

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

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

Full Results

June 23, 2004

ARIEL MUTUAL FUNDS *charles* SCHWAB

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# BACKGROUND AND OBJECTIVES

- ❑ Ariel Mutual Funds and Charles Schwab & Co., Inc. (member SIPC/NYSE) commissioned Argosy Research to conduct the seventh wave of a primary research study comparing and contrasting higher 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, 2002 and 2003.
- ❑ 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 February 27 and March 22, 2004.
- ❑ 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 19 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 higher 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 PREVIOUS STUDIES (CONTINUED)

## June 2003

- ❑ This year's study shows that many higher 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.
  - 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.
- ❑ 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.
  - 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.
  - Among all those surveyed, 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).

# HIGHLIGHTS OF THIS YEAR'S STUDY

## Market participation

- ❑ After retreating sharply from stocks and mutual funds last year, Black investors are back to near pre-Bear market levels of stock ownership:
  - Sixty-eight percent of Blacks surveyed have money invested in the stock market today, considerably up from 2003 (61%), though still shy of 2002's all-time high (74%).
  - White stock ownership remains steady at 80%, virtually unchanged since the survey began in 1998.
  - In addition, 41% of Black non-investors are “somewhat” or “very” likely to start investing in stocks or mutual funds next year, compared to just 28% of white non-investors.
- ❑ This year's survey uncovers a new psychological barrier that significantly contributes to under-investment by African-Americans: the misperception that investors need to be skilled at market timing, or buying and selling stocks at exactly the right time, in order to be successful.
  - Twice as many Blacks as Whites (30% vs. 15%) consider “Knowing how to time the market...” a more important factor for success than, “Being disciplined enough to invest regularly,” or, “Being patient enough to see an investment through to the long term...”.
  - Those Blacks citing patience or discipline as important for investing success are two and a half times more likely to participate in the market than those believing in the market timing myth.

# HIGHLIGHTS OF THIS YEAR'S STUDY (CONTINUED)

## Market smarts

- ❑ This year's survey included a 10-question investment quiz that a majority of both Black and White investors failed.
  - Seventy-five percent of all Blacks and 54% of Whites surveyed could not correctly answer six out of 10 multiple-choice questions concerning basic investing facts and terminology.
  - Even among investors, 69% of Blacks and 48% of Whites answered fewer than six questions correctly.
- ❑ The results of the quiz show that many Americans, both Black and White, misunderstand or are unfamiliar with market lingo commonly used by the media and investment companies. Furthermore, many do not know basic facts about investing and the stock market. For example:
  - Sixty-one percent of Blacks and 38% of Whites failed to identify a rising stock market as a "bull market."
  - When asked if a stock is an ownership share of a company, a loan to a company, or a bet on a company, 36% of Blacks and 29% of Whites admitted they do not know.
  - Only about a third of each group (30% of Blacks; 36% of Whites) knew that "trading volume" is the number of shares changing hands daily.
  - Just 10% of Blacks and 22% of Whites knew that the Dow Jones Industrial Average is made of up thirty stocks.
  - Thirty-two percent of Blacks and 20% of Whites incorrectly thought bonds are "always issued by the government," and 22% of Blacks and 13% of Whites thought bonds are "risk-free investments."
  - Sixty-nine percent of Blacks and 57% of Whites did not know that over the last 75 years the stock market's average annual return has been about 10%.

# HIGHLIGHTS OF THIS YEAR'S STUDY (CONTINUED)

## Real estate

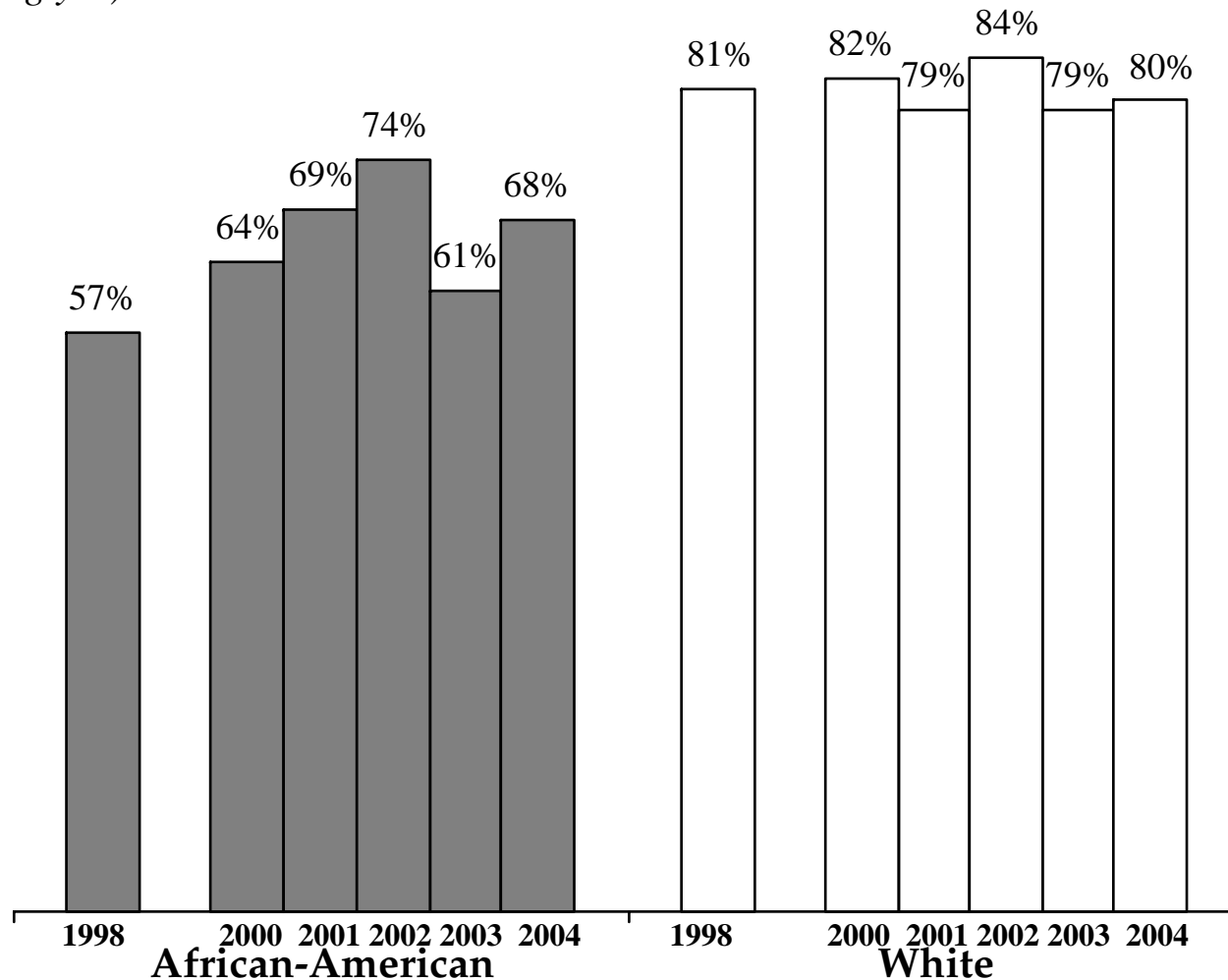
- ❑ Most respondents in this year's survey consider real estate to be a better investment than stocks or mutual funds.
  - Specifically, 61% of Blacks and 51% of Whites say real estate is the best investment overall.
  - Just 28% of Blacks and 38% of Whites cite stocks or mutual funds as the best investment overall. This marks the first year that the majority of both Blacks and Whites favor real estate over all other investment categories combined.
  - By comparison, in 2000, just 43% of Blacks and 31% of Whites chose real estate as the best investment. That same year, 40% of Blacks and 56% of Whites chose stocks or mutual funds as the best investment.

# MARKET PARTICIPATION

# 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?*

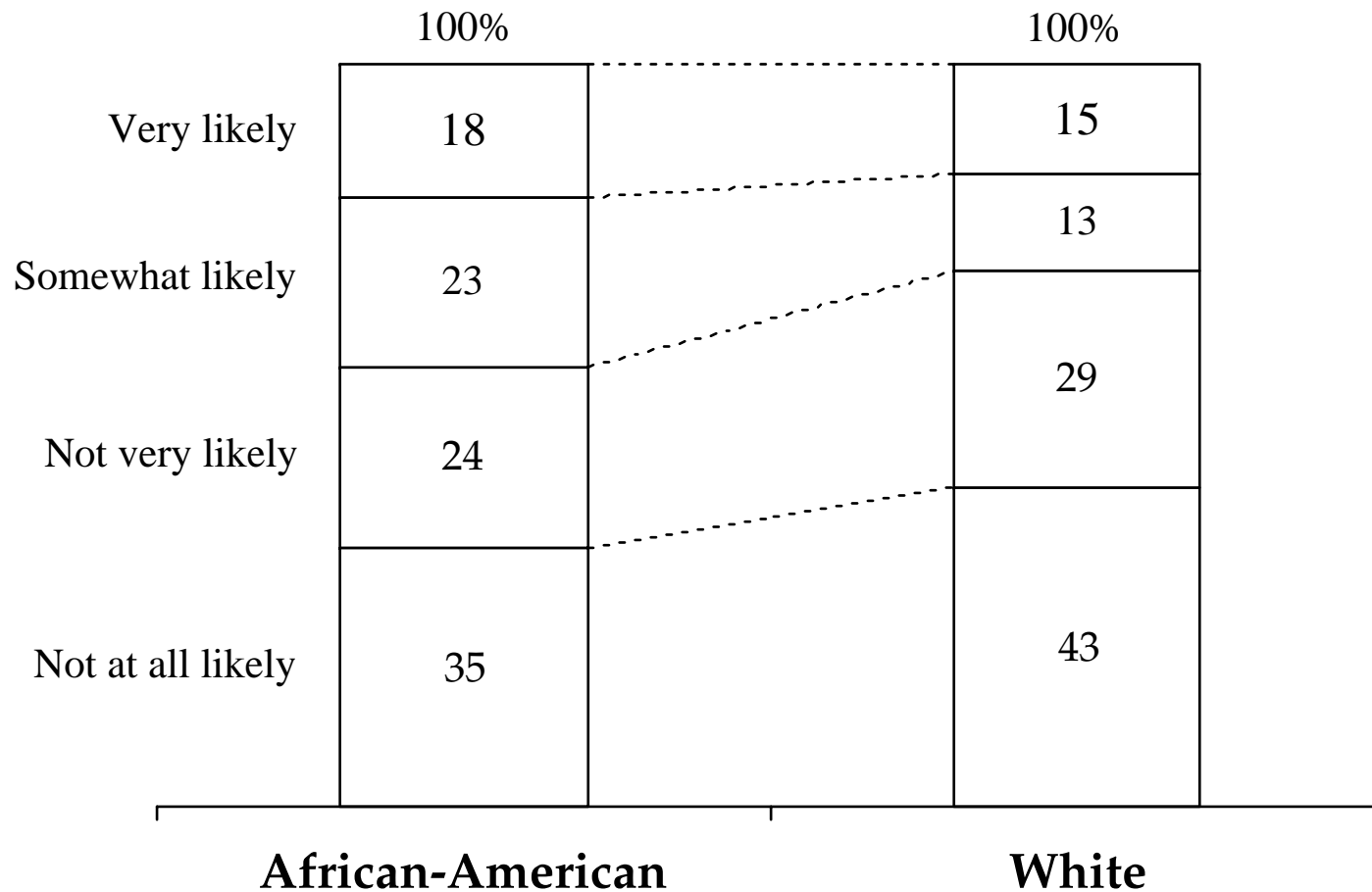
*(% answering yes)*



# LIKELIHOOD TO INVEST IN NEXT YEAR

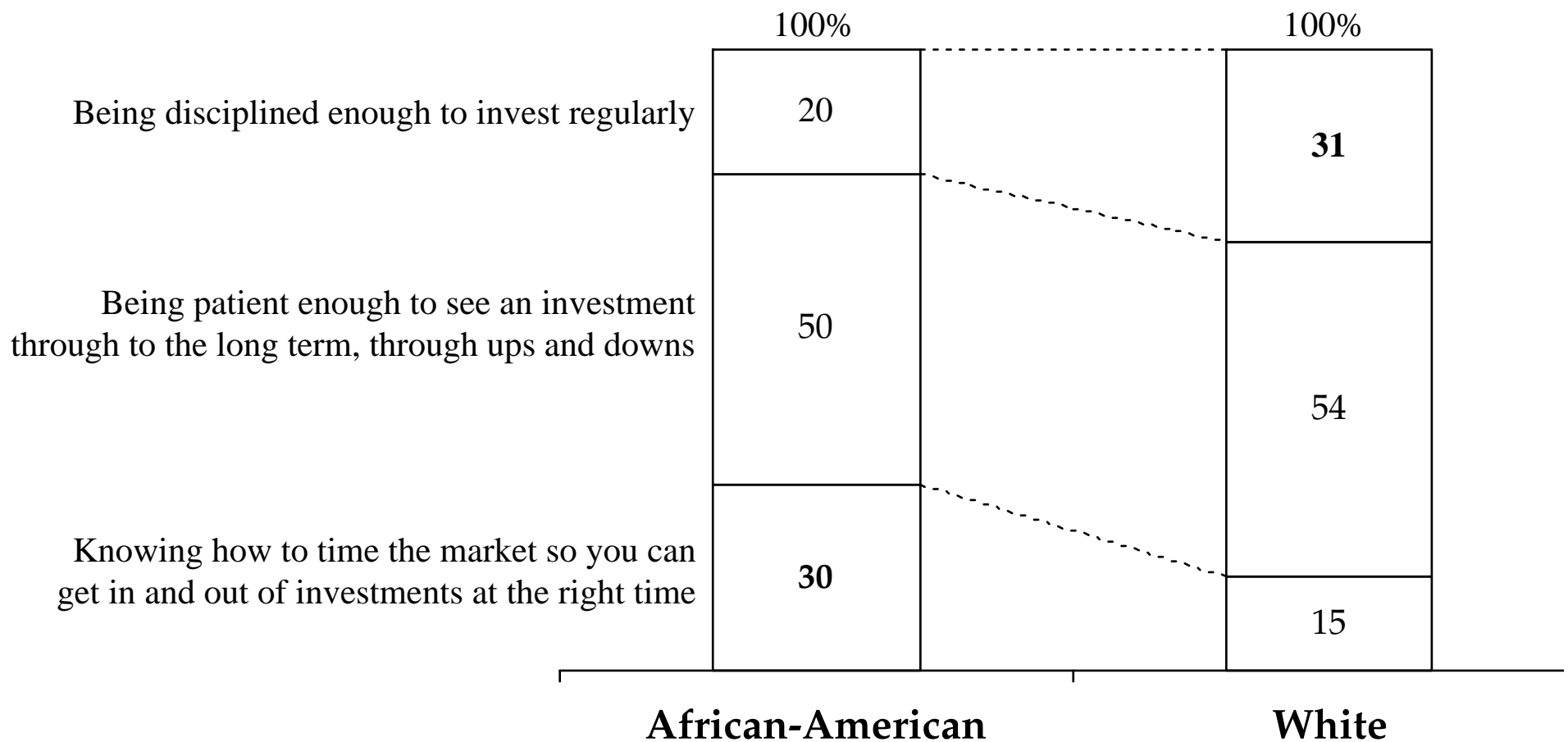
*Excluding employer sponsored retirement plans, how likely are you to begin investing in stocks or mutual funds during the next year?*

*Base: Non-investors*



# PERCEPTION OF INVESTING SUCCESS FACTORS

*Which of the following three skills or characteristics would you say is most important to being a successful investor?*

