

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

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

Full Results

July 19, 2005

ARIEL MUTUAL FUNDS *charles* SCHWAB

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# BACKGROUND AND OBJECTIVES

- ❑ Ariel Mutual Funds and Charles Schwab & Co., Inc. commissioned Argosy Research to conduct the eighth 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 have jointly conducted this annual research since 1998.
- ❑ The main objectives of this research are to:
  - 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

- ❑ 501 African-Americans and 500 Whites were interviewed by phone between March 18 and April 8, 2005.
- ❑ 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 16 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; and 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 increased 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:
  - 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 PREVIOUS STUDIES (CONTINUED)

## June 2004

- ❑ After retreating sharply from stocks and mutual funds in 2003, Black investors were back to near pre-Bear market levels of stock ownership:
  - Sixty-eight percent of Blacks surveyed have money invested in the stock market, 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.
- ❑ There is a misperception by African-Americans 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.
- ❑ The survey included a 10-question investment quiz that a majority of both Black and White investors failed, showing 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.
- ❑ Most respondents in 2004 considered 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. This marks the first year that the majority of both Blacks and Whites favor real estate over all other investment categories combined.

# HIGHLIGHTS OF THIS YEAR'S STUDY

## July 2005

- ❑ The percentage of higher income Blacks (households making over \$50,000 annually) who own stocks or mutual funds continues to lag behind higher income Whites, with 65% of Blacks vs. 80% of Whites invested in the market. Black investing has fluctuated over the years from a low of 57% in 1998 to a high of 74% in 2002; the corresponding figures for Whites have remained statistically flat, hovering around 80%.
- ❑ For African-Americans, employer-sponsored retirement plans have the potential to be an effective entrée into the world of investing.
  - African-Americans who are saving primarily for retirement are almost twice as likely to be stock investors as those who are saving for other reasons, such as to pay for education. Whites, however, are equally likely to be investors regardless of their saving and investment goals.
  - Among those who participate in 401(k)s and other employer-sponsored retirement plans, African-Americans and Whites have some striking similarities. The responsibility that plan participants take in making investing decisions is one example: similar percentages of Blacks and Whites seek help from an advisor (36% of Blacks vs. 39% of Whites) or manage their own retirement portfolios (39% vs. 41%). Additionally, 25% of Blacks and 21% of Whites initially chose their retirement investments, but rarely if ever make changes to their portfolio.

# HIGHLIGHTS OF THIS YEAR'S STUDY (CONTINUED)

- ❑ Still, there are challenges to relying on employer sponsored retirement plans to close the gap in stock market participation.
  - Fewer Blacks than Whites overall (45% vs. 60%) consider retirement their most important goal for saving.
  - Those Blacks who are investing regularly in retirement accounts contribute an average of \$65 per month less than Whites (\$210 vs. \$275).
  - Additionally, significantly more Black plan participants than White participants have withdrawn money from their accounts prior to retirement (36% vs. 24%); in fact, after controlling for age, income, and other demographic variables, Blacks are 72% more likely to have withdrawn money early from a plan.
  
- ❑ Employers can play a key role in helping Blacks save more for retirement.
  - All else being equal, Blacks who have help from a financial advisor contribute more money on a monthly basis to their retirement plans than those who do it alone.
  - Blacks showed a stronger preference for receiving information on their retirement plans through one-on-one meetings with benefits advisors (49% for Blacks versus 42% for Whites) or in seminars (27% versus 16%). Fewer Blacks than Whites wanted information through e-mail (Blacks 28% vs. Whites 37%) or the web (Blacks 28% vs. Whites 34%).
  - Blacks are particularly receptive to information about and help with retirement investing provided by their employers. Among both Blacks and Whites with employer-sponsored retirement plans, significantly more Blacks than Whites (63% vs. 53%) viewed “communications and tools provided by your employer” and “the ability to invest in company stock...,” (53% Blacks vs. 40% Whites) to be “very valuable” features.

# HIGHLIGHTS OF THIS YEAR'S STUDY (CONTINUED)

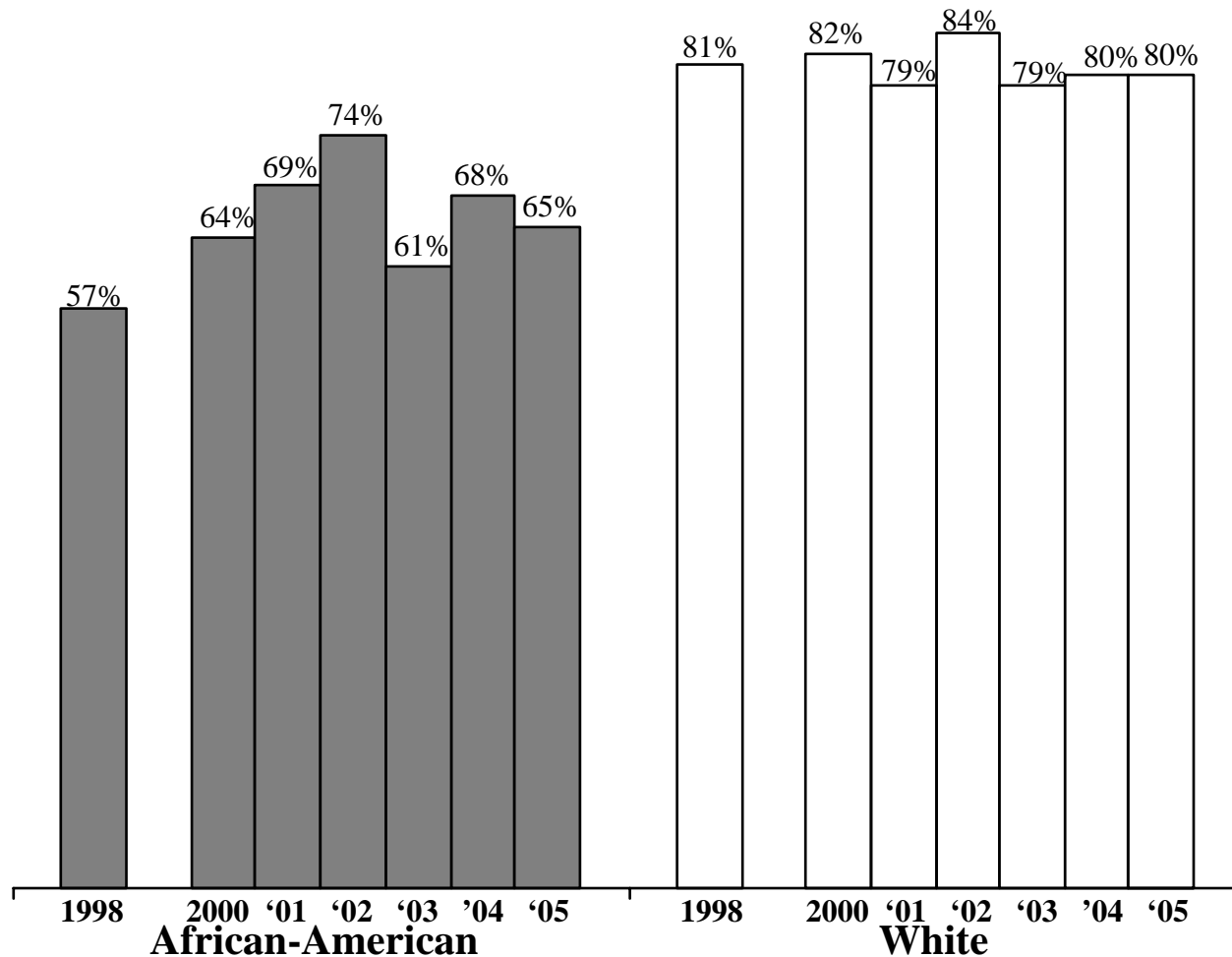
- ❑ Home ownership rates among higher income Blacks are lower than among higher income Whites: 77% for Blacks versus 90% for Whites.
- ❑ The preference of Blacks for real estate investments continues, though it is down considerably from last year.
  - This year, 54% of Blacks versus 39% of Whites viewed real estate as the “best investment overall,” ahead of stocks, bonds, mutual funds and insurance. Last year, 61% of Blacks and 51% of Whites chose real estate as the best investment.
  - In another finding, 61% of Blacks and 55% of Whites view home improvement as a better investment than the stock market; in 2003 the corresponding figure was 76% for Blacks and 64% for Whites.

