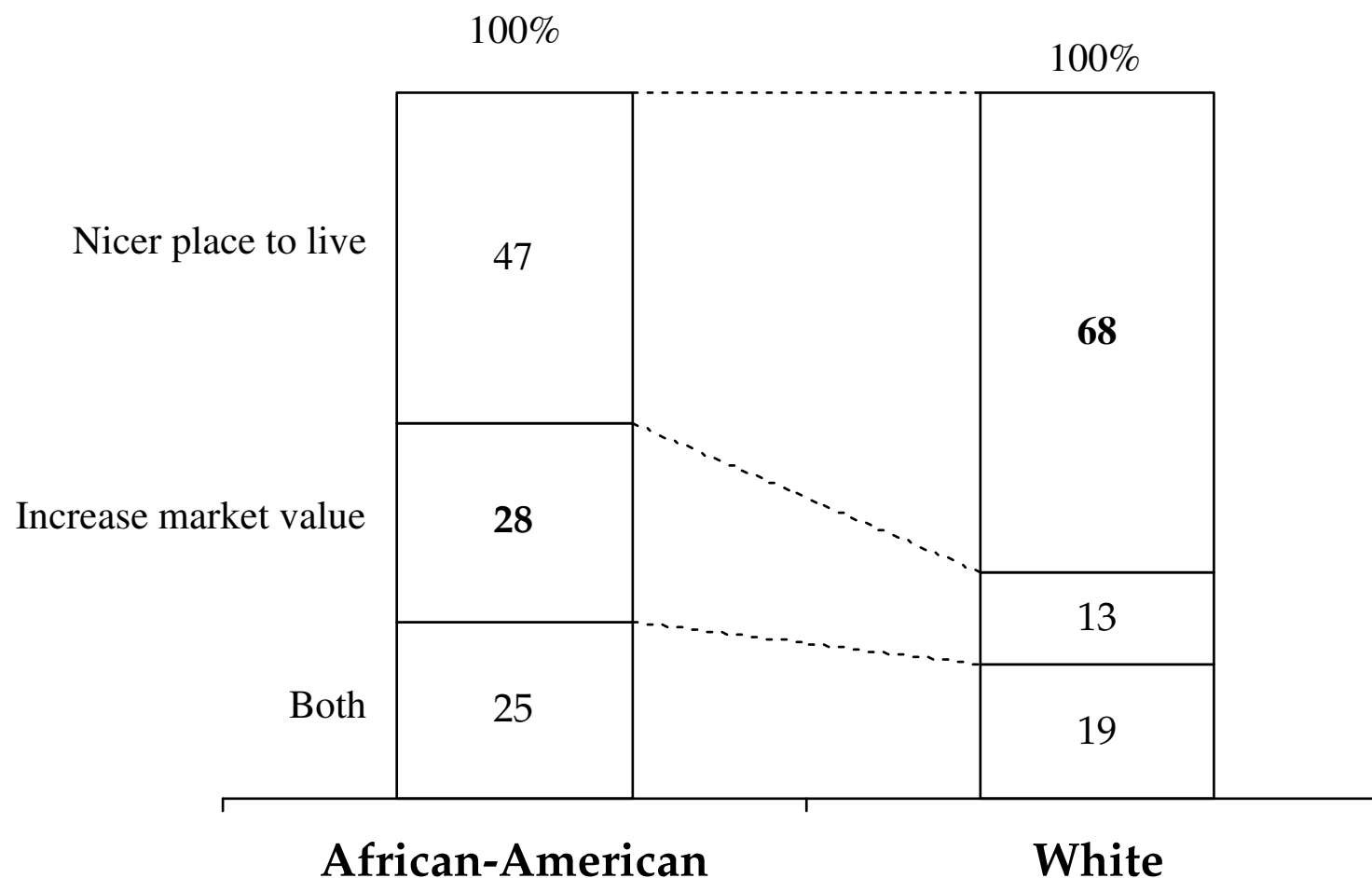
# MAJOR HOME IMPROVEMENTS OVER LAST TWO YEARS

*In the last two years, have you made any major home improvements costing over \$5000?*



# REASONS FOR HOME IMPROVEMENT

*Did you make this home improvement primarily in order to have a nicer place to live, or primarily to increase the market value of your home?*



# STUDY PARTICIPANT PROFILE

# DEMOGRAPHIC PROFILE

## GENDER

	African-American %	White %
Male	43	<b>53</b>
Female	<b>57</b>	47

## AGE

	African-American %	White %
18-29	12	8
30-39	27	19
40-49	25	29
50-64	30	35
65+	6	<b>9</b>
Mean	44	47
Median	44	48

## EDUCATION

	African-American %	White %
Some HS or less	1	3
HS graduate	12	15
Some college	25	23
College graduate	41	35
Postgraduate study	21	24

## HOUSEHOLD INCOME

	African-American %	White %
\$50,000-74,999	47	46
\$75,000-99,999	27	23
\$100,000-149,999	16	20
\$150,000-250,000	8	8
Over \$250,0000	2	3
Mean	\$94K	\$99K
Median	\$78K	\$80K

## EMPLOYMENT STATUS

	African-American %	White %
Employed full time*	<b>77</b>	67
Retired	15	18
Employed part-time*	4	<b>8</b>
Unemployed	3	3
Homemaker	1	<b>4</b>
Full-time student	<1	<1

\*Of these, 17% of African-Americans and 19% of Whites are self-employed.

## TYPE OF EMPLOYER

(of those employed)

	African-American %	White %
Private co.	51	<b>62</b>
State/fed. gov't	<b>34</b>	19
Not-for-profit	15	19



# DEMOGRAPHIC PROFILE (CONTINUED)

## MARITAL STATUS

	African-American	White
	%	%
Single/never married	<b>24</b>	11
Not married/living together	2	2
Married	58	<b>75</b>
Divorced/separated	<b>12</b>	8
Widowed	4	4

## NON-SPOUSE ADULTS IN HOME

	African-American	White
	%	%
Other adults present	<b>30</b>	18
No other adults present	70	<b>82</b>

## NUMBER OF MINOR CHILDREN IN HOUSEHOLD

	African-American	White
	%	%
None	53	<b>62</b>
One	20	15
Two	17	15
Three or more	10	8

# FINANCIAL PROFILE

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

	African-American	White
	%	%
>\$1,000,000	2	<b>5</b>
\$500,00-\$999,999	2	<b>11</b>
\$250,000-\$499,999	11	13
\$100,000-\$249,999	20	20
\$50,000-\$99,999	<b>21</b>	15
\$25,000-\$49,999	19	14
\$5,000-\$24,999	17	16
<\$5,000	8	6
Mean	\$135K	<b>\$245K</b>
Median	\$64K	\$96K

## MONTHLY SAVINGS/INVESTMENTS

	African-American	White
	%	%
\$2,500+	4	6
\$1,001-\$2,500	5	<b>10</b>
\$501-\$1,000	12	16
\$351-\$500	<b>17</b>	11
\$201-\$350	17	17
\$101-\$200	<b>20</b>	14
\$51-\$100	12	9
<\$50	4	4
Nothing at this time	9	13
Mean	\$445	\$600
Median	\$238	\$294