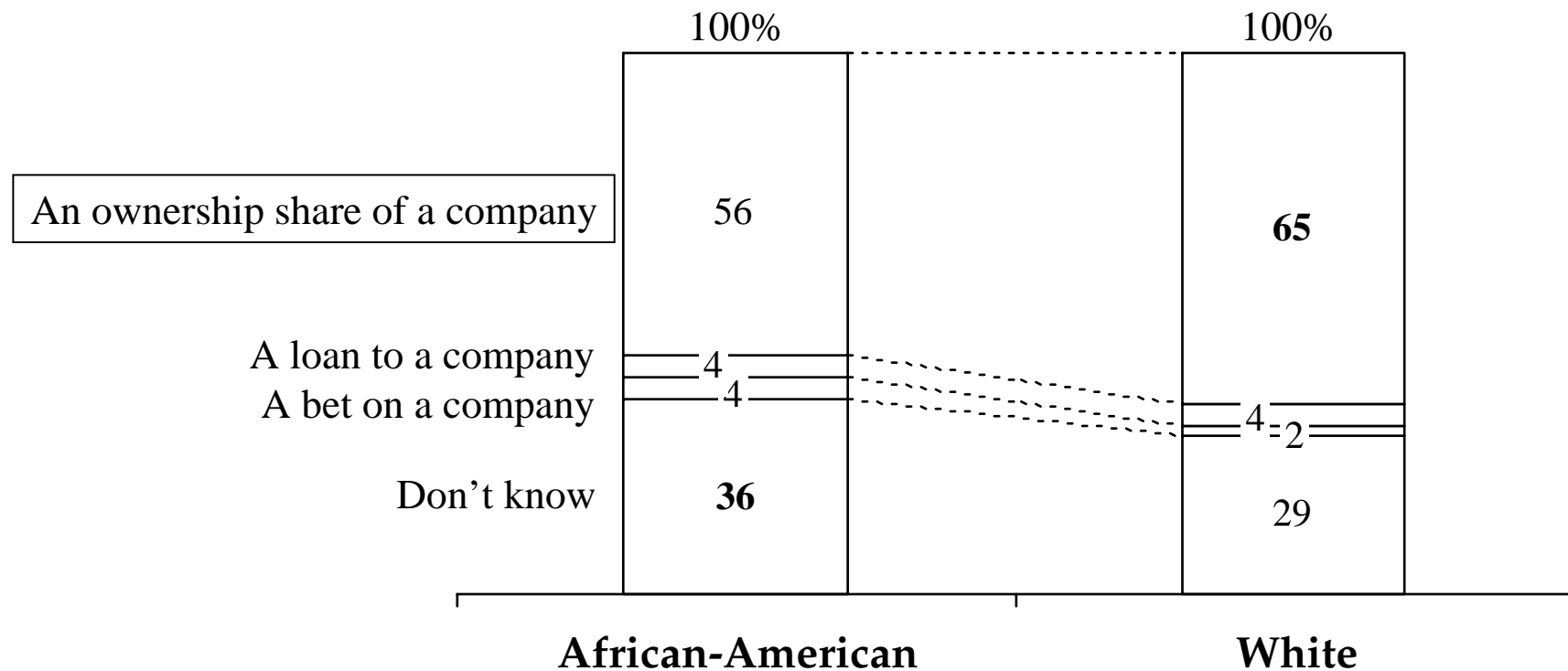




# FINANCIAL LITERACY

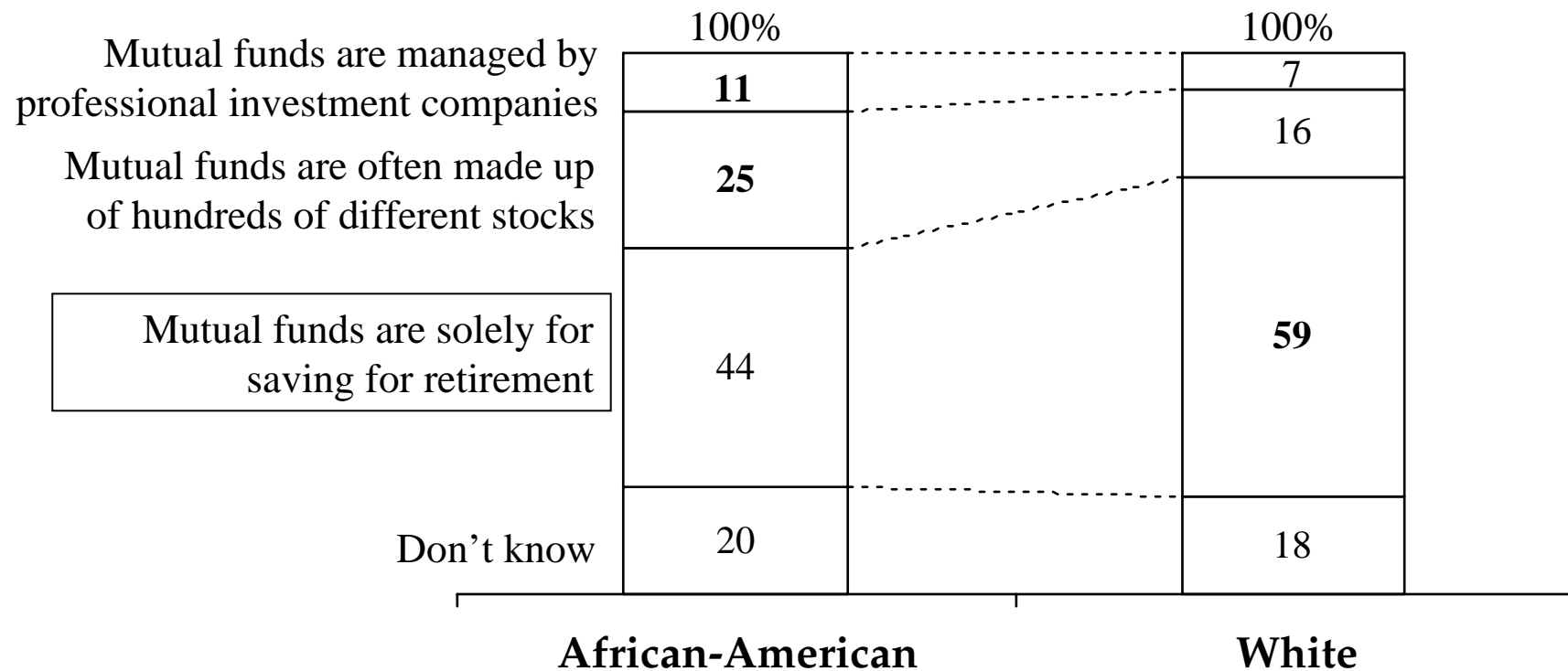
# MARKET SMARTS: STOCKS

*When you own a stock, which of the following do you own?*



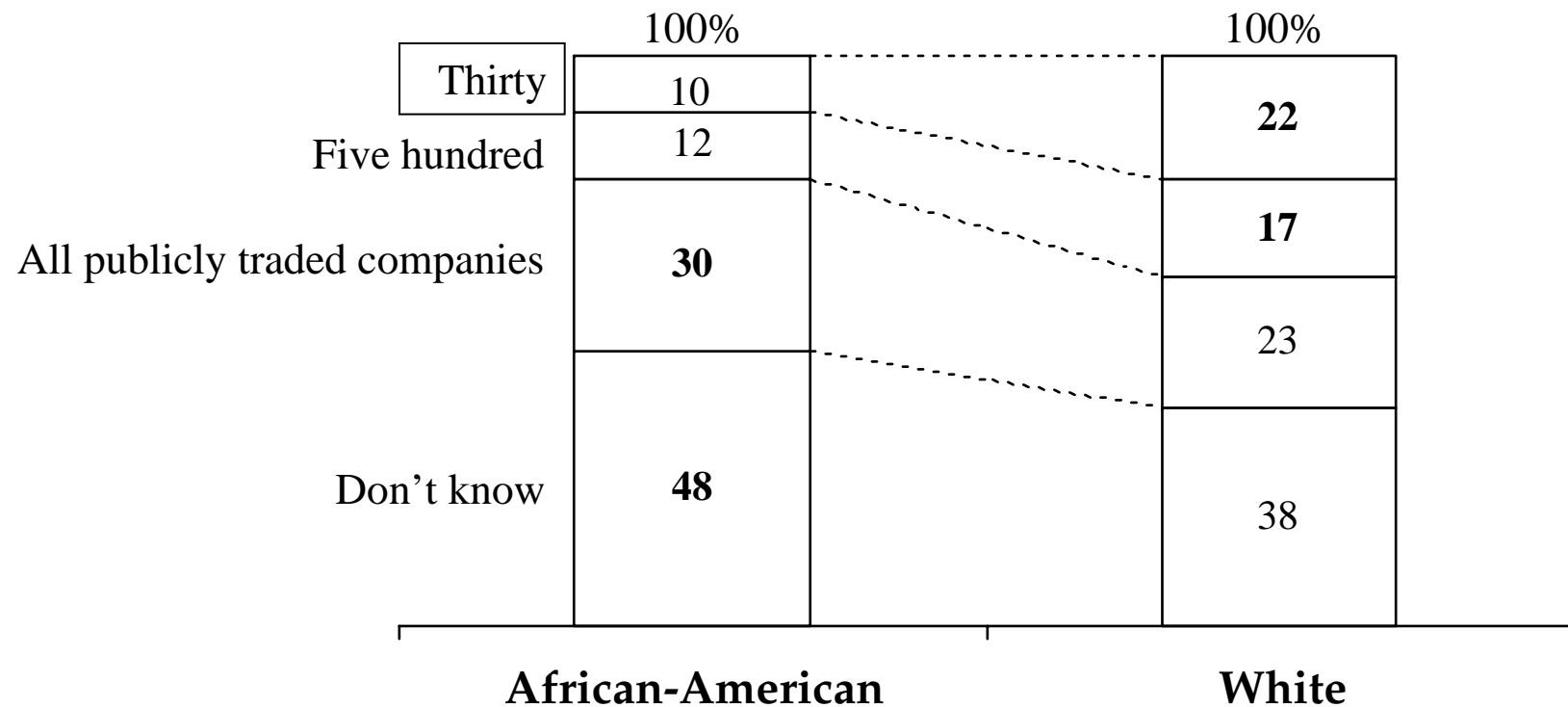
# MARKET SMARTS: MUTUAL FUNDS

*I will read three statements about mutual funds. Please tell me which statement is NOT true.*



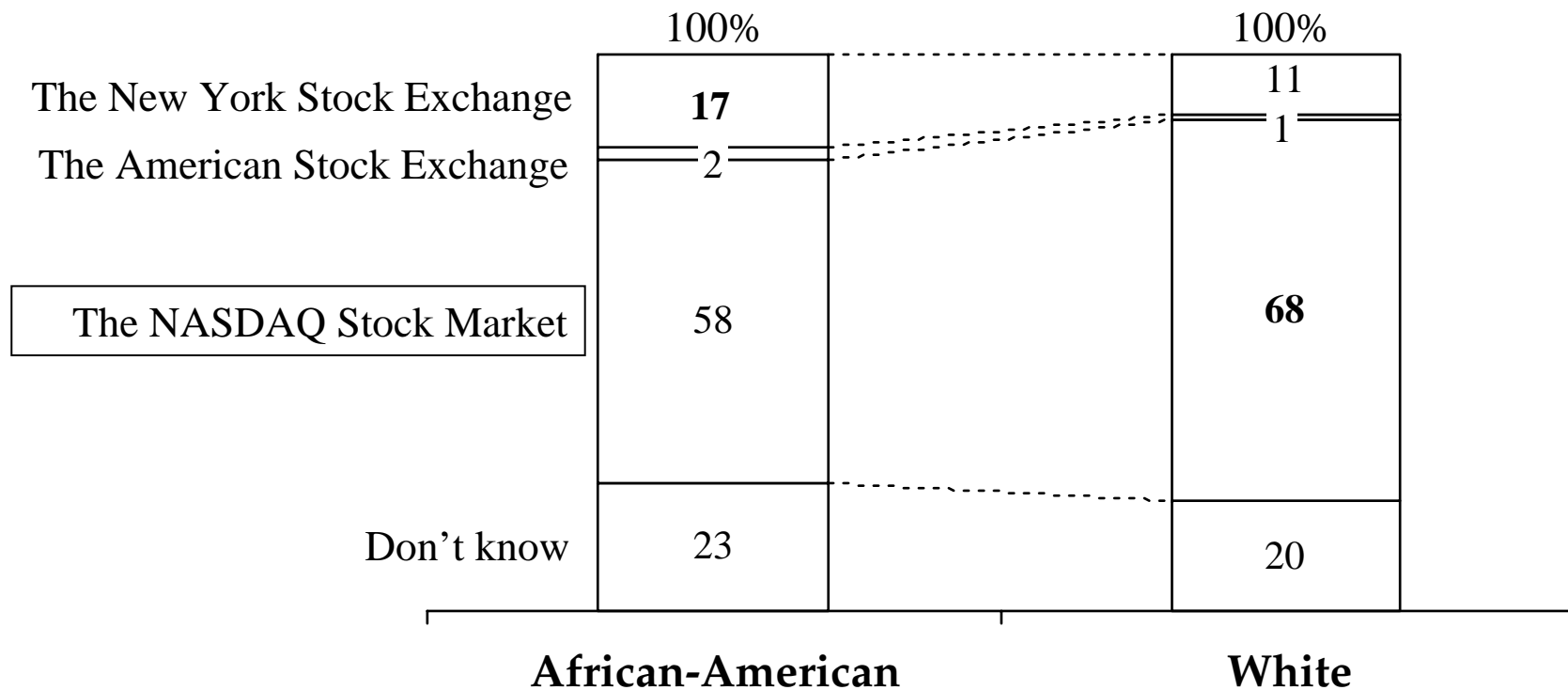
# MARKET SMARTS: DOW JONES INDUSTRIAL AVERAGE

*How many stocks make up the Dow Jones Industrial Average?*



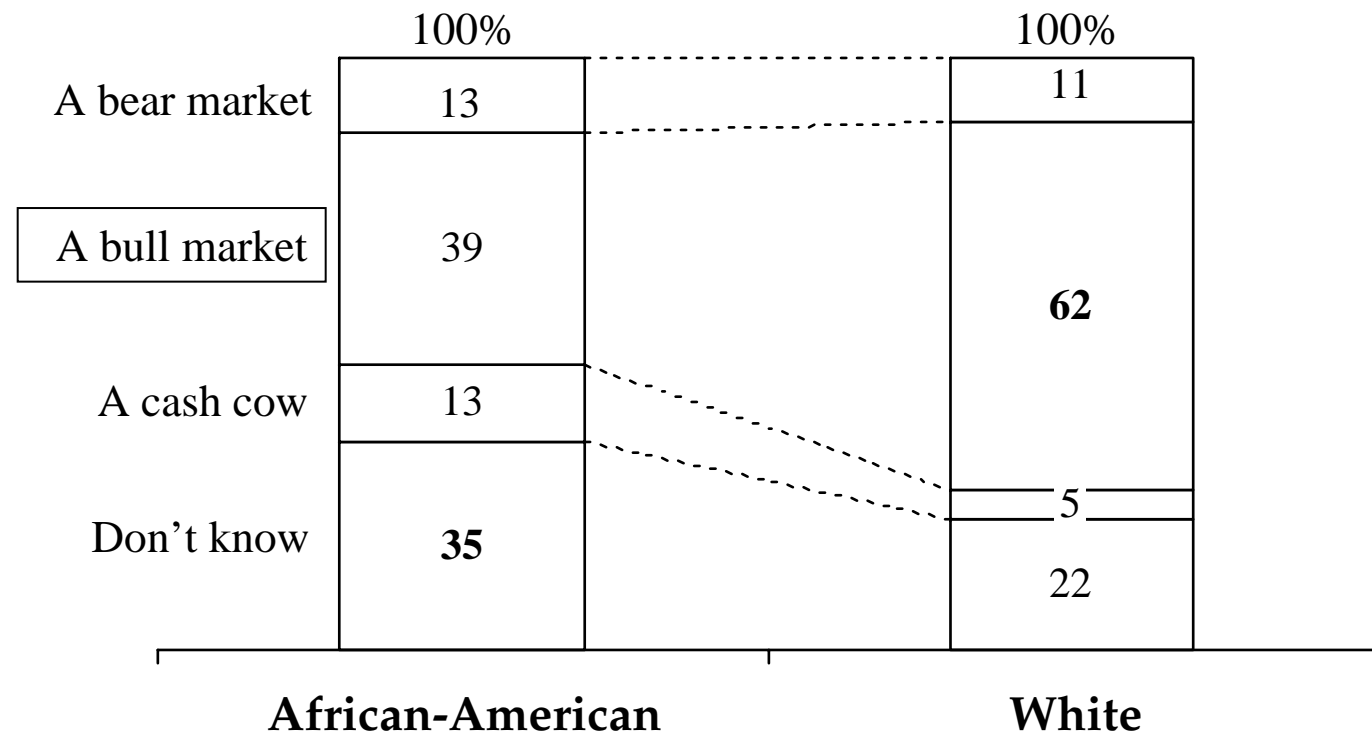
# MARKET SMARTS: STOCK EXCHANGES

*Which of the following stock exchanges is best known for the technology companies listed on it?*



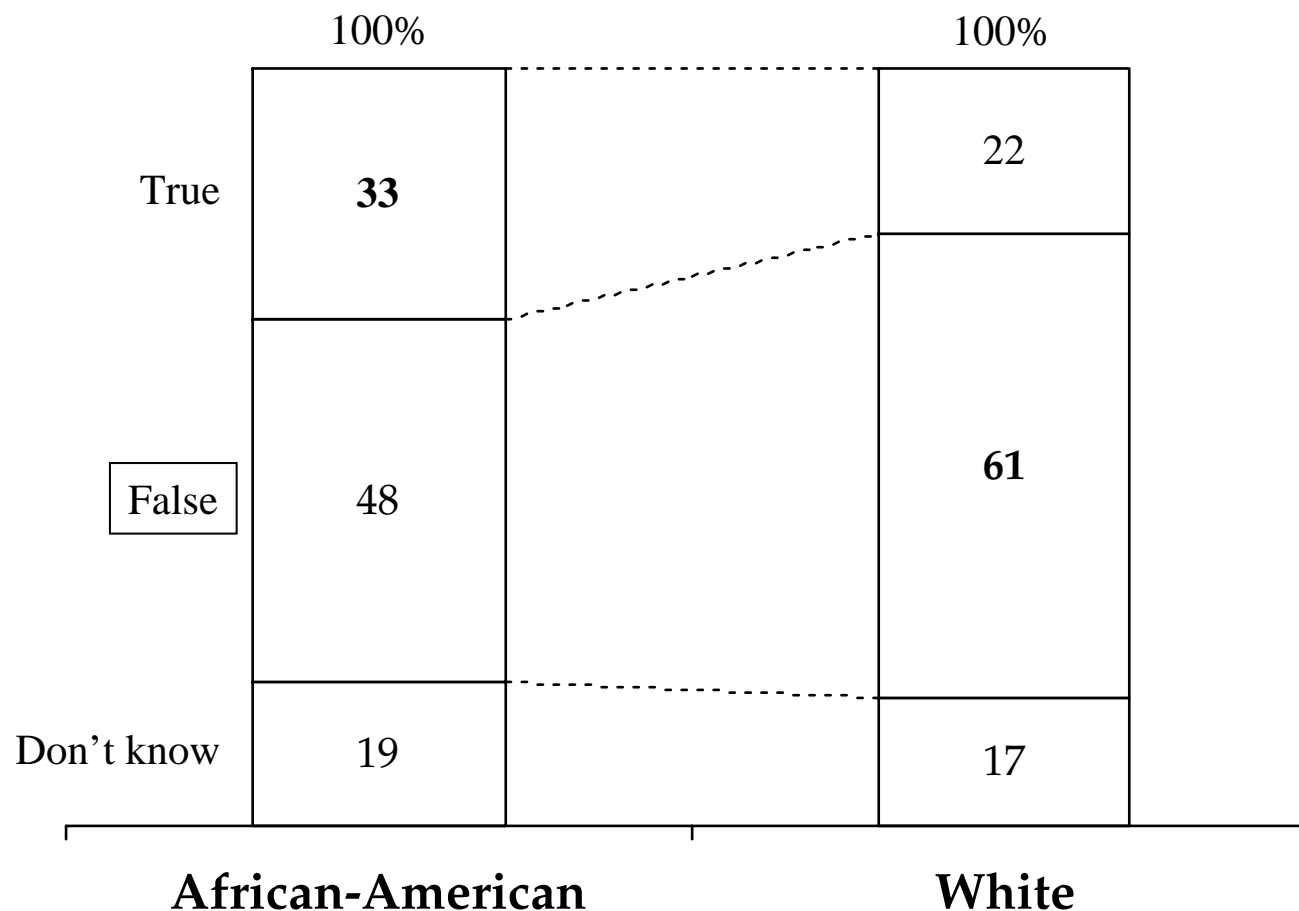
# MARKET SMARTS: BULL AND BEAR TERMINOLOGY