# MARKET PARTICIPATION

# TRENDS IN MARKET PARTICIPATION

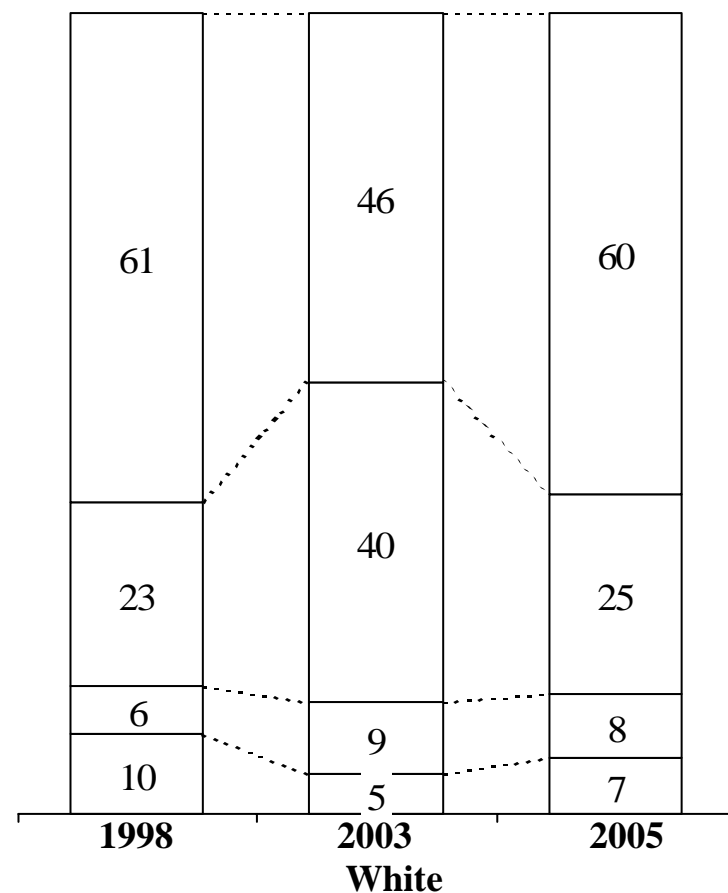
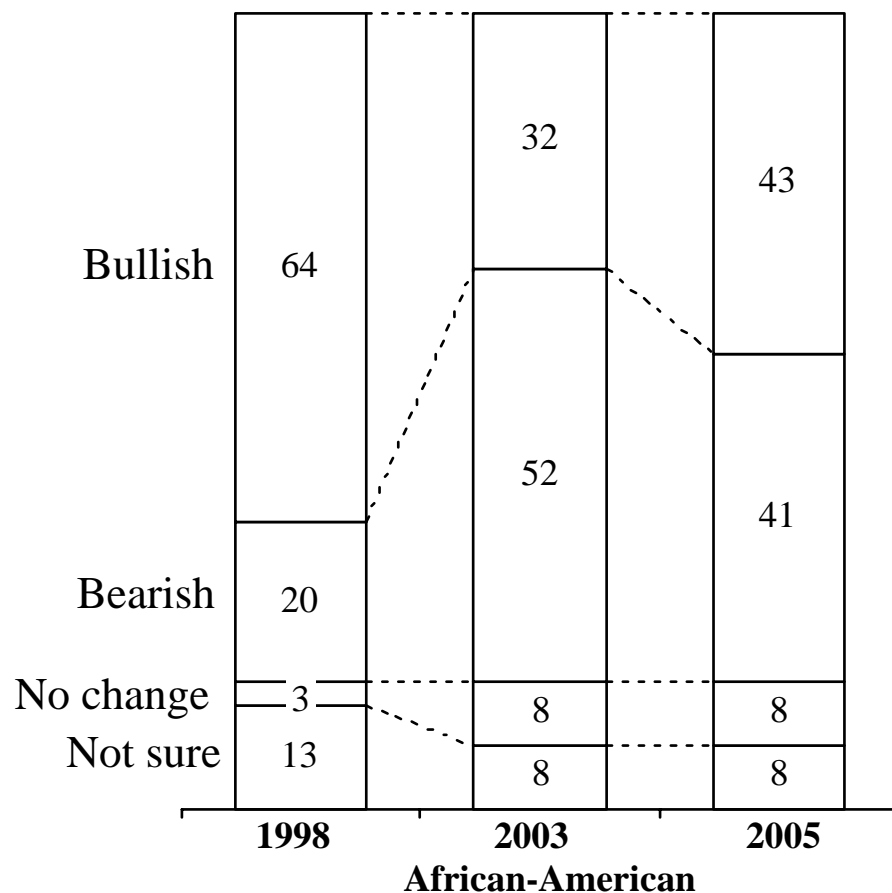
*Do you personally, or with a spouse, have any money invested in the stock market right now, either in individual stocks or in a stock mutual fund?*

*(% answering yes)*



# 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?*

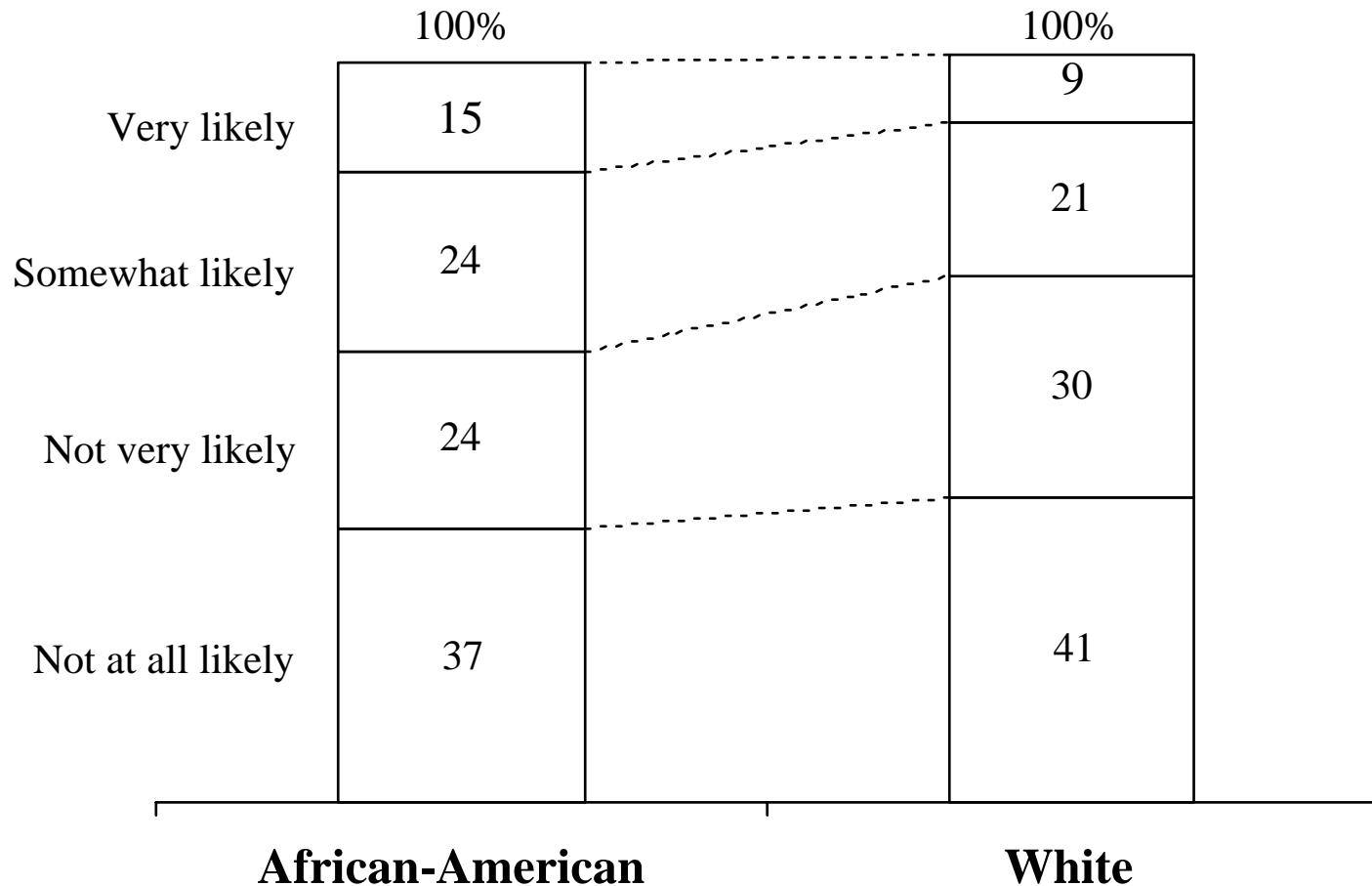




# LIKELIHOOD TO INVEST IN NEXT YEAR

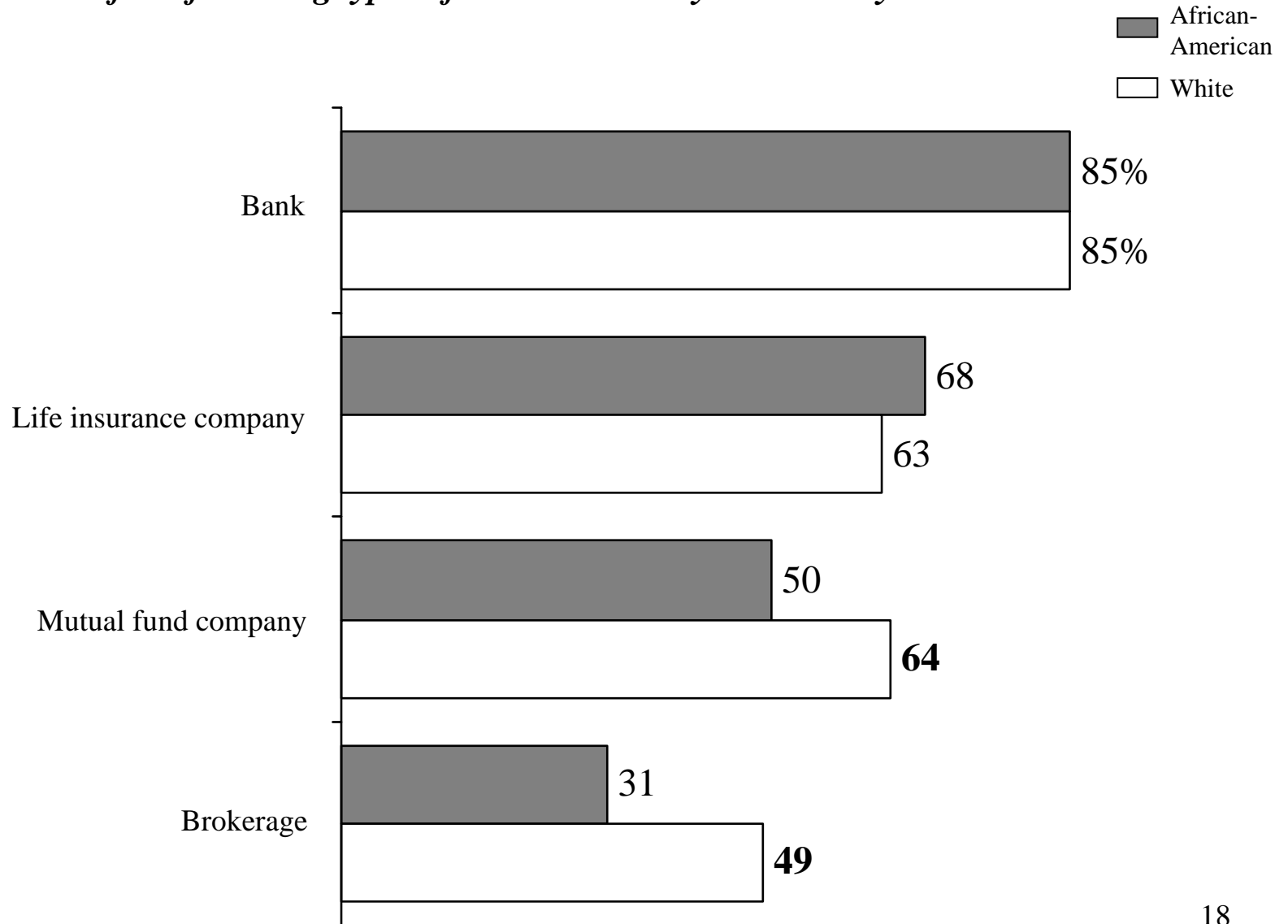
*Excluding employer sponsored retirement plans, how likely are you to begin investing in stocks or mutual funds during the next year?*