*Which of the following terms refers to a stock market that is going up?*



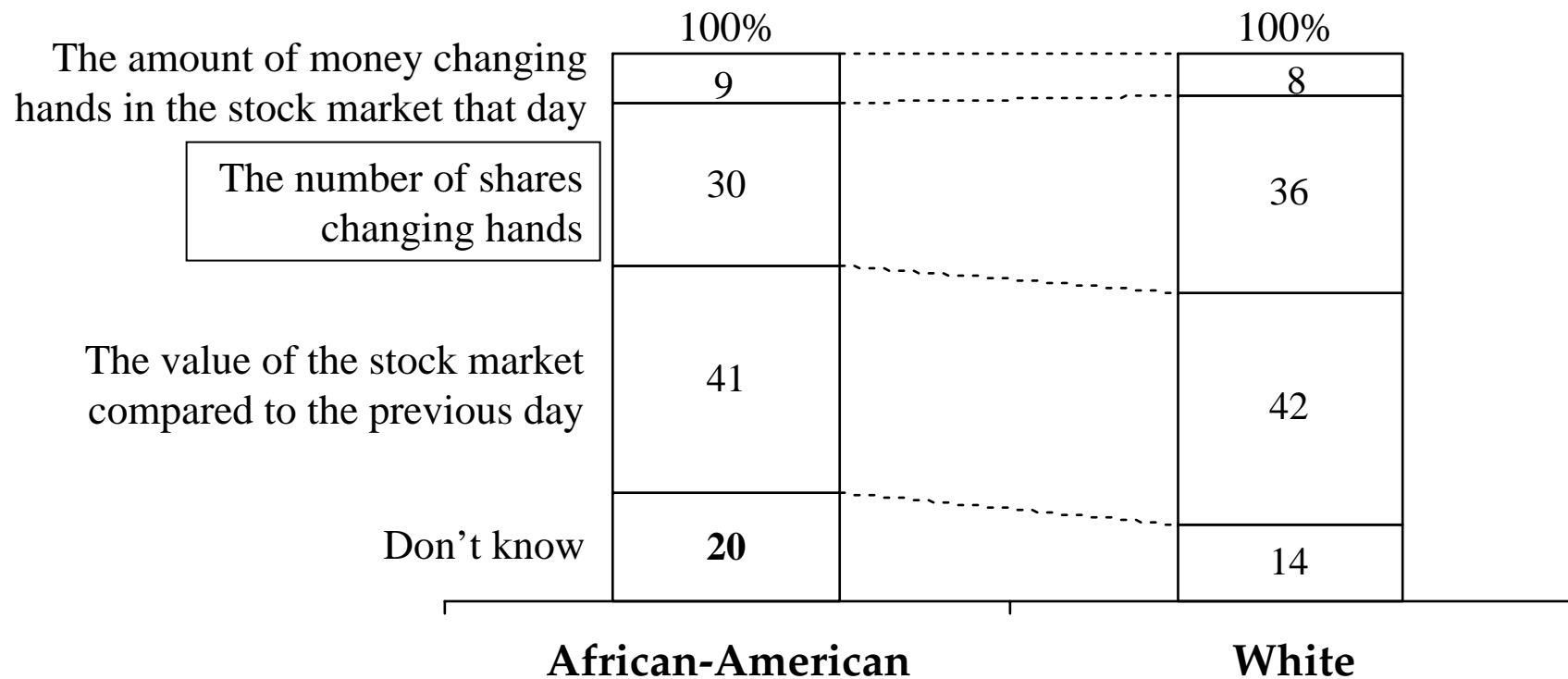
# MARKET SMARTS: MUTUAL FUNDS

*True or false: Like banks accounts, mutual fund accounts are federally insured.*



# MARKET SMARTS: TRADING VOLUME

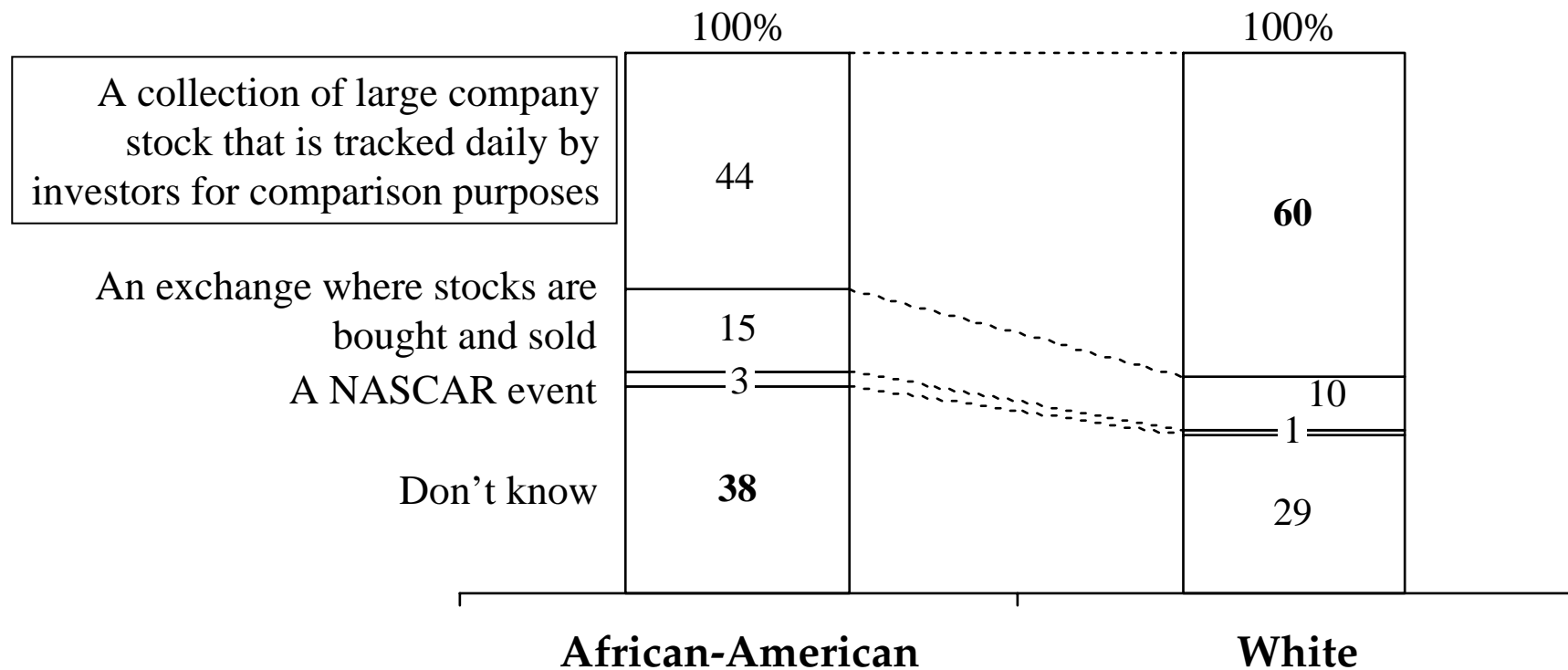
*When the trading volume of the stock market is reported on the news every night, it refers to...*





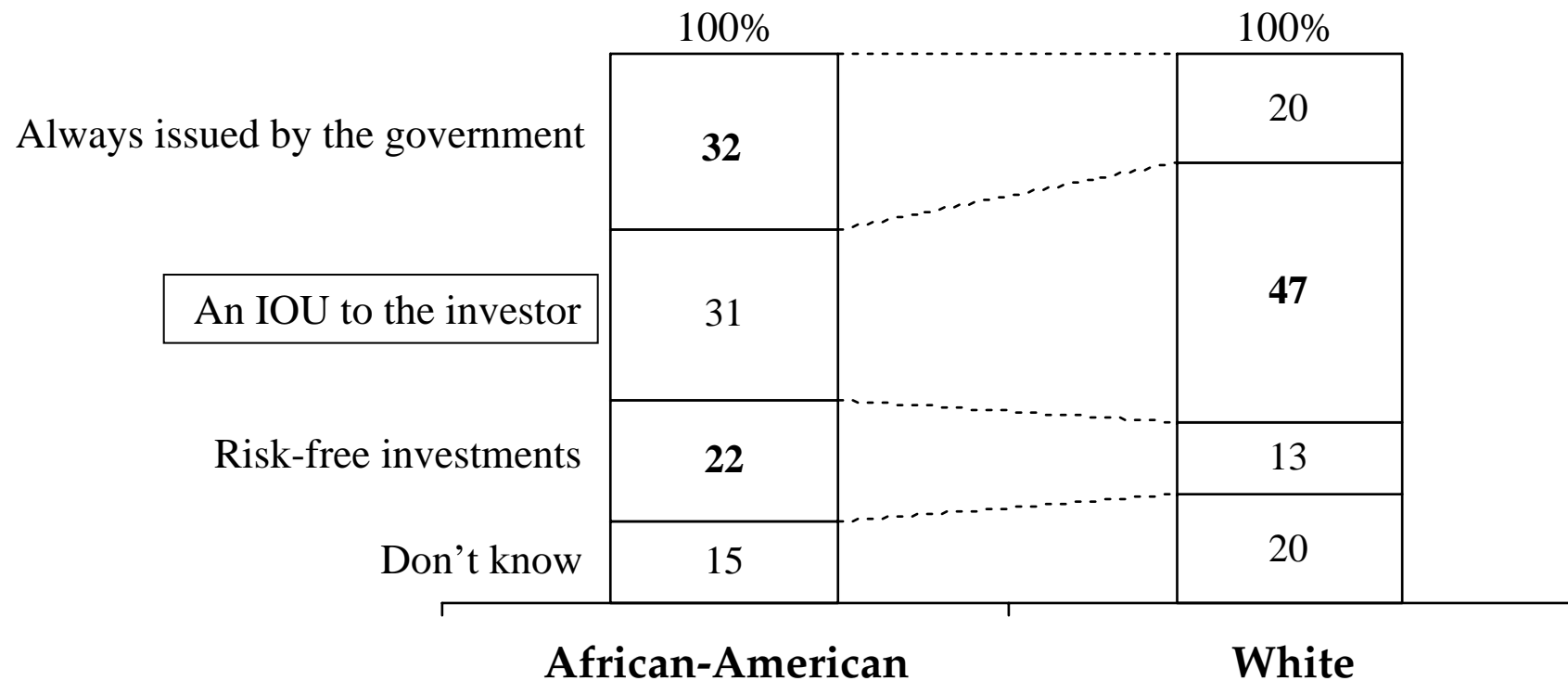
# MARKET SMARTS: S&P 500 INDEX

*The S&P 500 Index is.....*



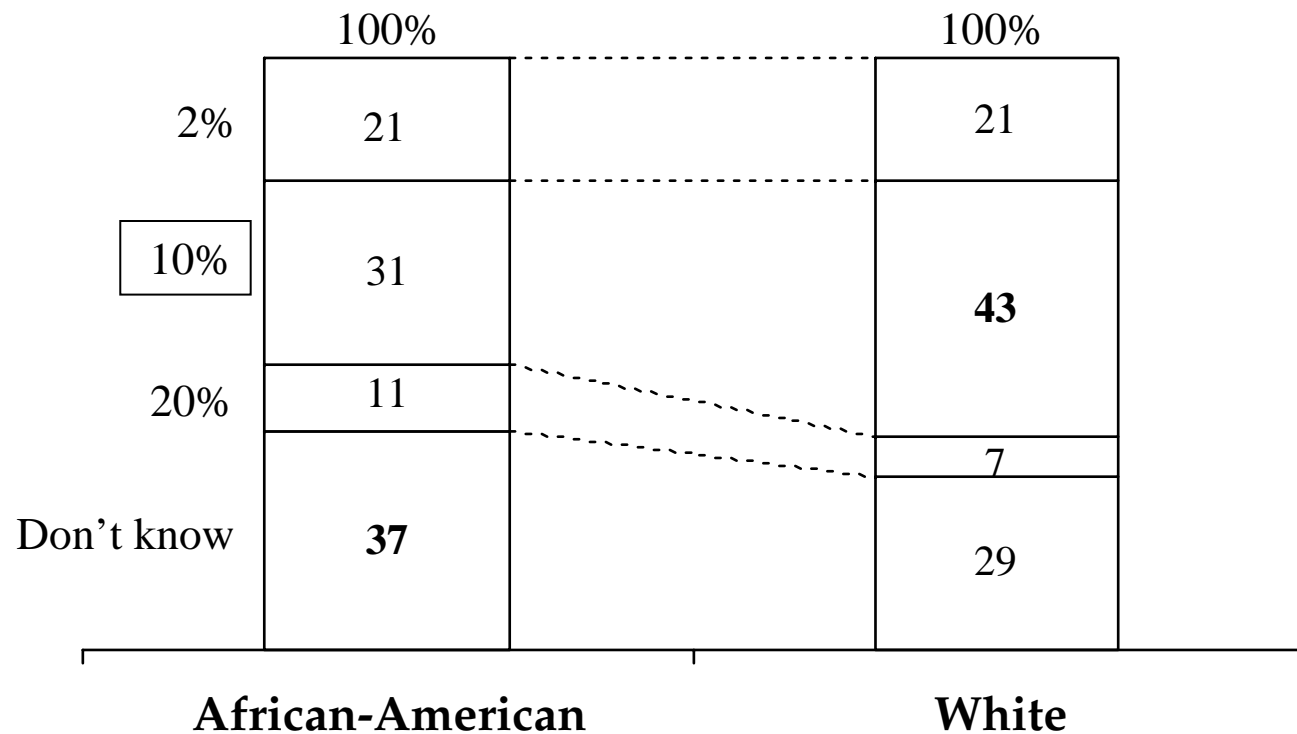
# MARKET SMARTS: BONDS

*Two of the following three statements about bonds are false, Which statement is the one that is true? Bonds are...*



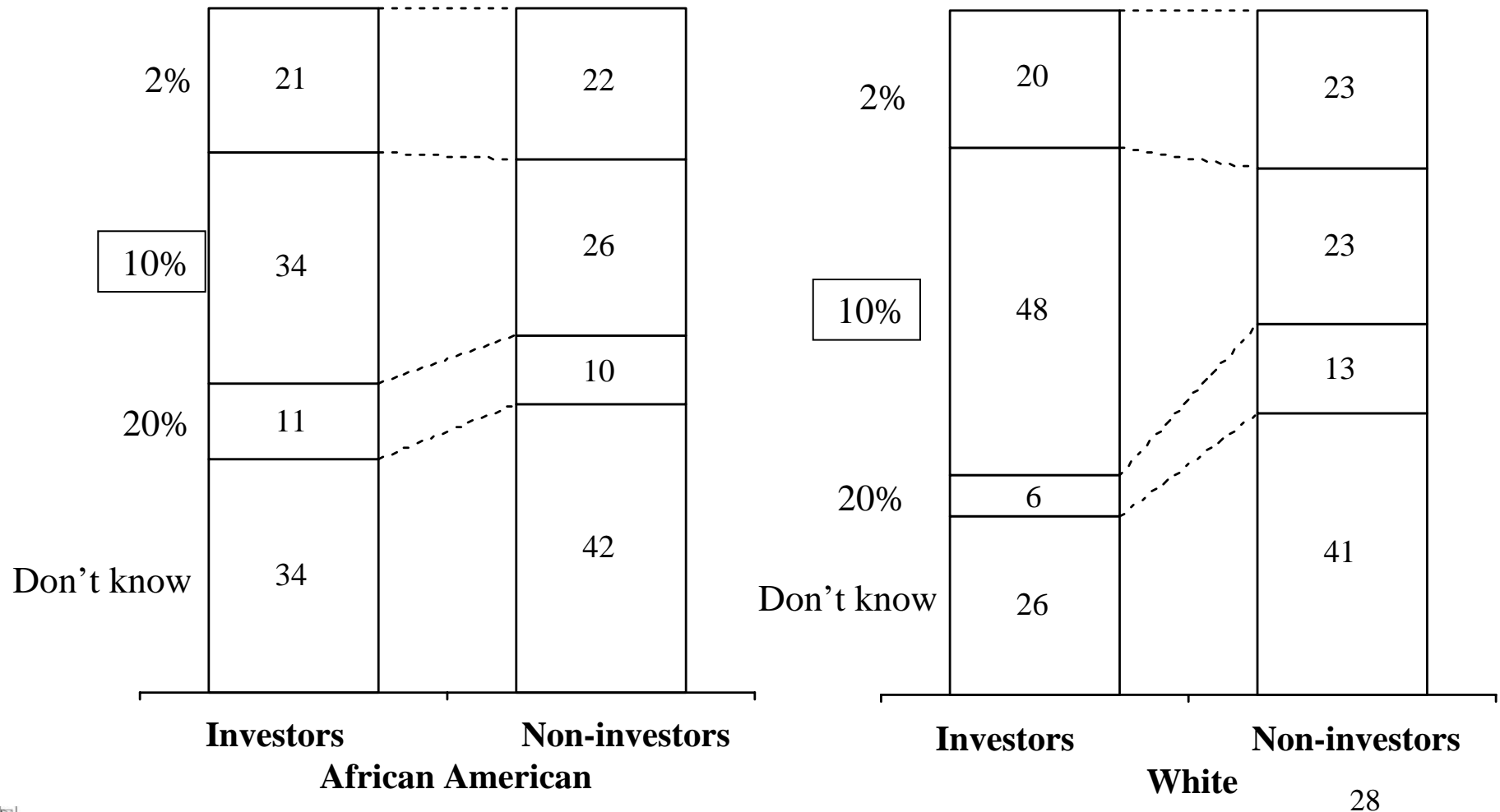
# MARKET SMARTS: HISTORICAL RETURN OF THE STOCK MARKET

*In the last 75 years, the stock market has increased each year at an average rate of roughly...*