*Base: Non-investors*



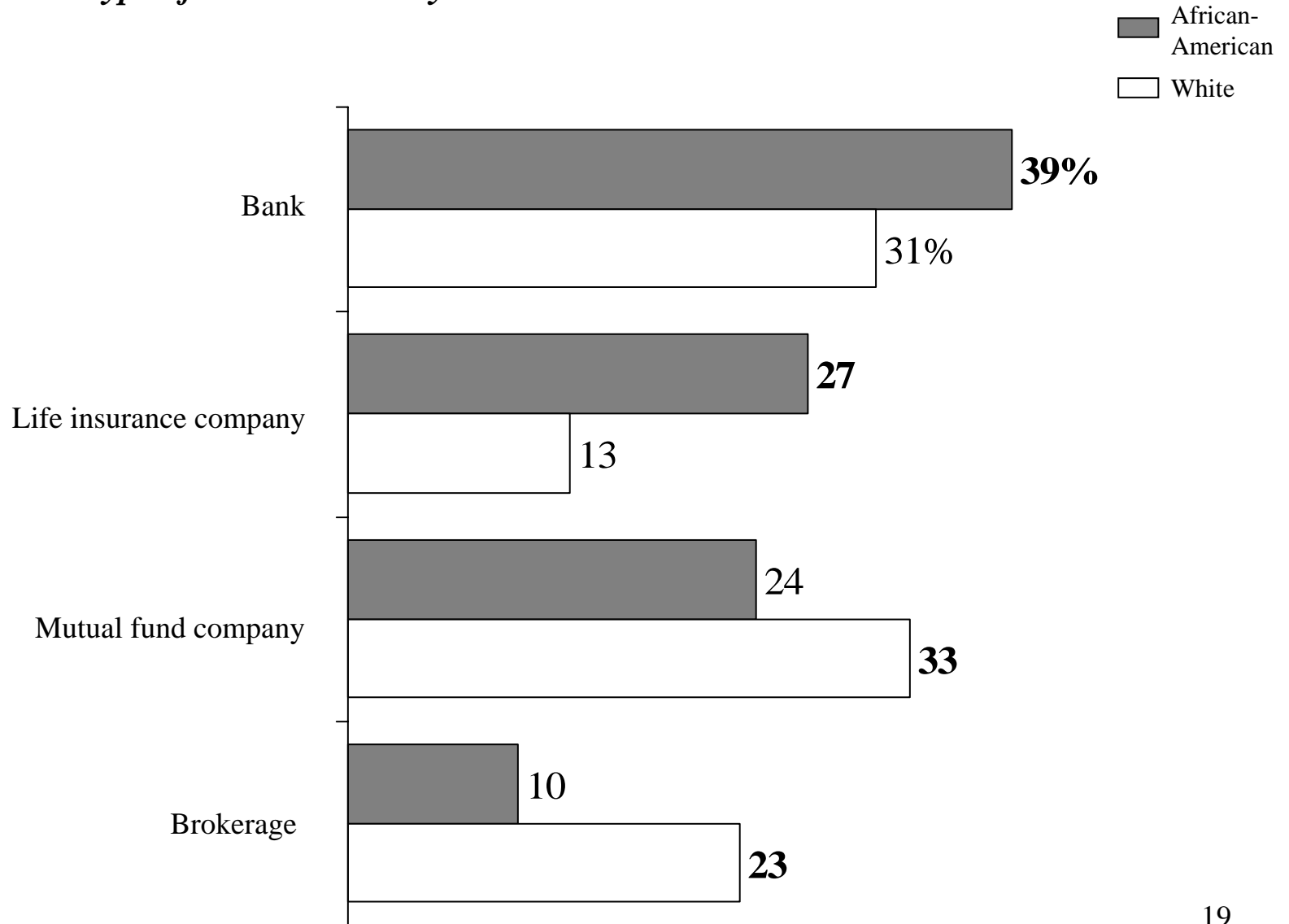
# ACCOUNTS WITH FINANCIAL INSTITUTIONS

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



# ASSETS WITH FINANCIAL INSTITUTIONS

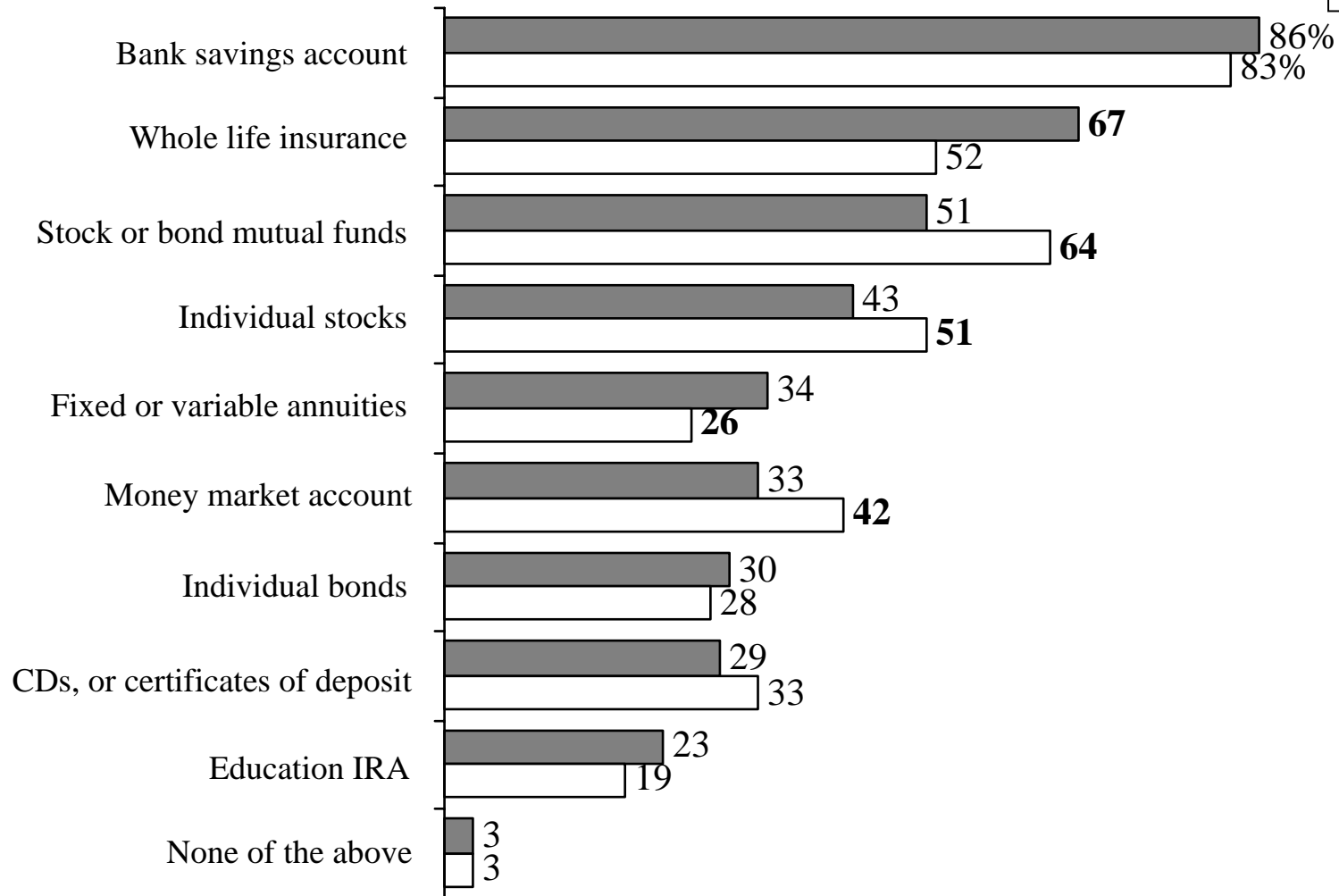
*With which type of institutions do you have the most assets?*