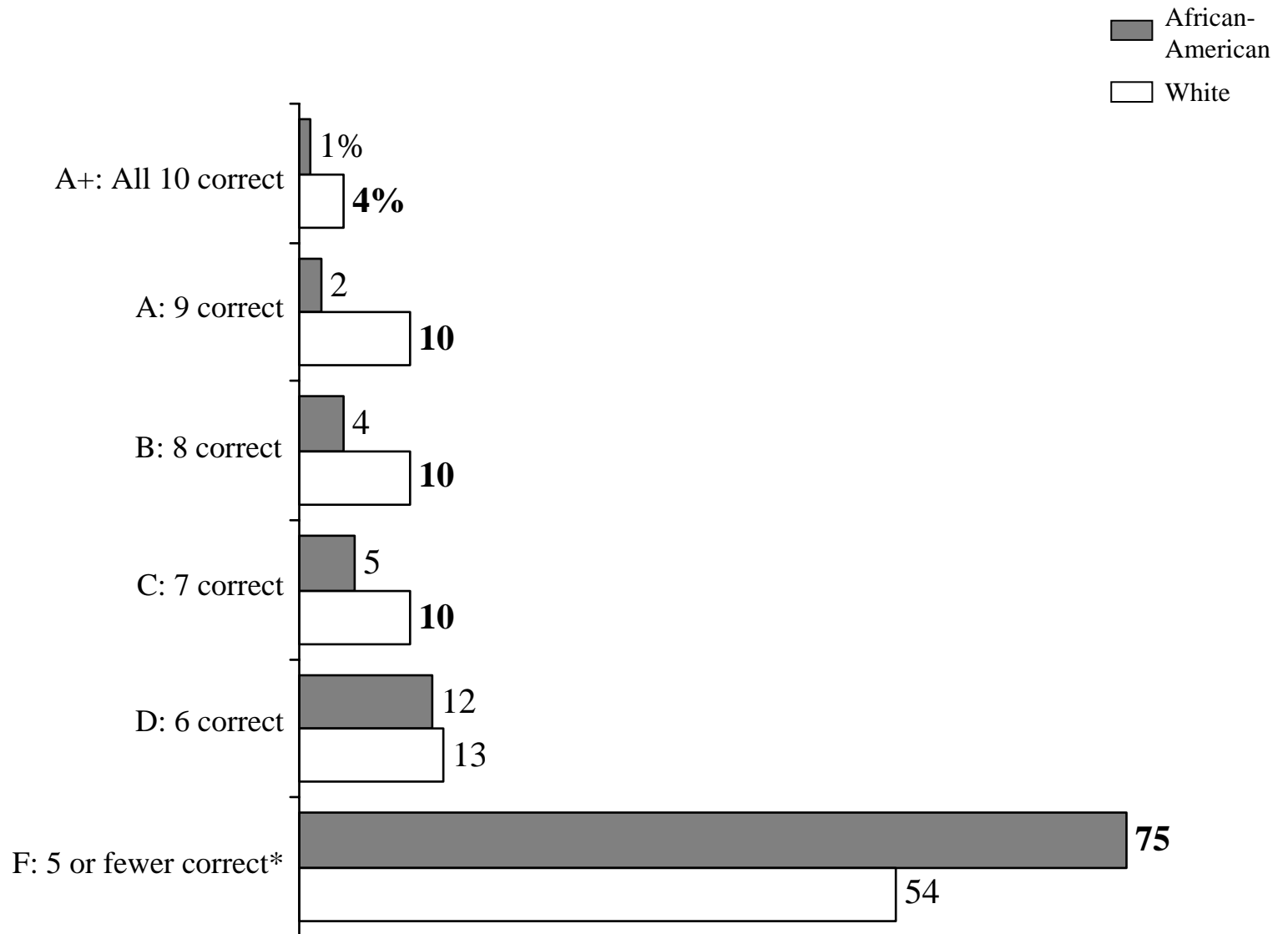


# MARKET SMARTS BY MARKET PARTICIPATION: HISTORICAL RETURN OF THE STOCK MARKET

*In the last 75 years, the stock market has increased each year at an average rate of roughly...*

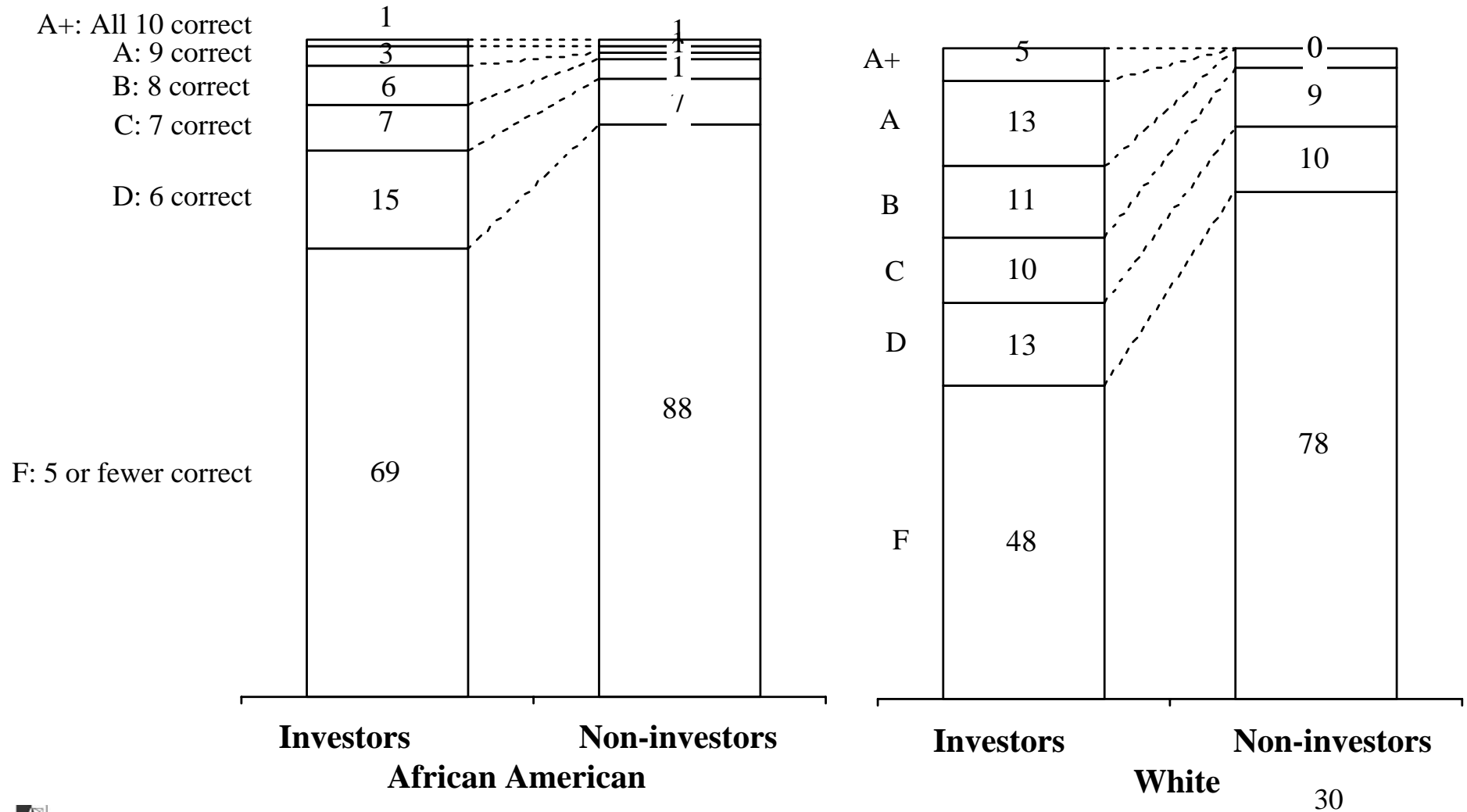


# MARKET SMARTS: “QUIZ” RESULTS



\* 9% of African Americans and 4% of Whites did not answer any of the 10 questions correctly.

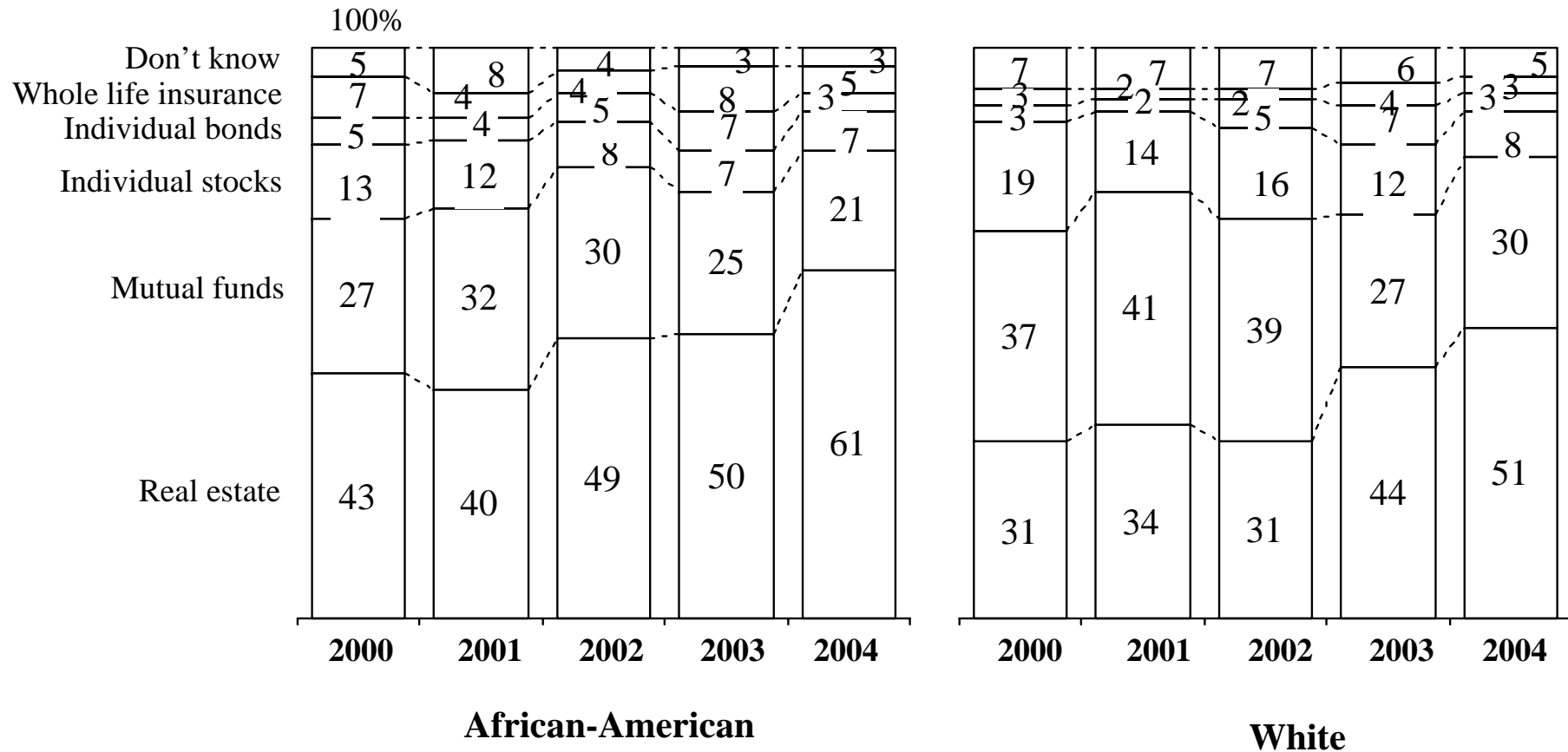
# MARKET SMARTS BY MARKET PARTICIPATION: “QUIZ” RESULTS