# 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?*

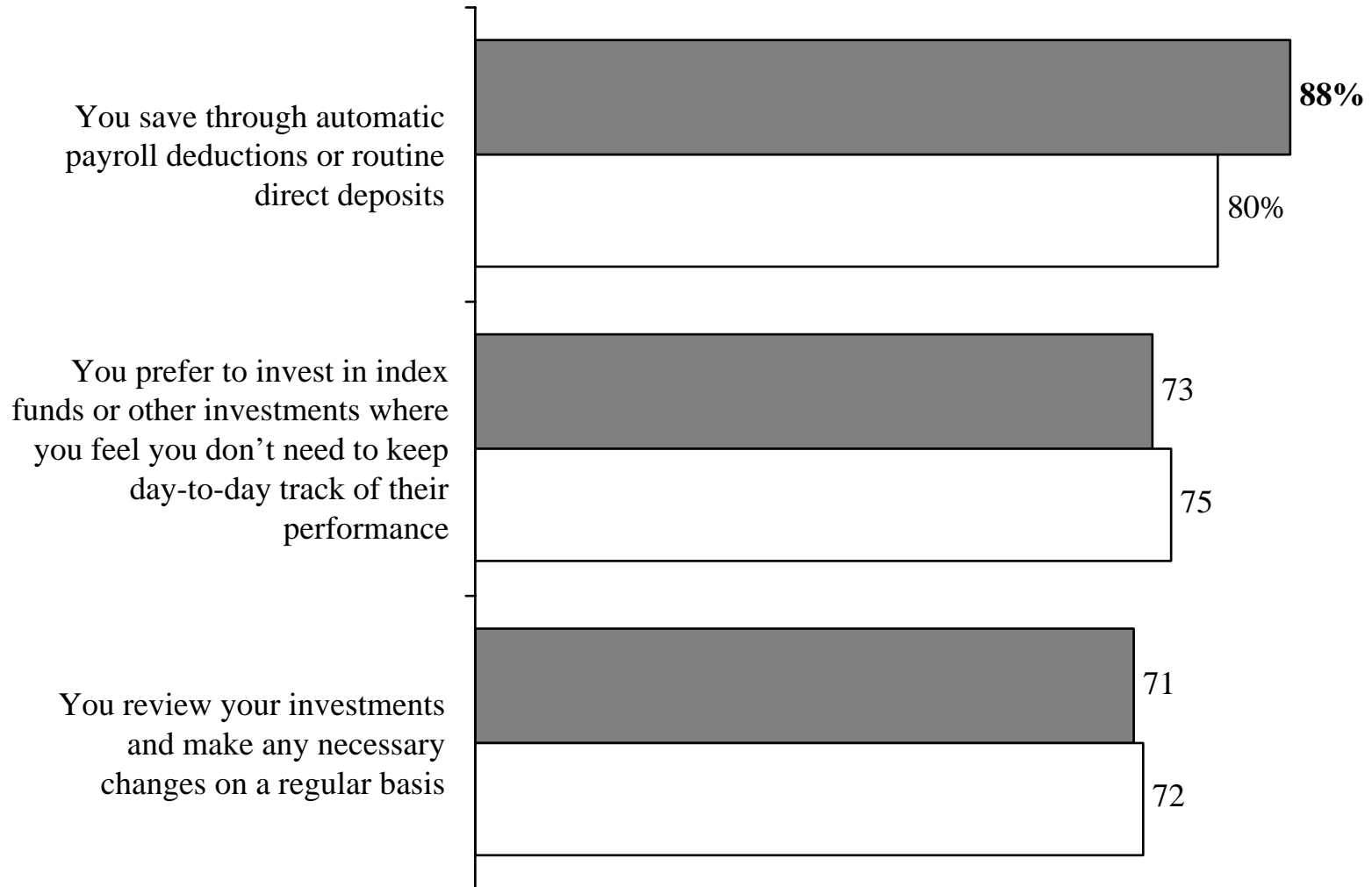
■ African-American  
□ White



# SAVING AND INVESTING HABITS

*% Agreeing with following statements.*

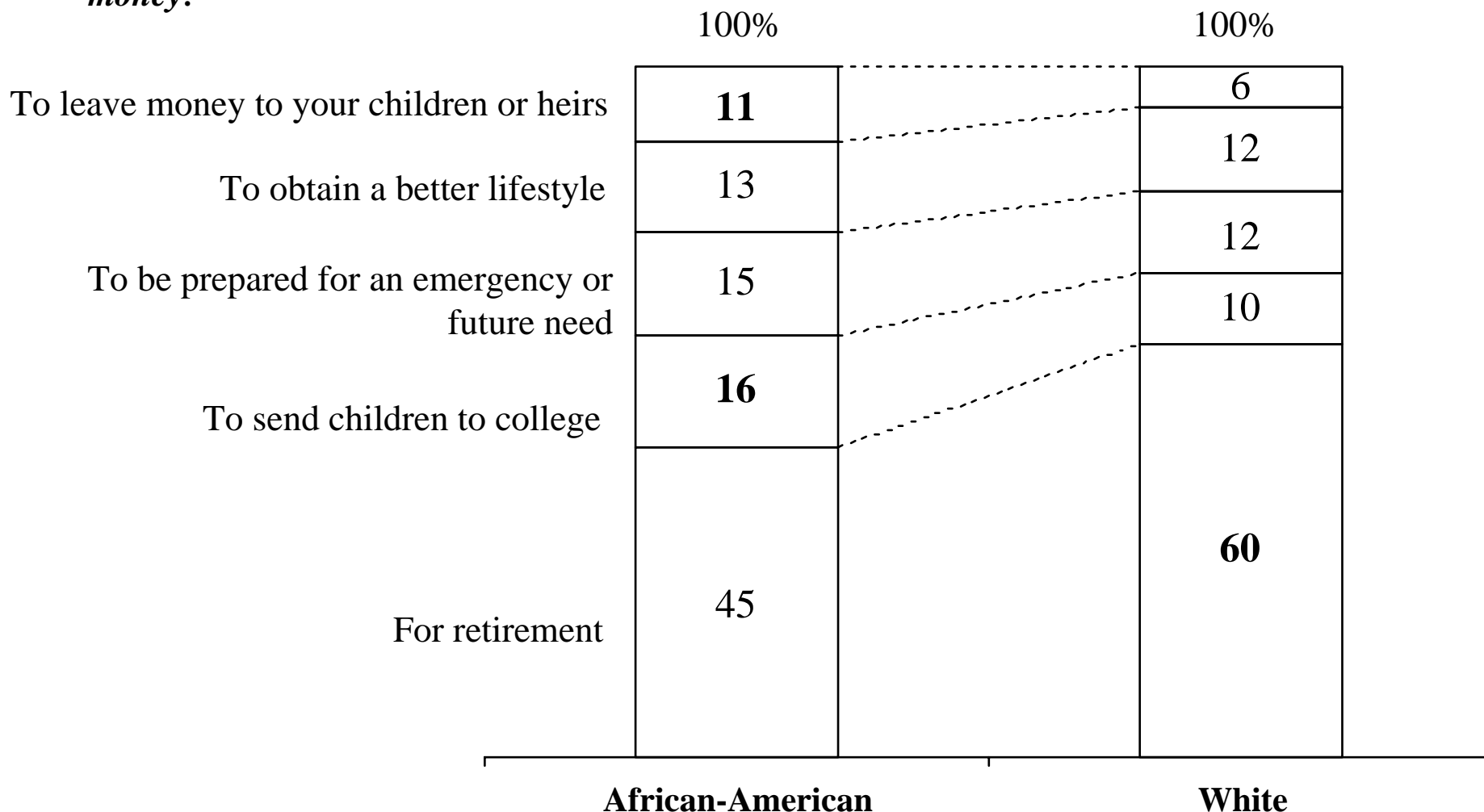
■ African-American  
□ White



# RETIREMENT

# GOAL FOR SAVINGS AND INVESTING

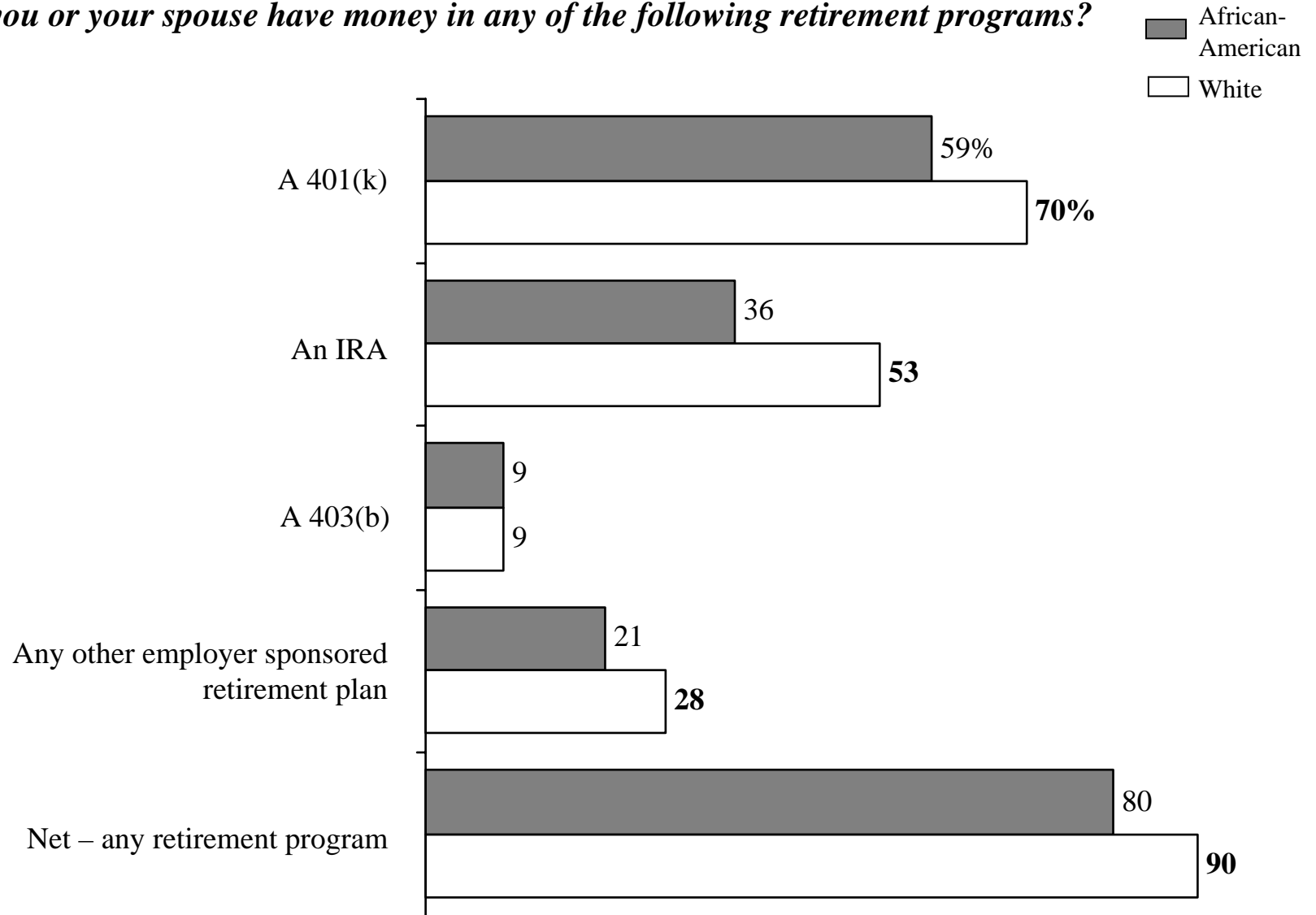
*Of the following, which would you say is your most important goal in saving or investing money?*



After controlling for other demographic factors (age, income, etc.), African-Americans for whom retirement is the most important goal are almost twice as likely as other Blacks to be investors. Whites, however, are equally likely to be investors regardless of their saving and investment goals.

# RETIREMENT PLANS OWNED

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

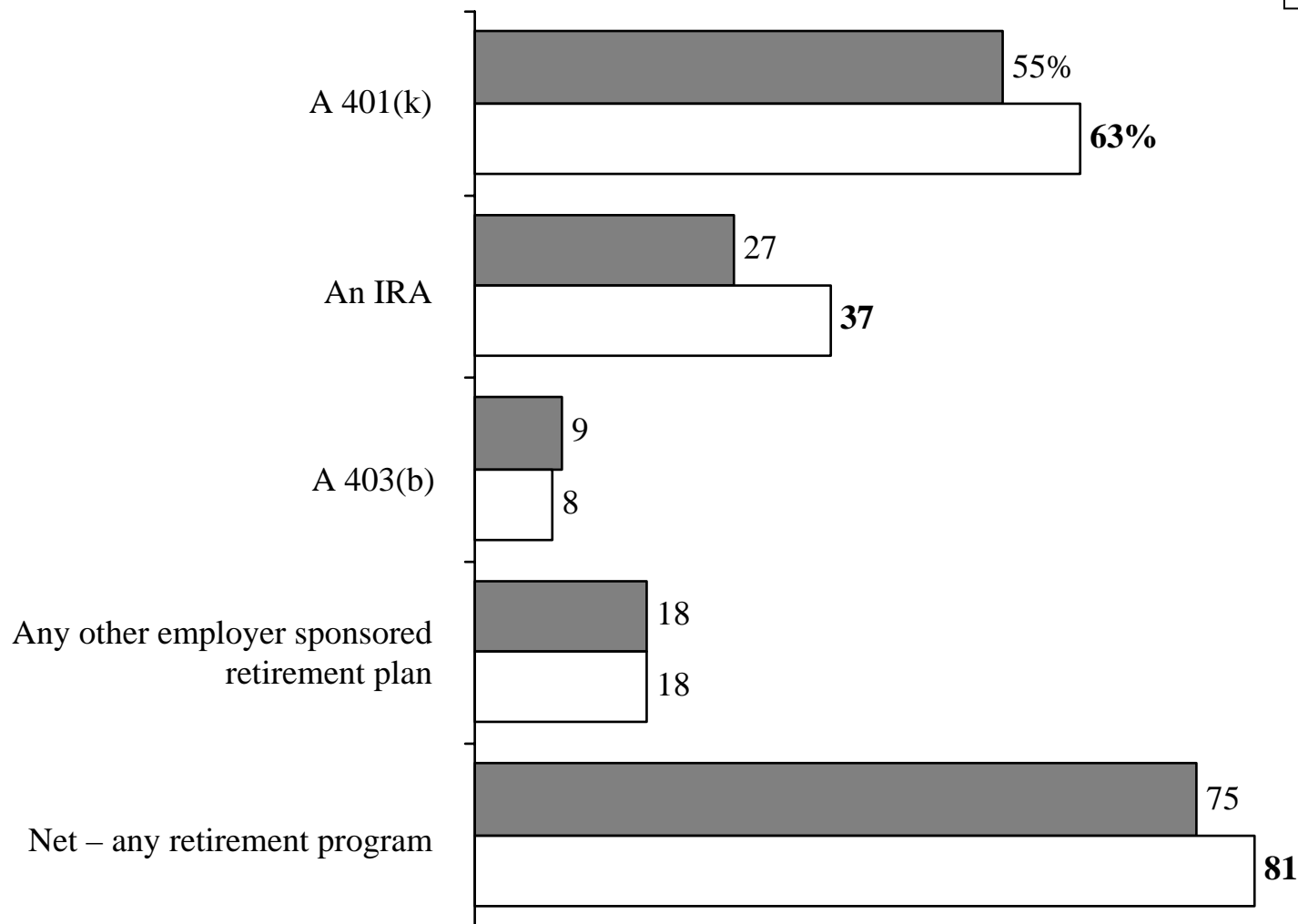




# RETIREMENT PLAN CONTRIBUTIONS IN LAST YEAR

*Which of the following kinds of retirement programs, if any, did you make contributions to over the last 12 months?*

■ African-American  
□ White

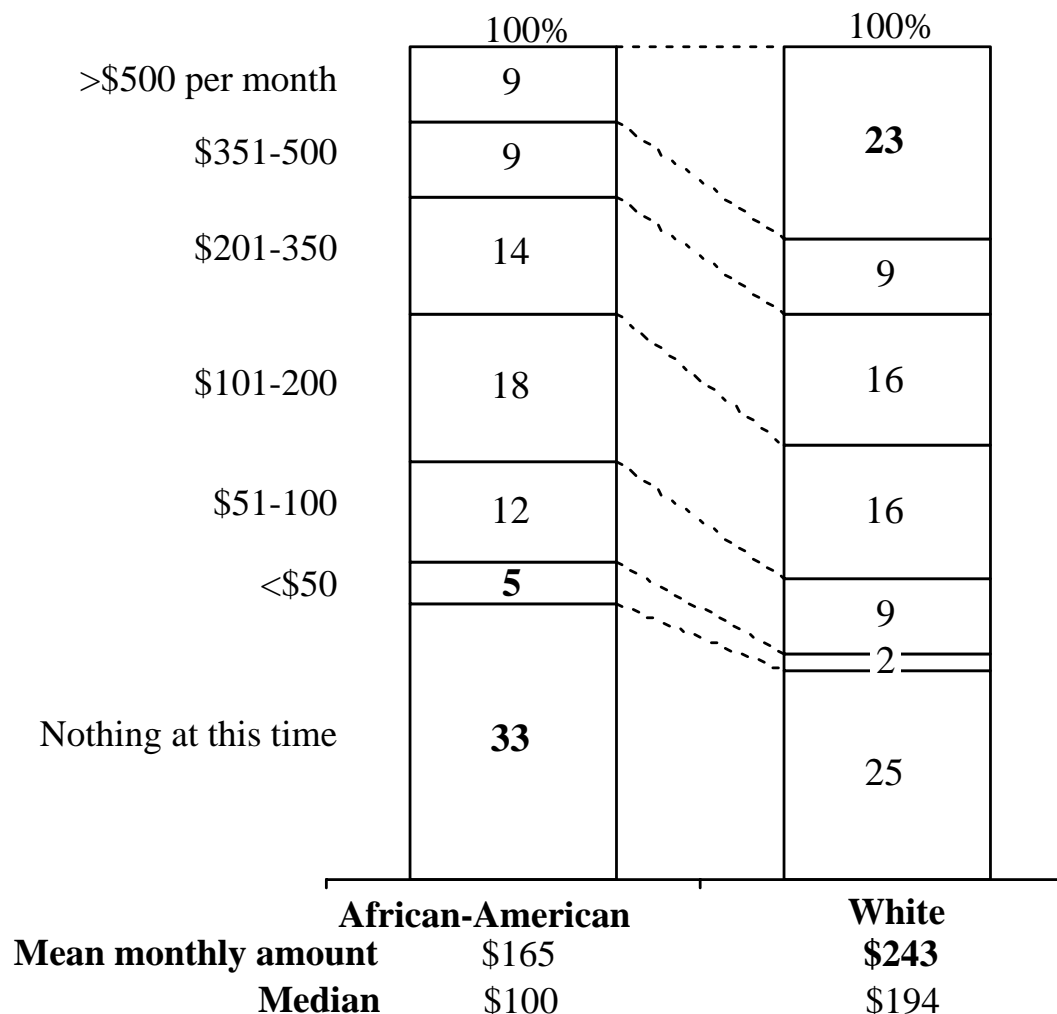


After controlling for demographic factors, there is no difference between African-Americans and Whites in likelihood of contributing to a workplace plan (not including IRAs) over the past year .