# REAL ESTATE

# PERCEPTIONS OF BEST INVESTMENTS OVERALL

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



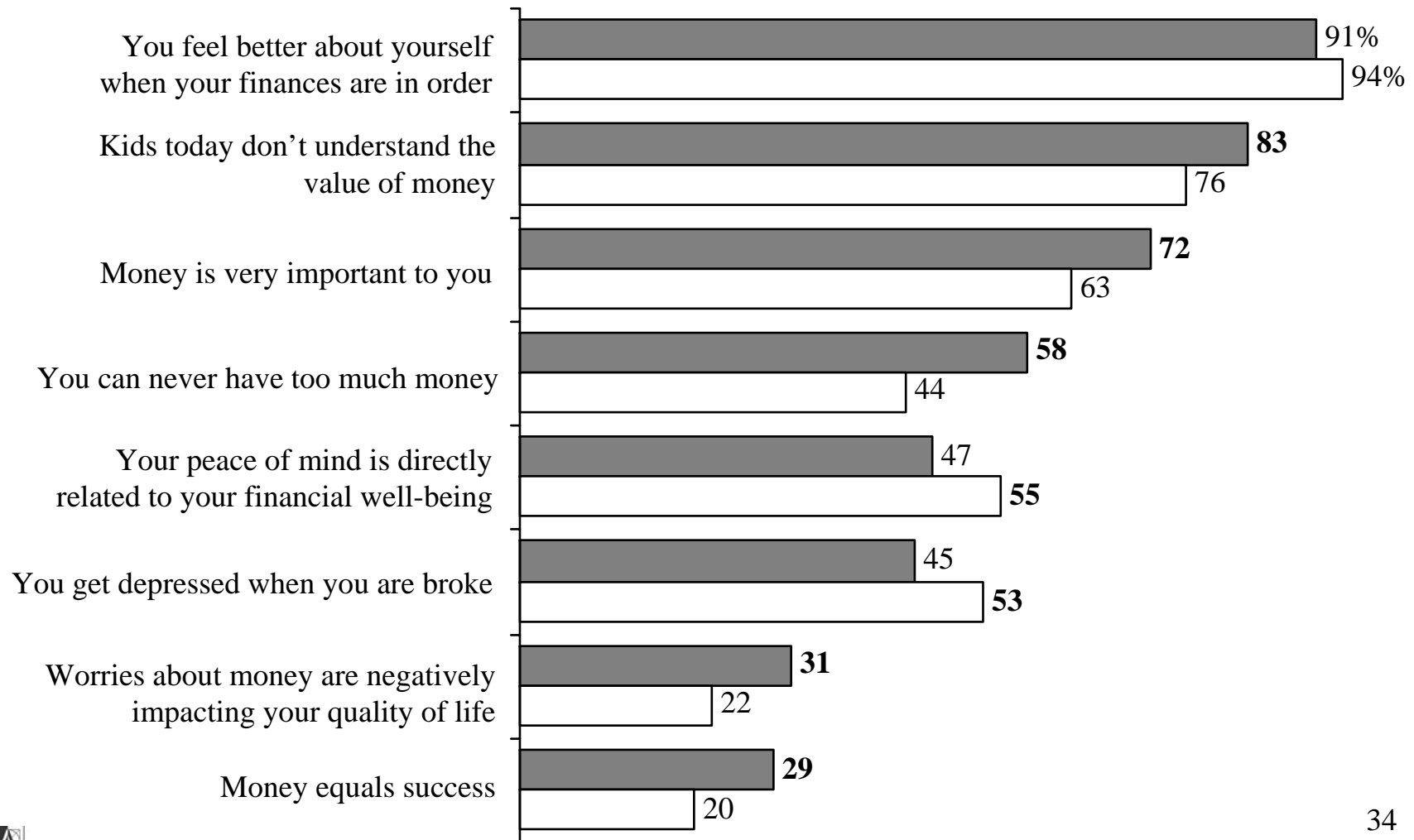


# ADDITIONAL FINDINGS

# FINANCIAL VALUES AND ATTITUDES

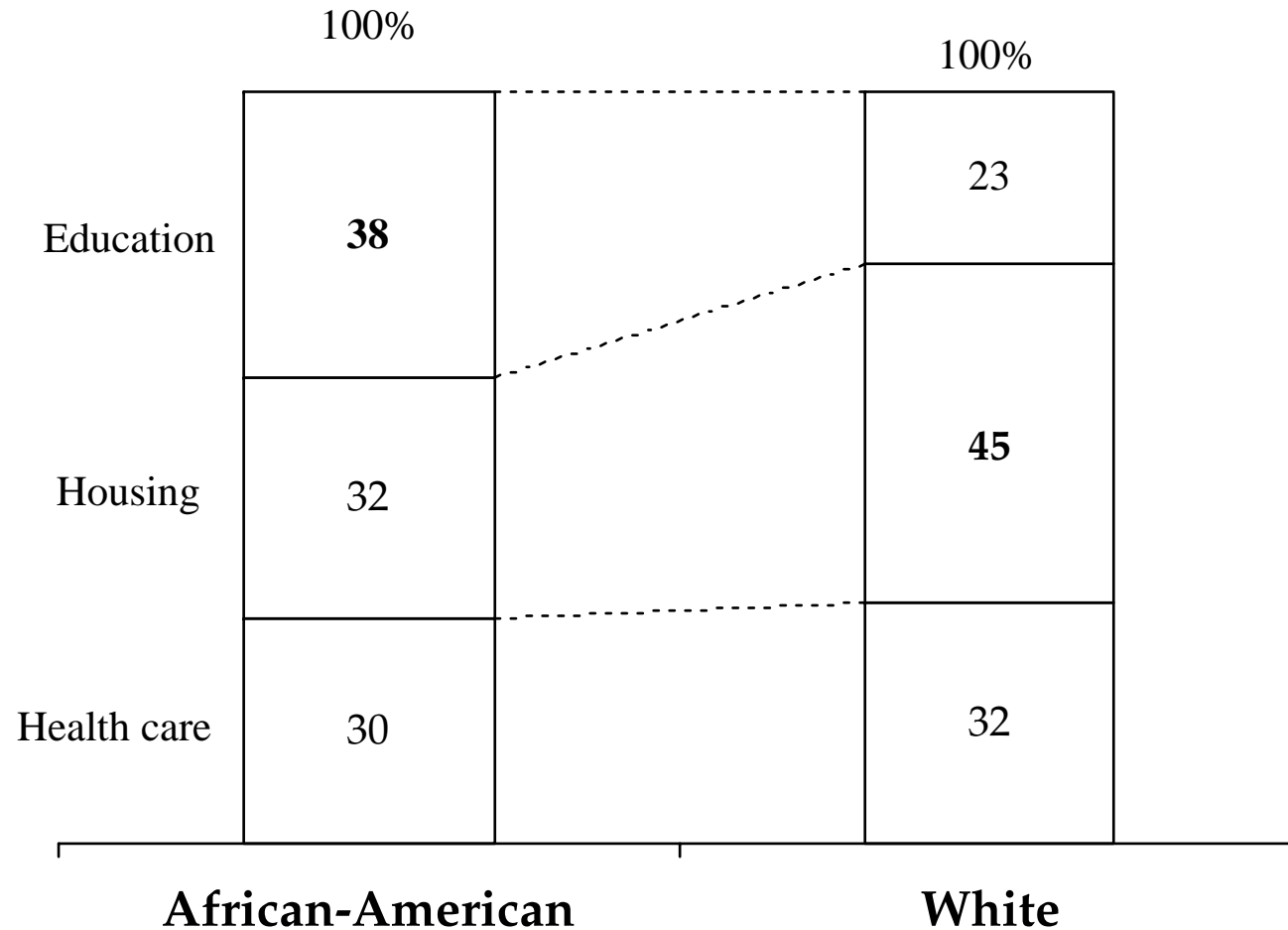
*% Agreeing with following statements.*

■ African-American  
□ White



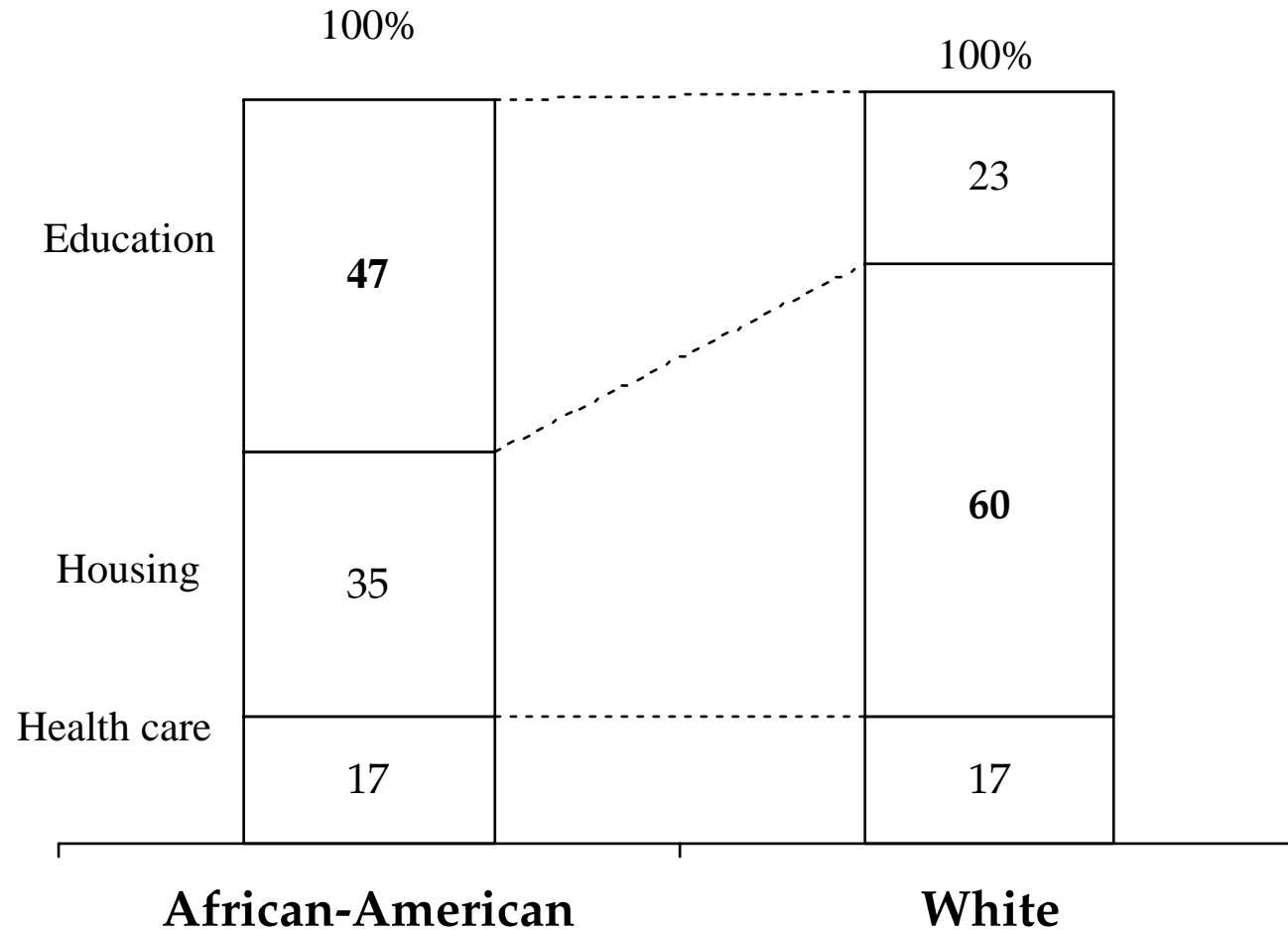
# MOST IMPORTANT SPENDING

*What would you say is currently the most important thing to spend money on for you and your family?*



# MOST IMPORTANT SPENDING FOR 18-34 AGE GROUP

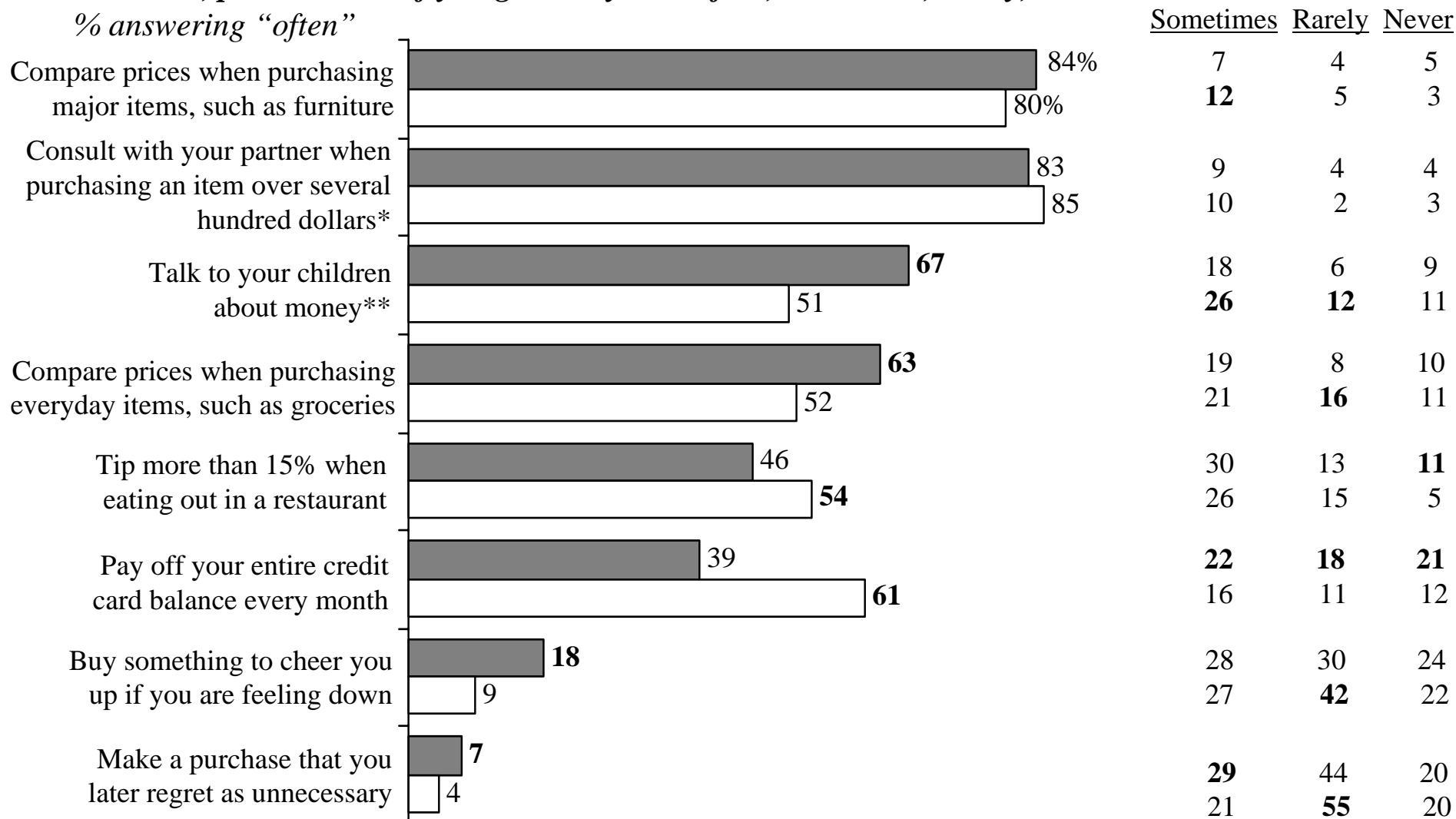
*What would you say is currently the most important thing to spend money on for you and your family?*



# FREQUENCY OF FINANCIAL ACTIVITIES

*I'm going to read you a list of things you might do when it comes to your money. For each item, please tell me if you generally do it often, sometimes, rarely, or never.*

■ African-American  
□ White





\* Base: Married/living together respondents

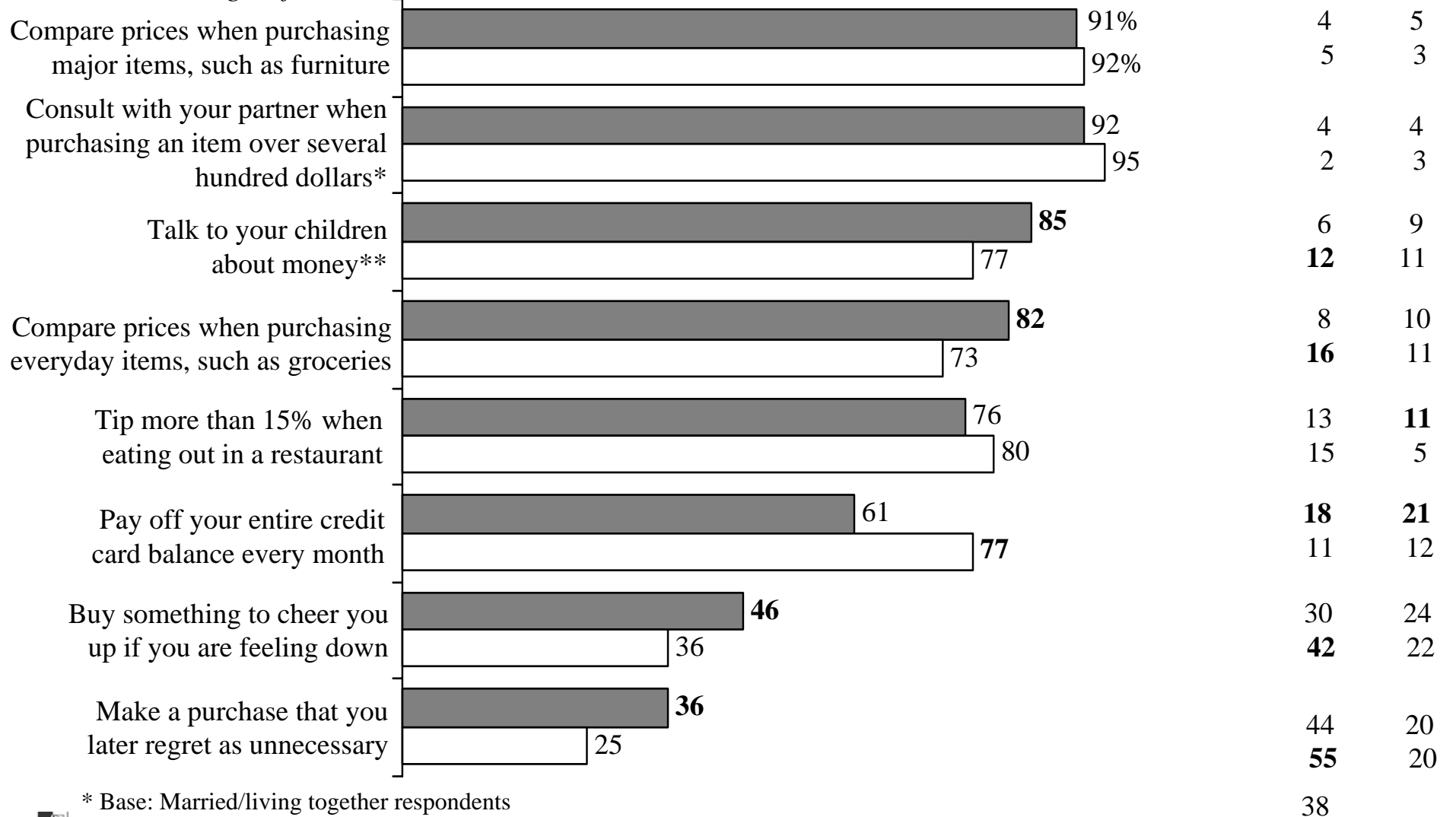
\*\*Base: Have children

# FREQUENCY OF FINANCIAL ACTIVITIES

*I'm going to read you a list of things you might do when it comes to your money. For each item, please tell me if you generally do it often, sometimes, rarely, or never.*

% answering "often" or "sometimes"

 African-American  
 White  
 Rarely Never

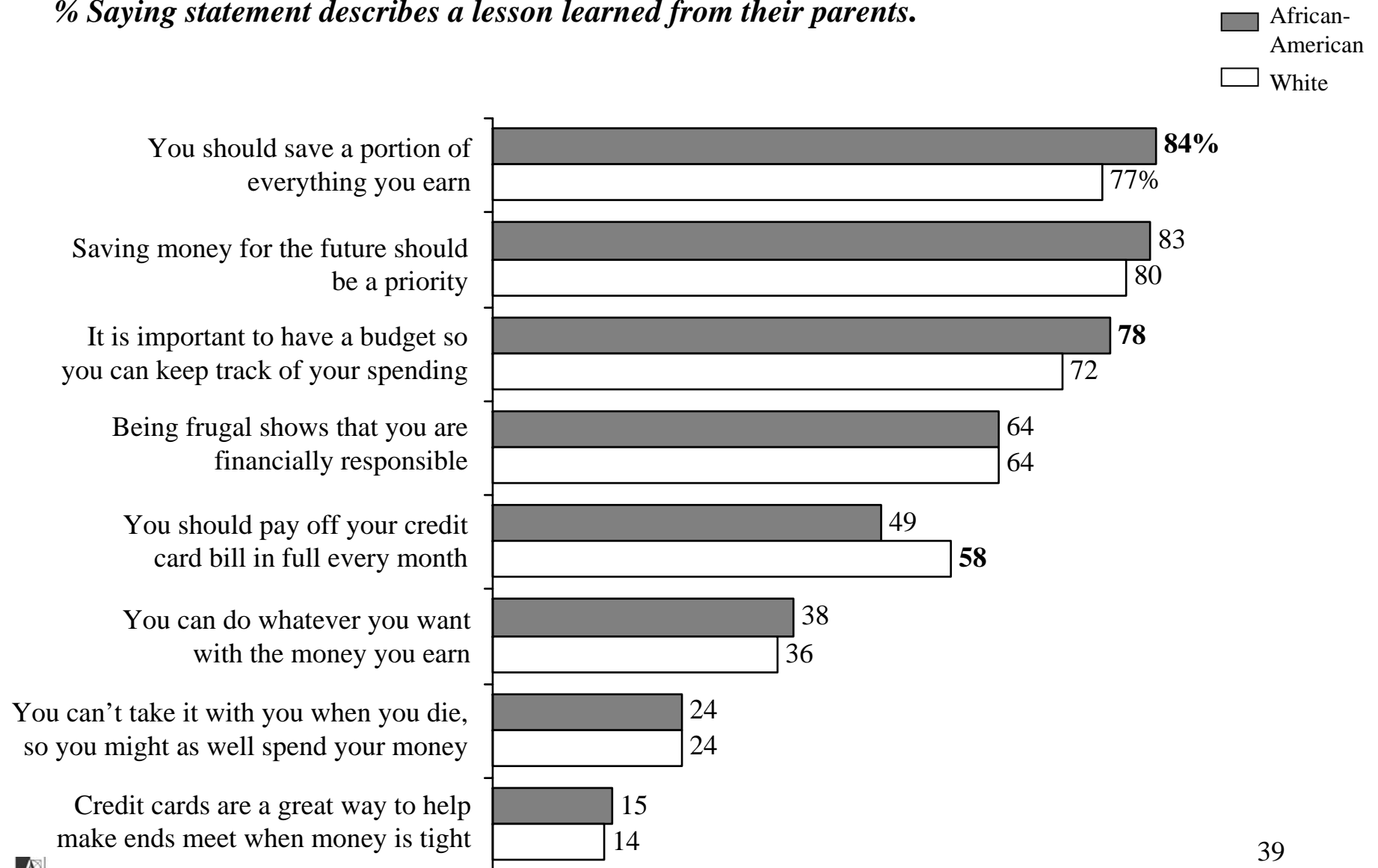


\* Base: Married/living together respondents

\*\*Base: Have children

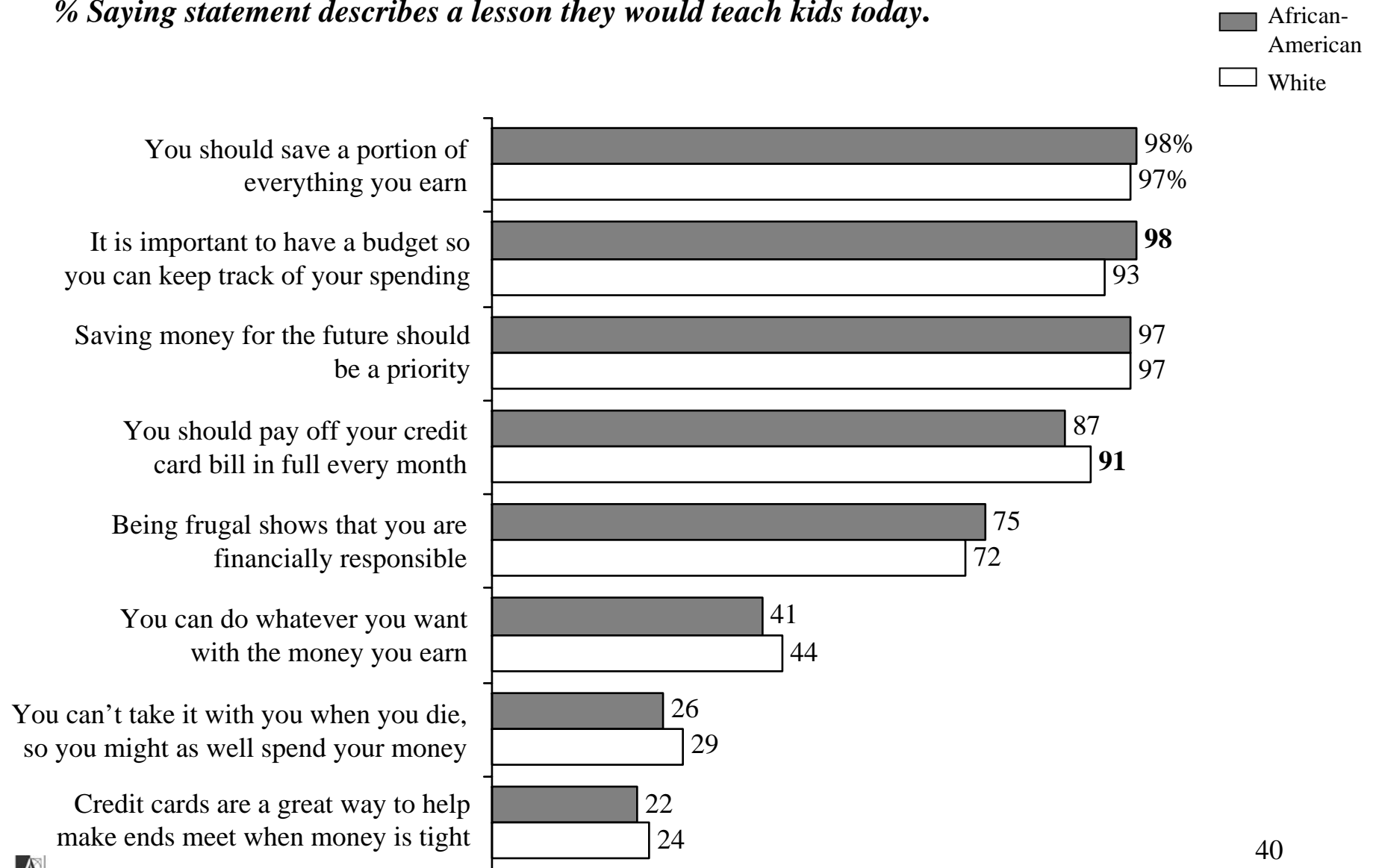
# FINANCIAL LESSONS LEARNED FROM PARENTS