# MONTHLY RETIREMENT ACCOUNT CONTRIBUTIONS

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

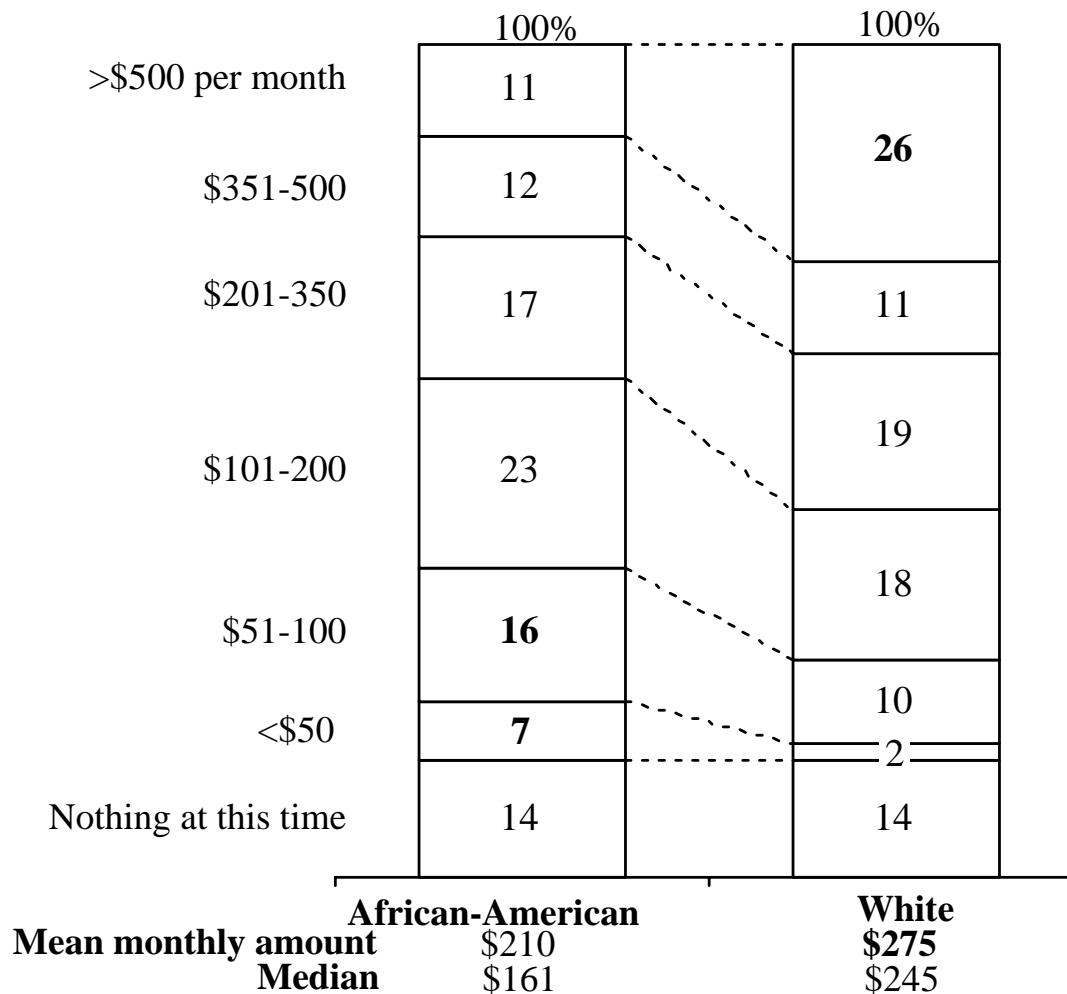
*Base: Total respondents*



# MONTHLY RETIREMENT ACCOUNT CONTRIBUTIONS

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

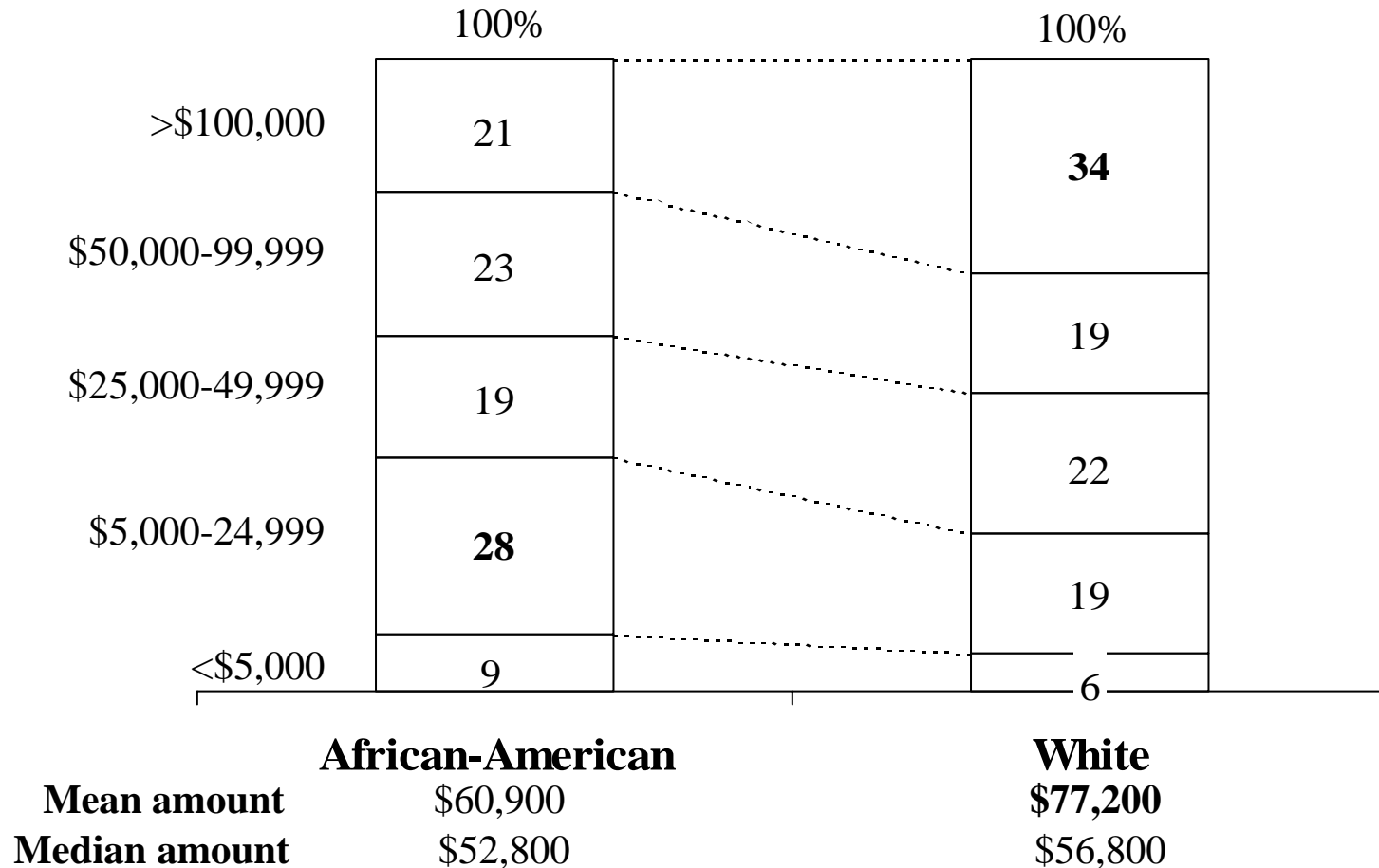
*Base: Have money in a retirement plan*



# 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?*

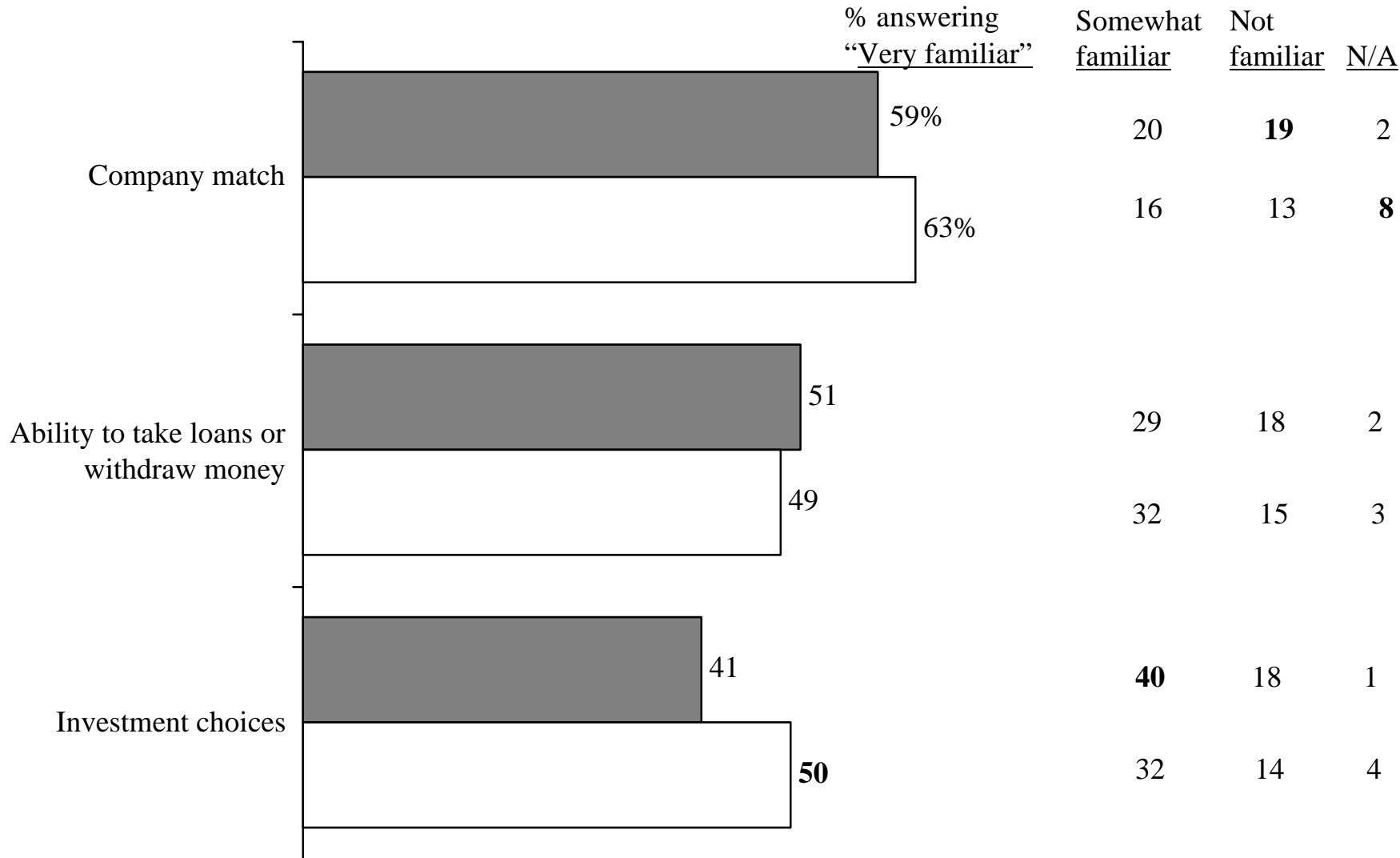
*Base: Have money in a retirement program*