*% Saying statement describes a lesson learned from their parents.*



# FINANCIAL LESSONS TAUGHT TO KIDS

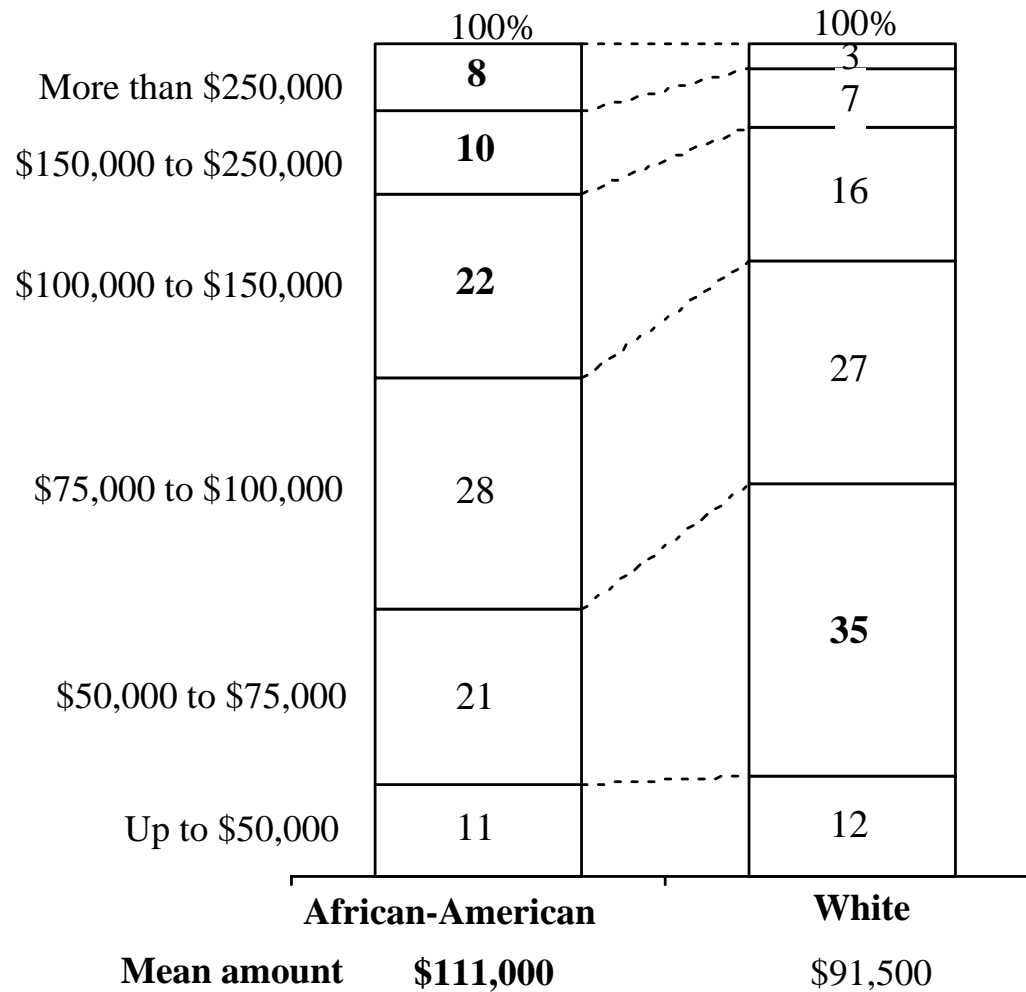
*% Saying statement describes a lesson they would teach kids today.*





# INCOME NEEDED TO LIVE “VERY COMFORTABLY”

*How much money would you need to make a year, at a minimum, for you to feel like it was enough for your household to live very comfortably?*

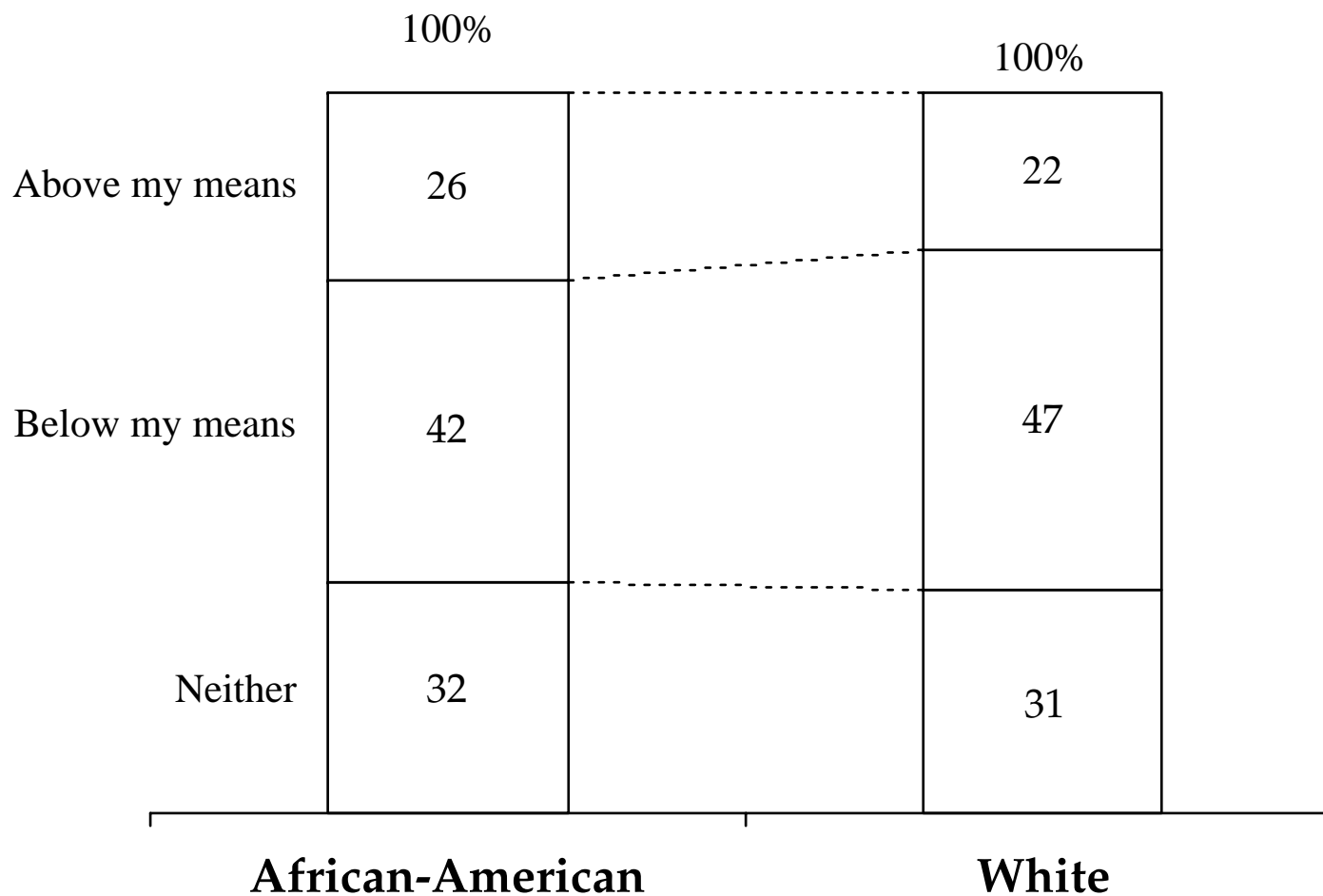


MEAN AMOUNT BY CURRENT INCOME

|              | African American | White     |
|--------------|------------------|-----------|
| \$50K-\$75K  | \$88,000         | \$70,000  |
| \$75K-\$100K | \$110,000        | \$85,000  |
| \$100K+      | \$138,000        | \$125,000 |

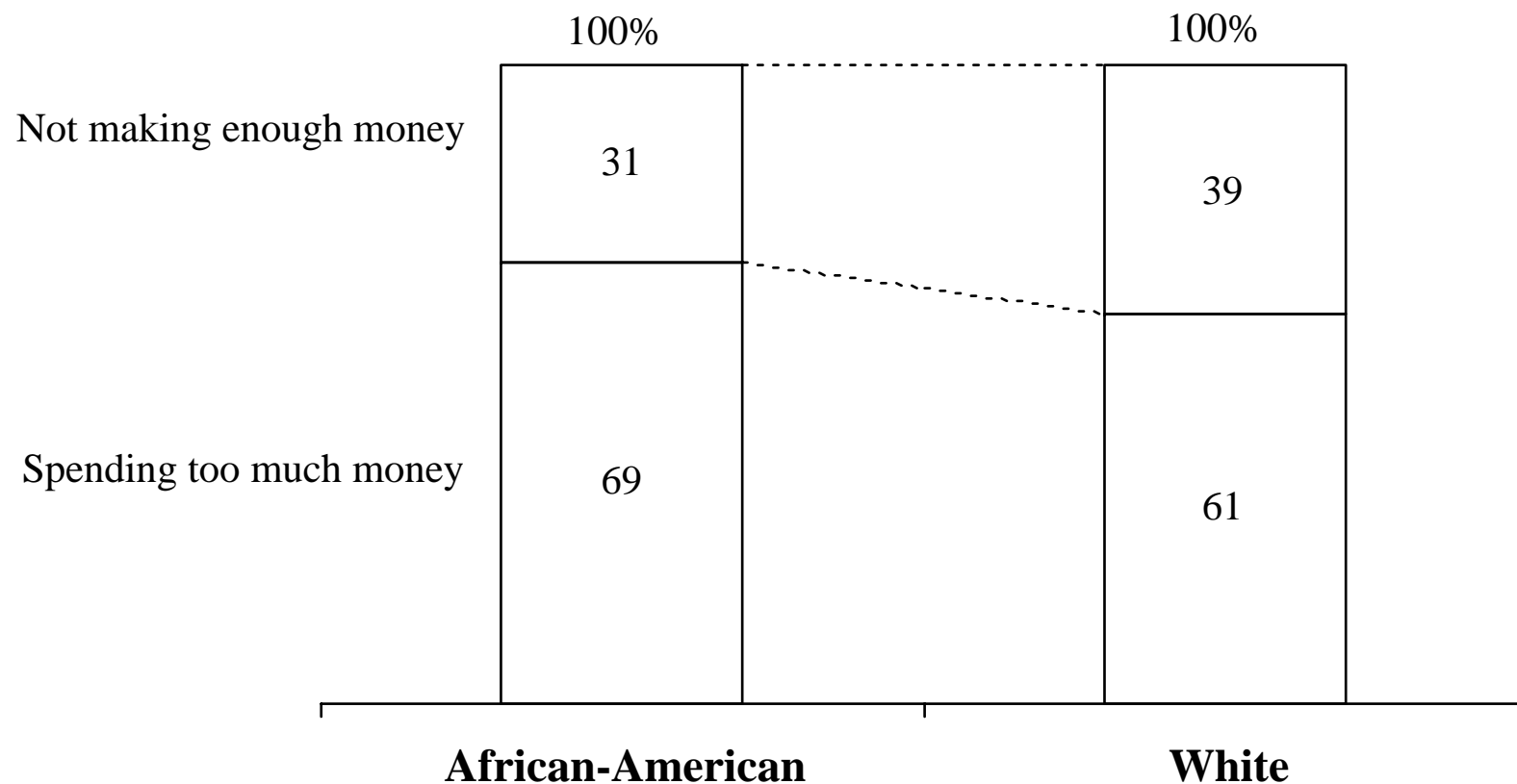
# LIVING ABOVE OR BELOW MEANS

*Would you say you live above your means, or below your means?*



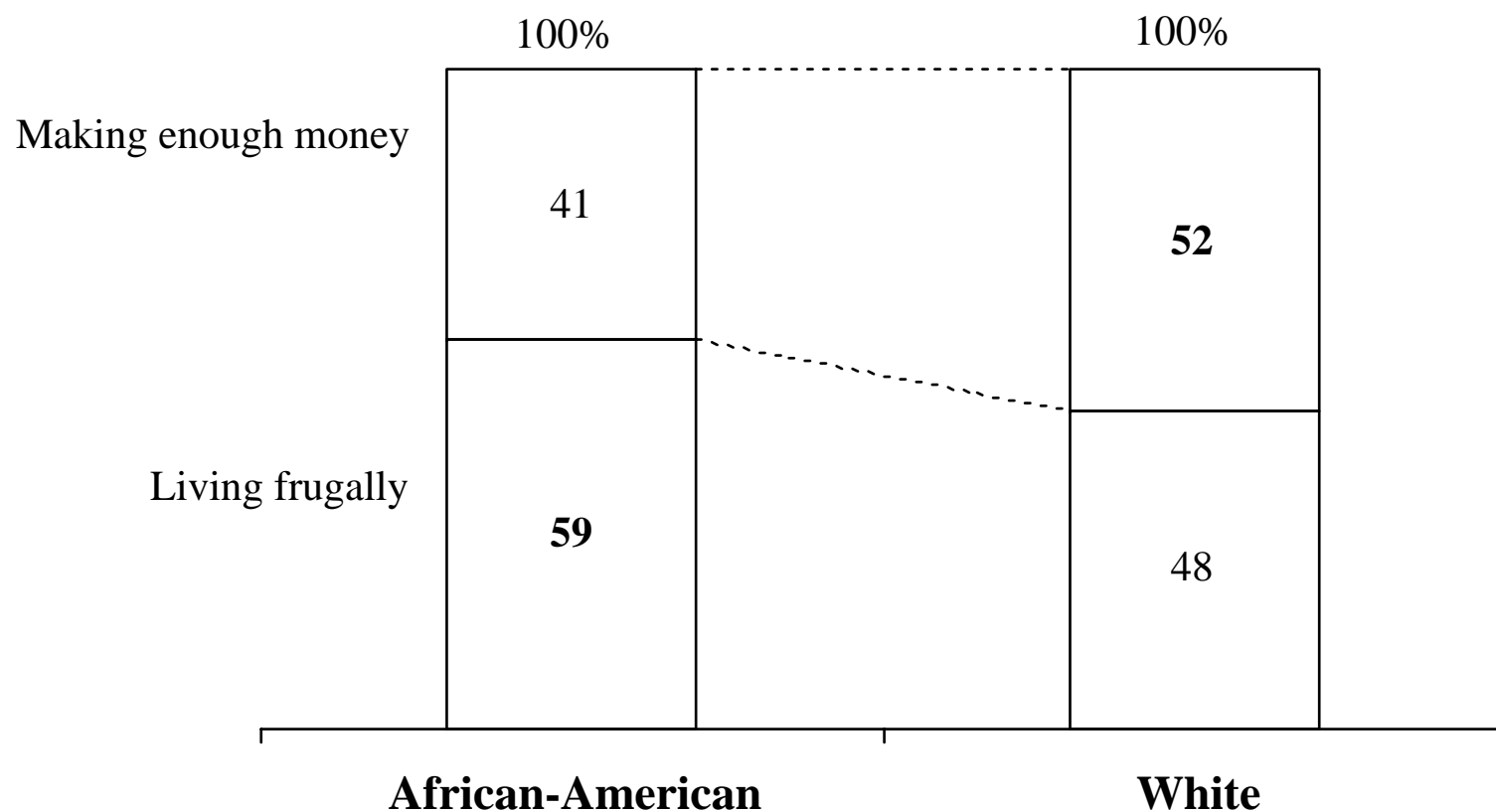
# REASON FOR LIVING ABOVE MEANS

*Do you feel that you are living above your means primarily because you are not making enough money, or because you are spending too much money?*



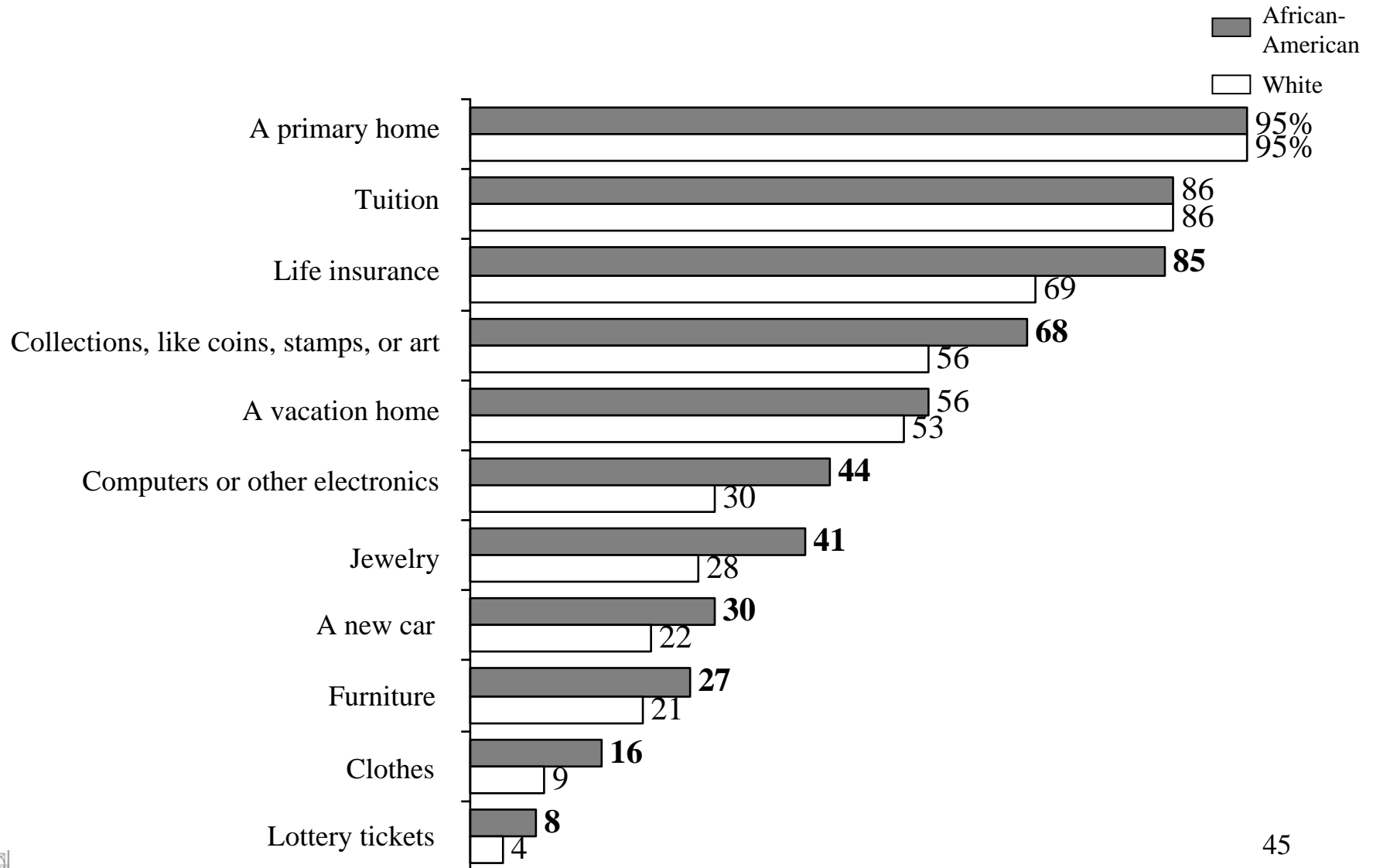
# ABILITY TO LIVE BELOW MEANS

*Do you feel that you are able to live below your means primarily because you are making enough money, or because you are living frugally?*