# FAMILIARITY WITH PLAN COMPONENTS



*Would you say you are very familiar, somewhat familiar, or not familiar with each of the following components of your employer-sponsored retirement plan:*

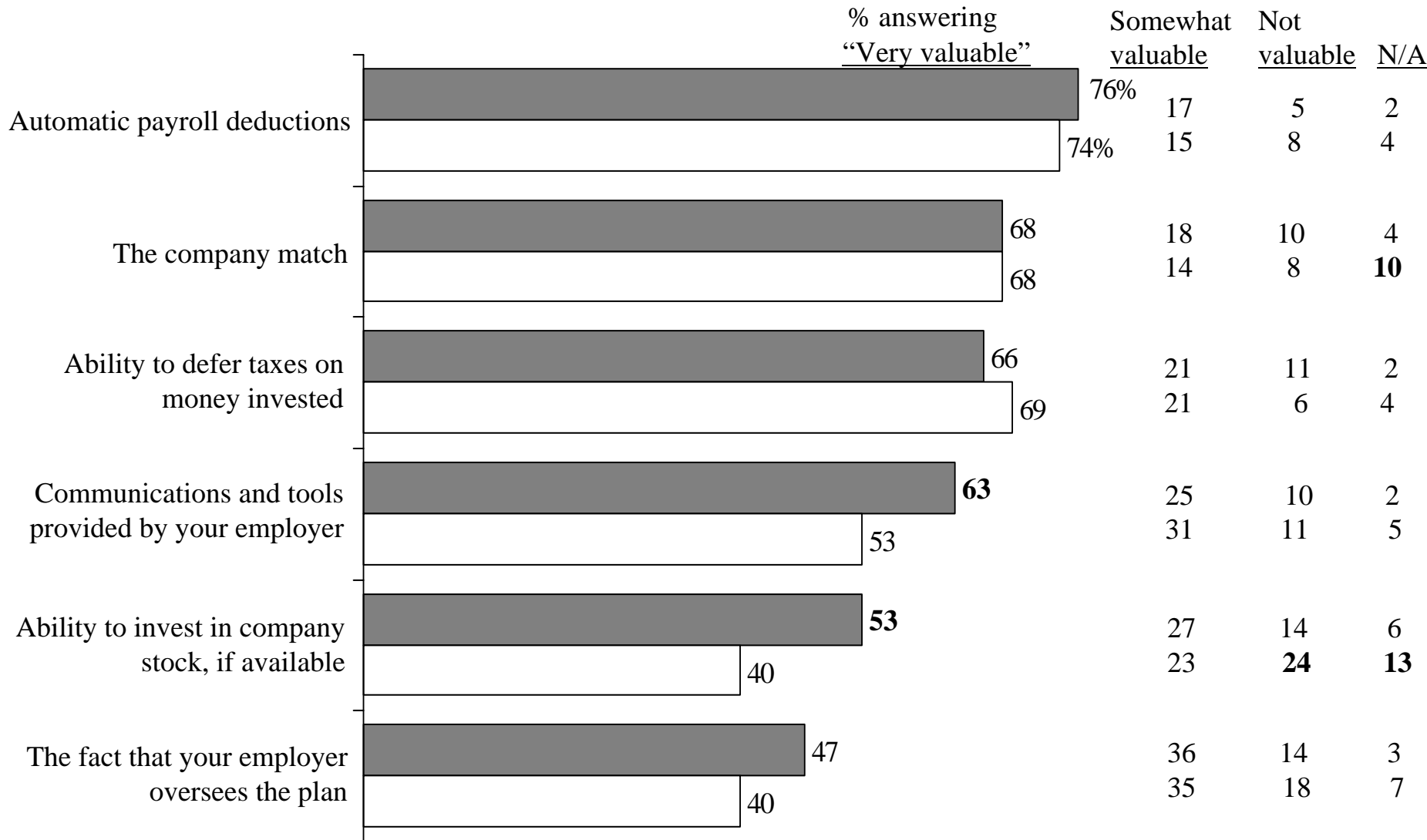
 African-American  
 White



# VALUE OF PLAN COMPONENTS

*Would you say that the following features or components of your employer sponsored retirement plan are very valuable to you, somewhat valuable, or not valuable to you:*