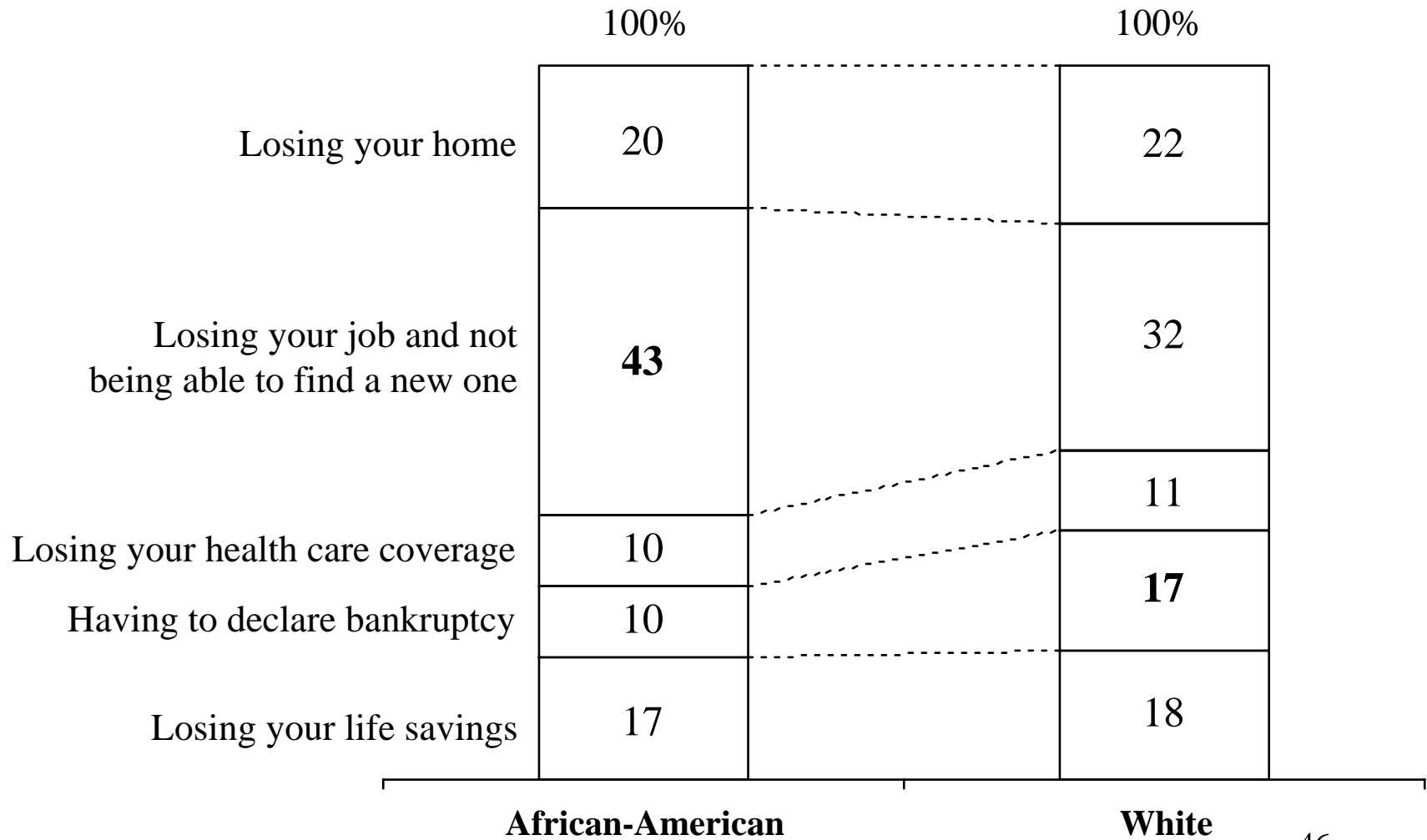
# ITEMS CONSIDERED INVESTMENTS

*% Considering each item a financial investment*



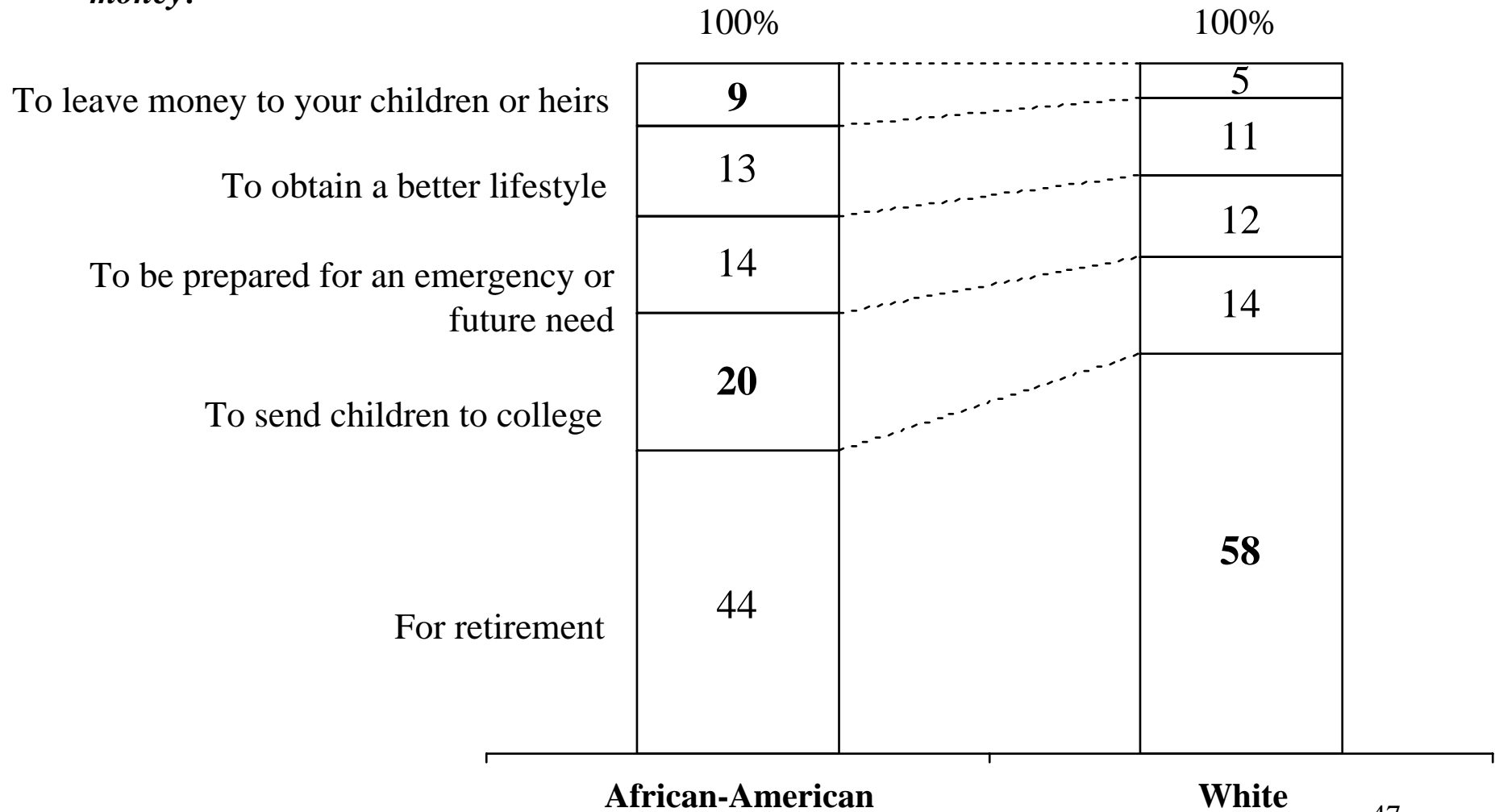
# WORST FINANCIAL NIGHTMARE

*Which of the following scenarios would you say is your worst financial nightmare?*



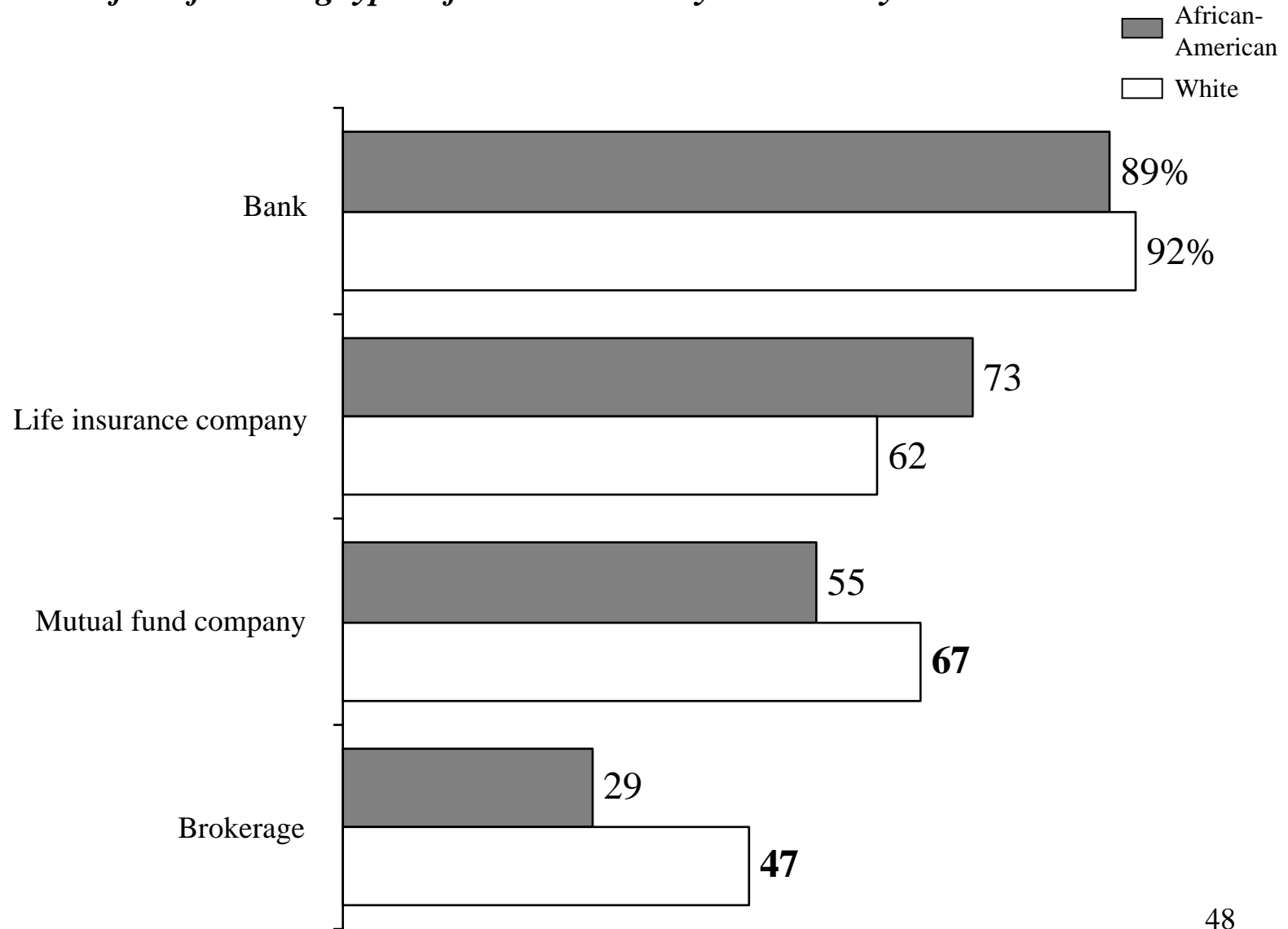
# GOAL FOR SAVINGS AND INVESTING

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



# ACCOUNTS WITH FINANCIAL INSTITUTIONS

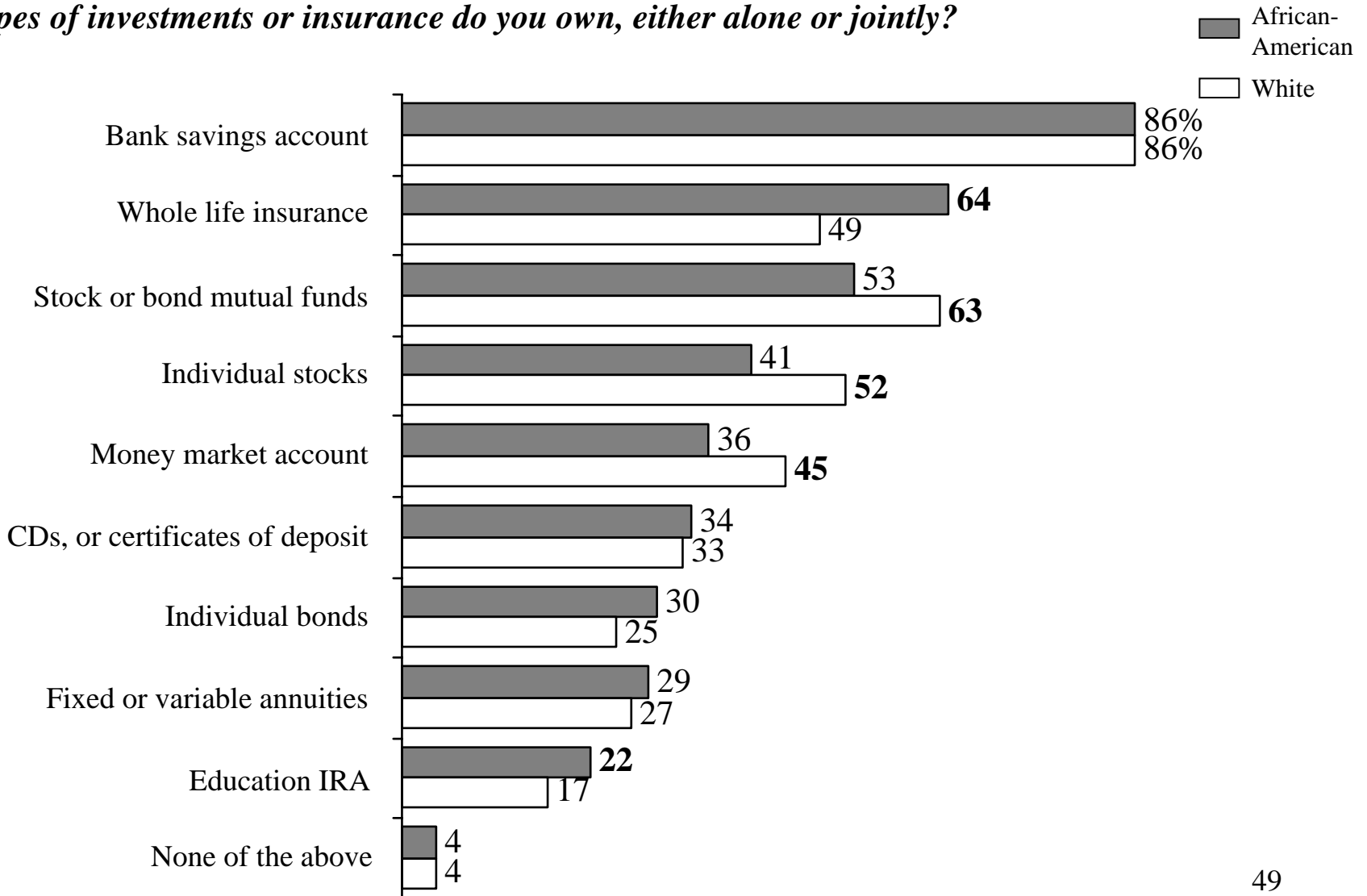
*With which of the following types of institutions do you have any accounts?*





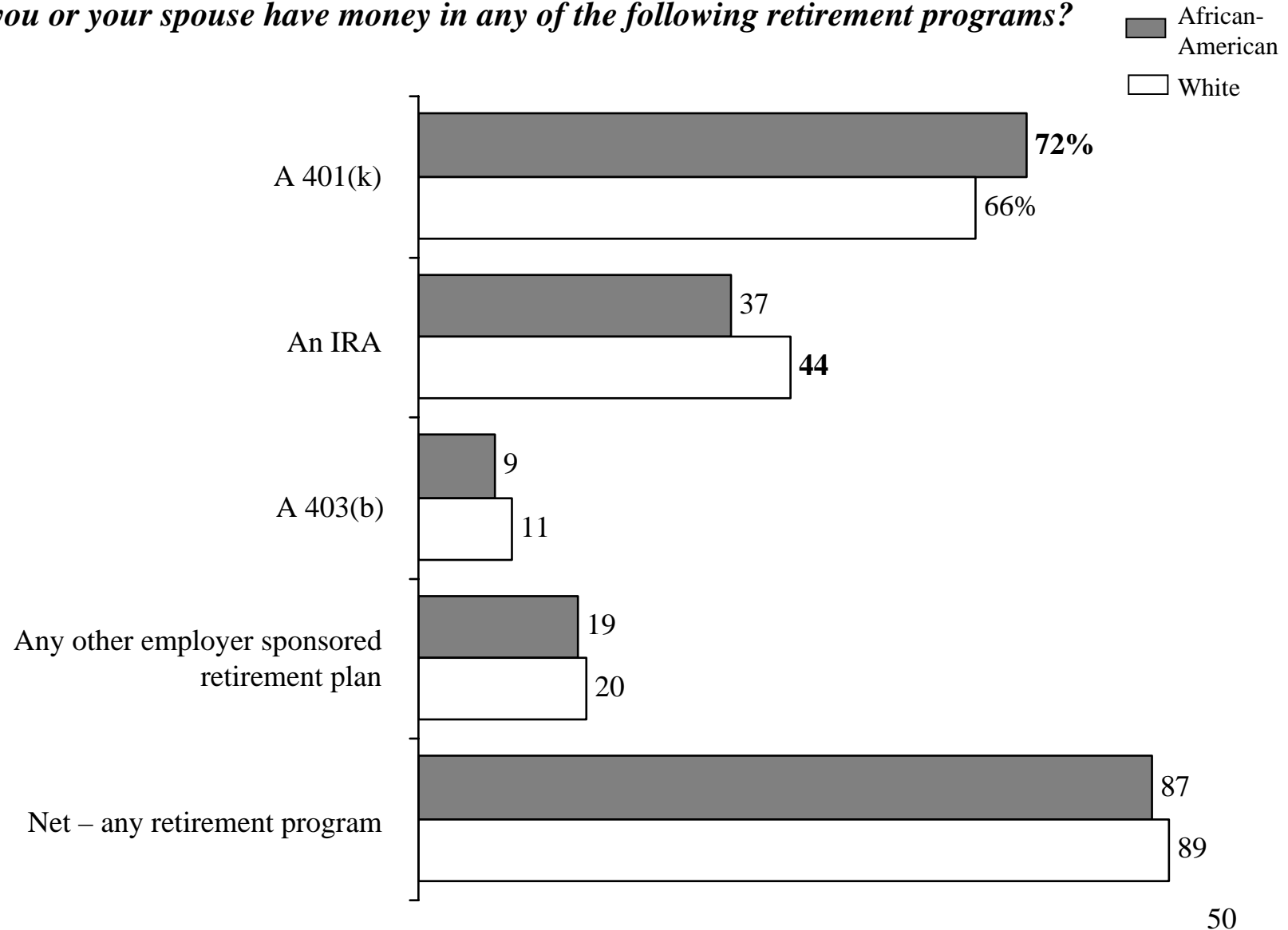
# PRODUCT OWNERSHIP

*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?*



# RETIREMENT PLANS OWNED

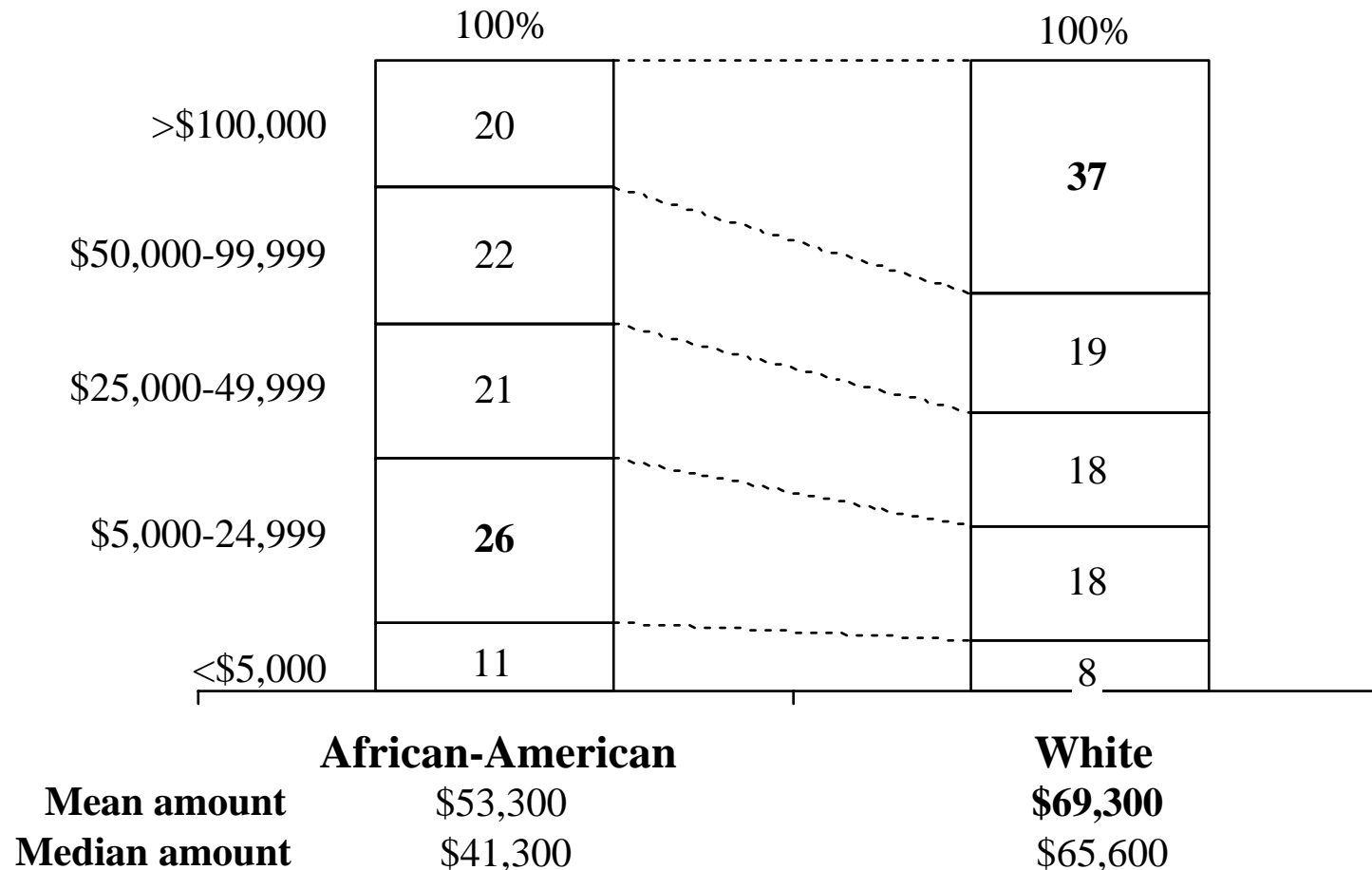
*Do you or your spouse have money in any of the following retirement programs?*



# 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?*

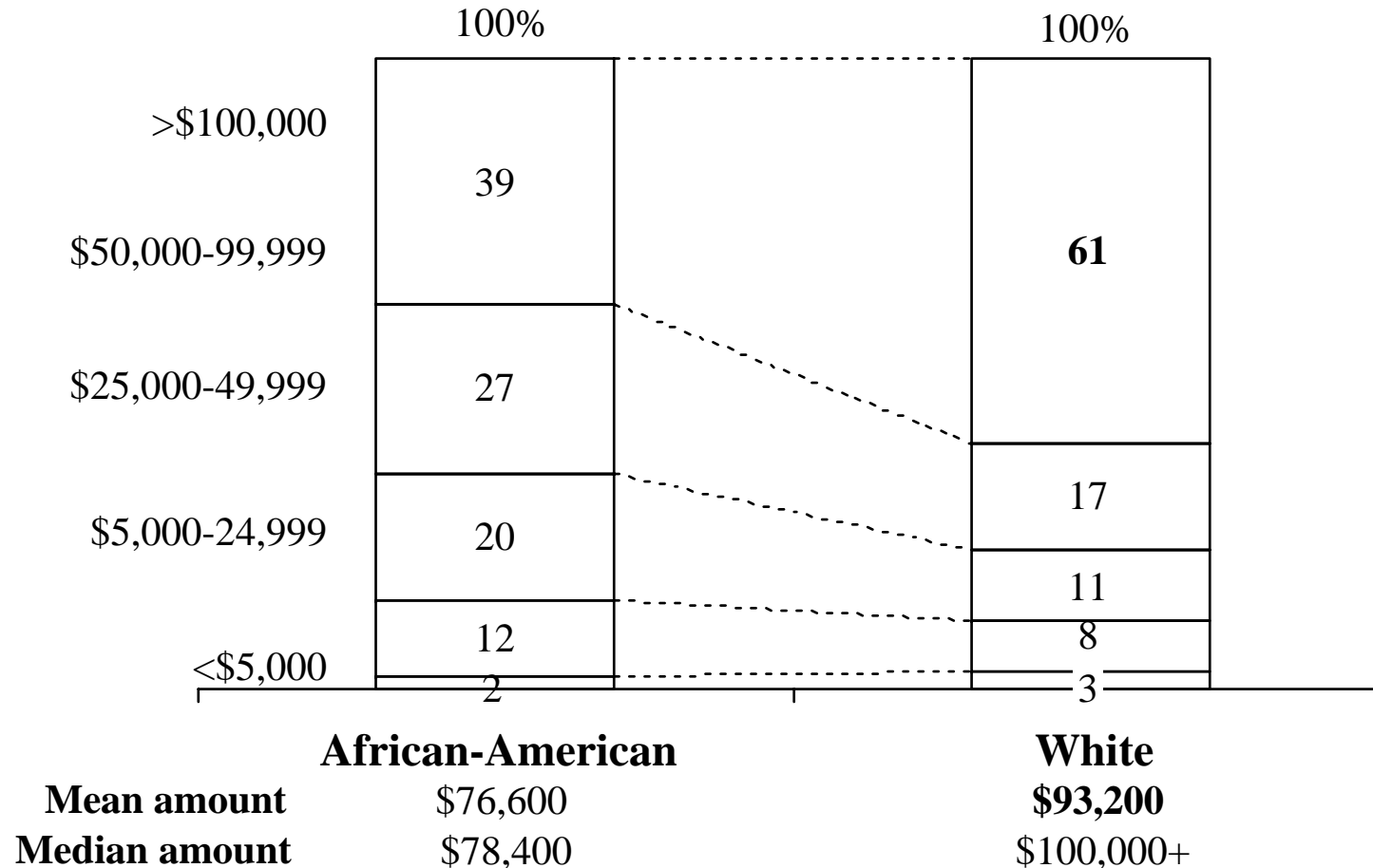
*Base: Have money in a retirement program*



# RETIREMENT ACCOUNT SAVINGS OF THOSE EARNING \$100K+

*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?*

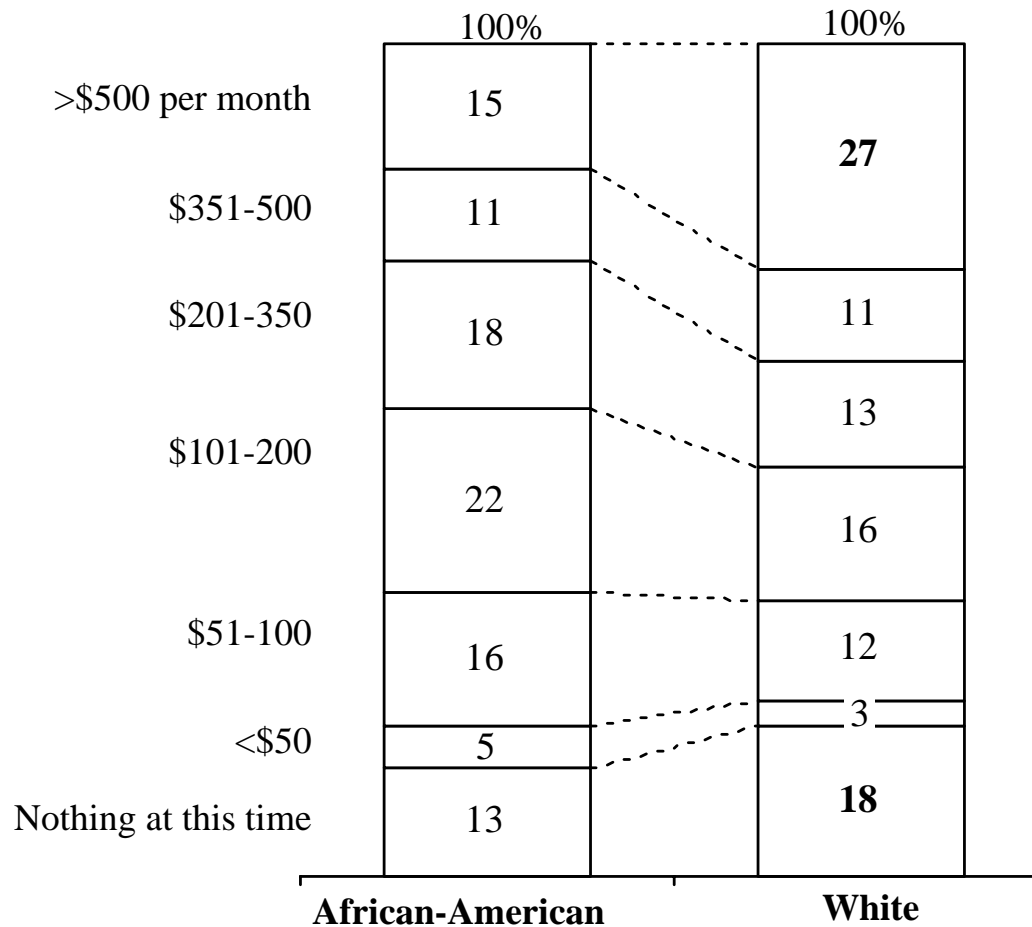
*Base: Have money in a retirement program*



# 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*



|                            |       |       |
|----------------------------|-------|-------|
| <b>Mean monthly amount</b> | \$228 | \$265 |
| <b>Median</b>              | \$177 | \$213 |

# STUDY PARTICIPANT PROFILE

# DEMOGRAPHIC PROFILE

## GENDER

|        | African-American | White |
|--------|------------------|-------|
|        | %                | %     |
| Male   | 48               | 49    |
| Female | 52               | 51    |

## AGE

|        | African-American | White |
|--------|------------------|-------|
|        | %                | %     |
| 18-29  | 10               | 9     |
| 30-39  | 26               | 21    |
| 40-49  | 28               | 28    |
| 50-64  | 31               | 30    |
| 65+    | 5                | 12    |
| Mean   | 44               | 47    |
| Median | 45               | 47    |

## EDUCATION

|                    | African-American | White |
|--------------------|------------------|-------|
|                    | %                | %     |
| Some HS or less    | 2                | 1     |
| HS graduate        | 13               | 14    |
| Some college       | 24               | 23    |
| College graduate   | 39               | 39    |
| Postgraduate study | 22               | 23    |

## HOUSEHOLD INCOME

|                   | African-American | White  |
|-------------------|------------------|--------|
|                   | %                | %      |
| \$50,000-74,999   | 40               | 40     |
| \$75,000-99,999   | 27               | 31     |
| \$100,000-149,999 | 20               | 18     |
| \$150,000-250,000 | 9                | 7      |
| Over \$250,000    | 4                | 4      |
| Mean              | \$103K           | \$101K |
| Median            | \$84K            | \$83K  |

## EMPLOYMENT STATUS

|                     | African-American | White |
|---------------------|------------------|-------|
|                     | %                | %     |
| Employed full time* | 81               | 68    |
| Retired             | 10               | 17    |
| Employed part-time* | 4                | 7     |
| Unemployed          | 2                | 2     |
| Homemaker           | 2                | 5     |
| Full-time student   | 1                | 1     |

\*Of these, 17% of African-Americans and 20% of Whites are self-employed.

## TYPE OF EMPLOYER

(of those employed)

|                  | African-American | White |
|------------------|------------------|-------|
|                  | %                | %     |
| Private co.      | 51               | 64    |
| State/fed. gov't | 36               | 23    |
| Not-for-profit   | 13               | 13    |

# DEMOGRAPHIC PROFILE (CONTINUED)

## MARITAL STATUS

|                             | African-American | White     |
|-----------------------------|------------------|-----------|
|                             | %                | %         |
| Single/never married        | <b>20</b>        | 13        |
| Not married/living together | 2                | 3         |
| Married                     | 60               | <b>73</b> |
| Divorced/separated          | <b>14</b>        | 7         |
| Widowed                     | 4                | 4         |

## NON-SPOUSE ADULTS IN HOME

|                         | African-American | White     |
|-------------------------|------------------|-----------|
|                         | %                | %         |
| Other adults present    | <b>33</b>        | 17        |
| No other adults present | 67               | <b>83</b> |

## CHILDREN

|                      | African-American | White     |
|----------------------|------------------|-----------|
|                      | %                | %         |
| Have children        | <b>79</b>        | 73        |
| Do not have children | 21               | <b>27</b> |

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

|               | African-American | White     |
|---------------|------------------|-----------|
|               | %                | %         |
| None          | 40               | <b>49</b> |
| One           | 26               | 21        |
| Two           | 21               | 22        |
| Three or more | <b>13</b>        | 8         |



# FINANCIAL PROFILE

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

|                     | African-American | White         |
|---------------------|------------------|---------------|
|                     | %                | %             |
| >\$1,000,000        | 2                | 7             |
| \$500,00-\$999,999  | 4                | 8             |
| \$250,000-\$499,999 | 13               | 15            |
| \$100,000-\$249,999 | 21               | 22            |
| \$50,000-\$99,999   | 16               | 19            |
| \$25,000-\$49,999   | 17               | 9             |
| \$5,000-\$24,999    | 17               | 12            |
| <\$5,000            | 9                | 7             |
| Mean                | \$165K           | <b>\$283K</b> |
| Median              | \$70K            | \$117K        |

## MONTHLY SAVINGS/INVESTMENTS

|                      | African-American | White     |
|----------------------|------------------|-----------|
|                      | %                | %         |
| \$2,500+             | 4                | 7         |
| \$1,001-\$2,500      | 8                | 12        |
| \$501-\$1,000        | 13               | <b>18</b> |
| \$351-\$500          | 15               | 15        |
| \$201-\$350          | <b>18</b>        | 12        |
| \$101-\$200          | 16               | 13        |
| \$51-\$100           | 12               | 9         |
| <\$50                | 5                | 4         |
| Nothing at this time | 8                | 10        |
| Mean                 | \$515            | \$680     |
| Median               | \$274            | \$370     |