 African-American  
 White

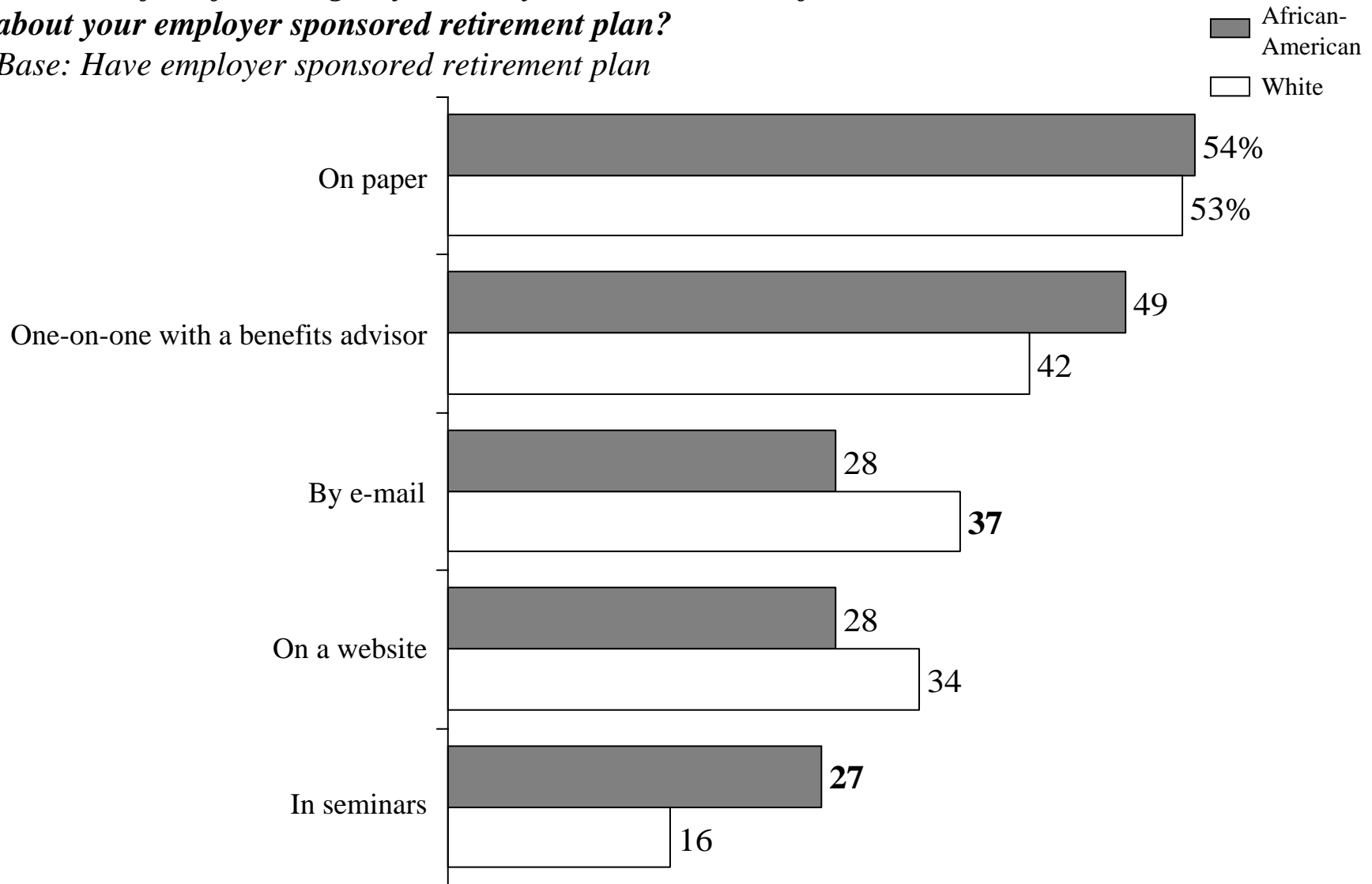


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# PREFERENCE FOR RECEIVING PLAN INFORMATION

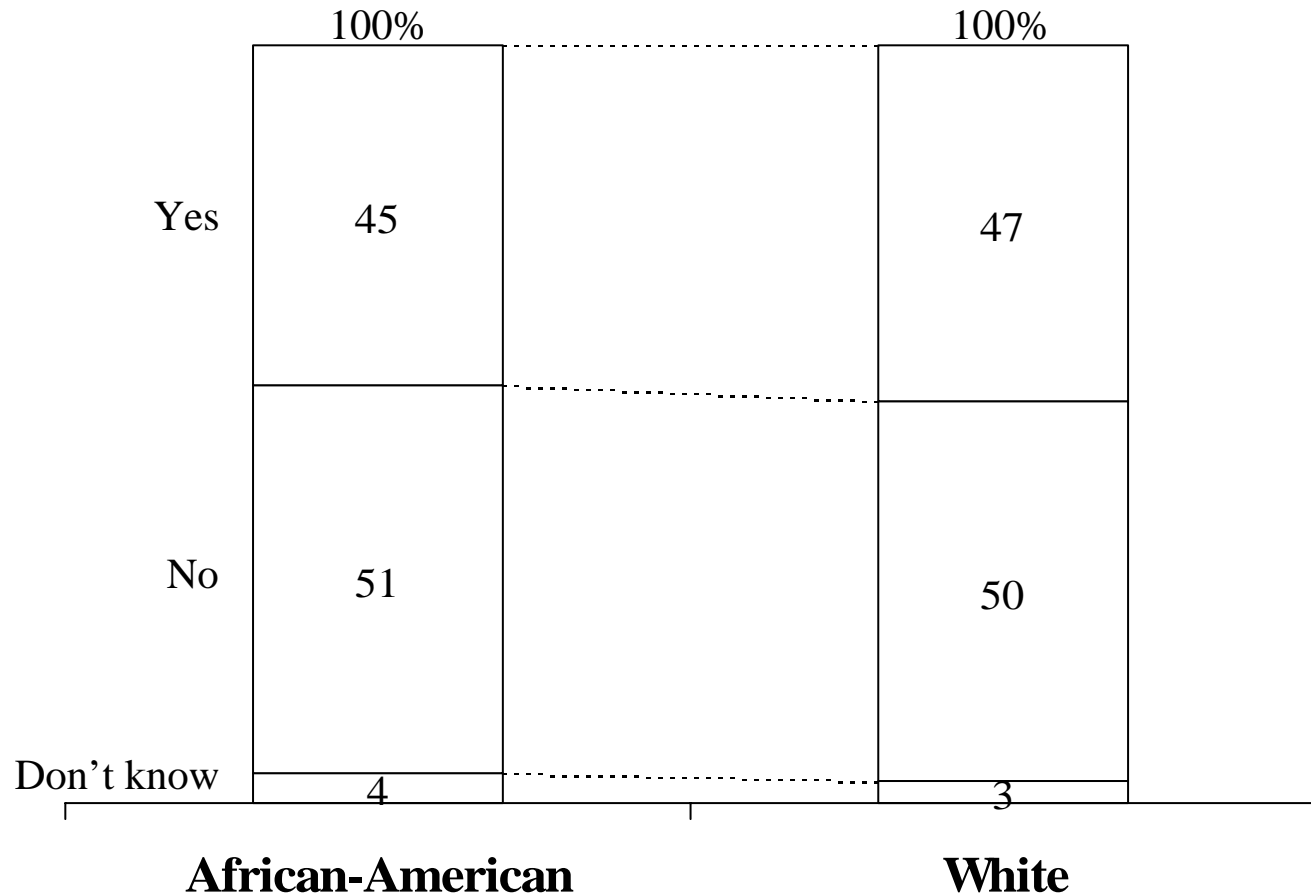
*In which of the following ways would you like to obtain information about your employer sponsored retirement plan?*

*Base: Have employer sponsored retirement plan*



# OPINION ON AUTOMATIC ENROLLMENT

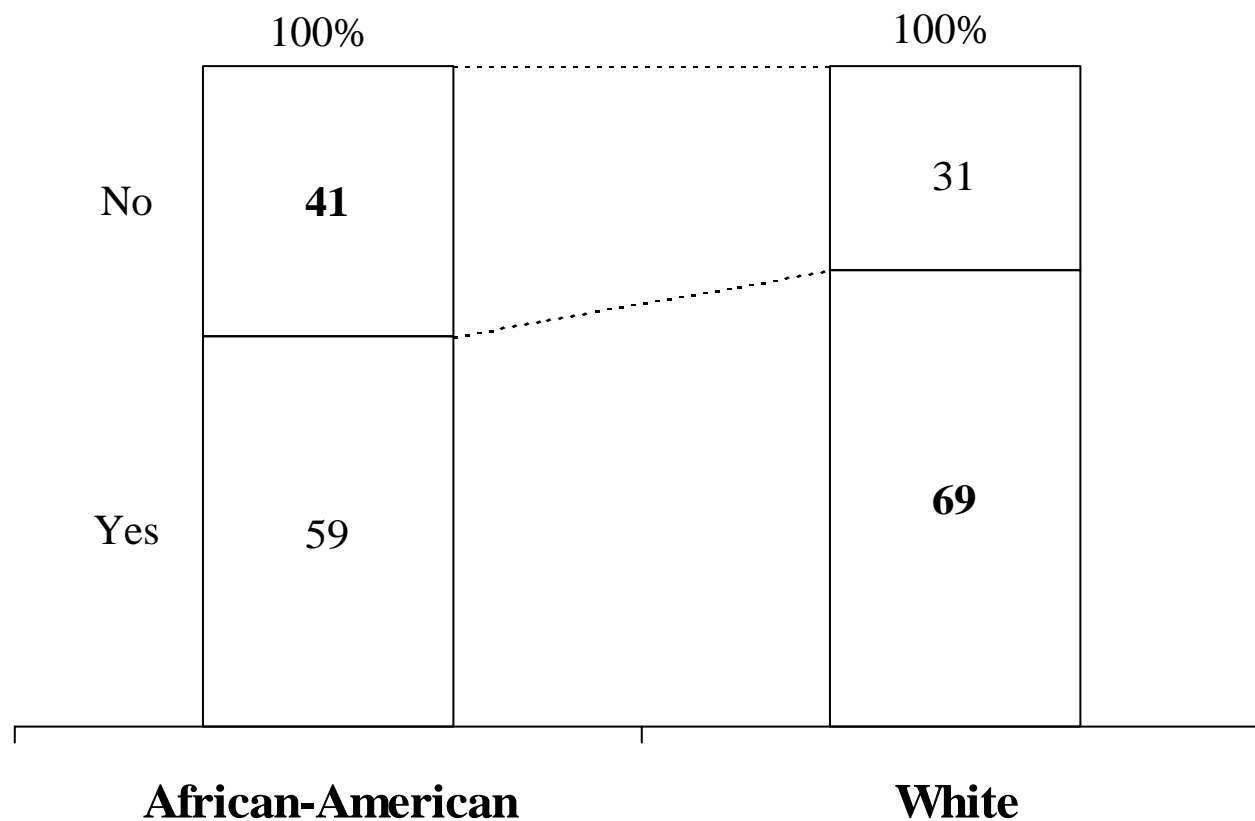
*Do you think employers should be allowed to automatically enroll new employees in the company's 401(k) plan and make payroll deductions in order to promote savings?*





# RETIREMENT SAVING OUTSIDE OF PLANS

*Outside of your retirement accounts, do you have any savings or investments earmarked for your retirement?*



# HANDLING RETIREMENT INVESTMENTS

*Which statement best describes how you handle choosing where your retirement money is invested?*

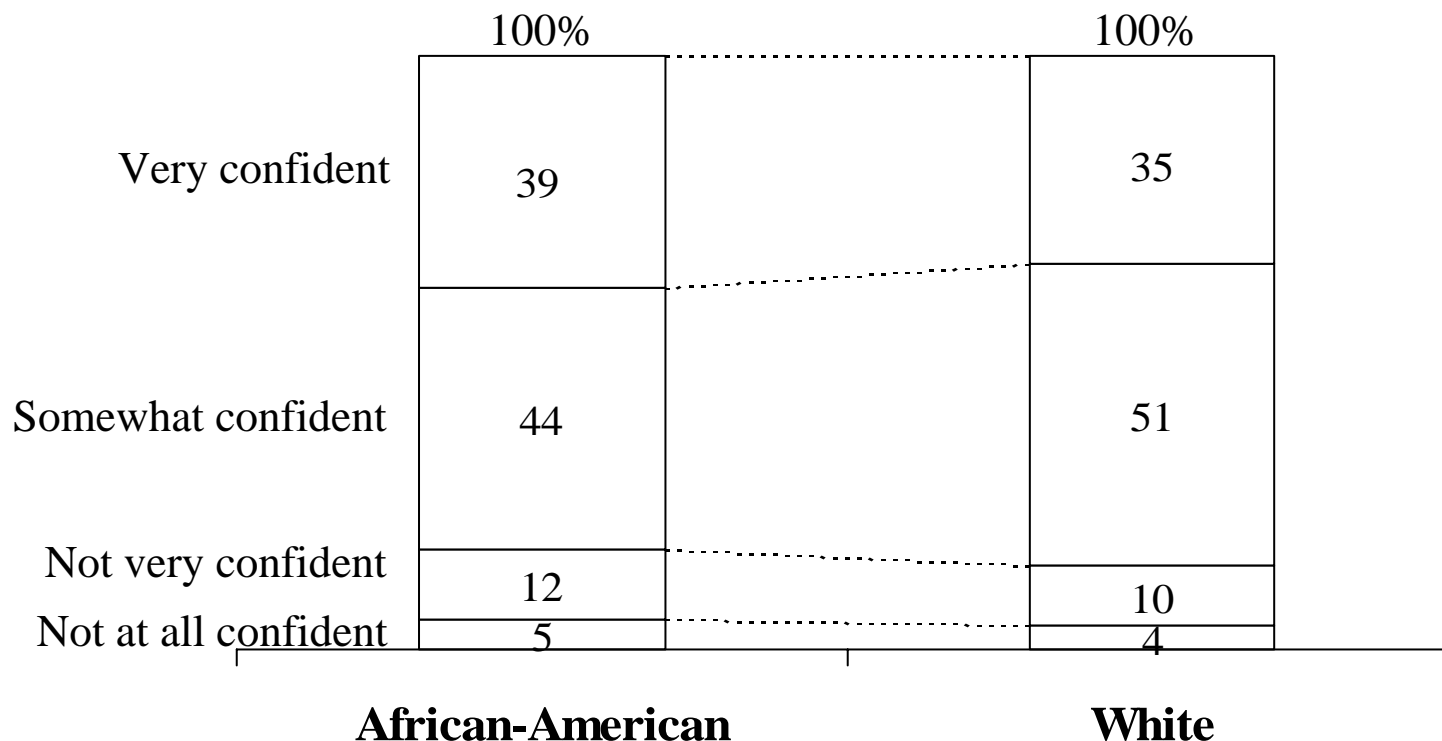
*Base: Have money in retirement plan*

	100%		100%
You rely on someone else to make all the investing decisions for you	9		11
You actively manage your retirement portfolio yourself and often make changes in the investments	10		12
You initially chose where your retirement money would be invested, but you rarely, if ever, make changes to your portfolio	25		21
You actively consult with an advisor to make decisions about the money	27		27
You periodically review your retirement investment portfolio yourself and make changes if necessary	29		29
	<b>African-American</b>		<b>White</b>

# CONFIDENCE IN RETIREMENT INVESTING

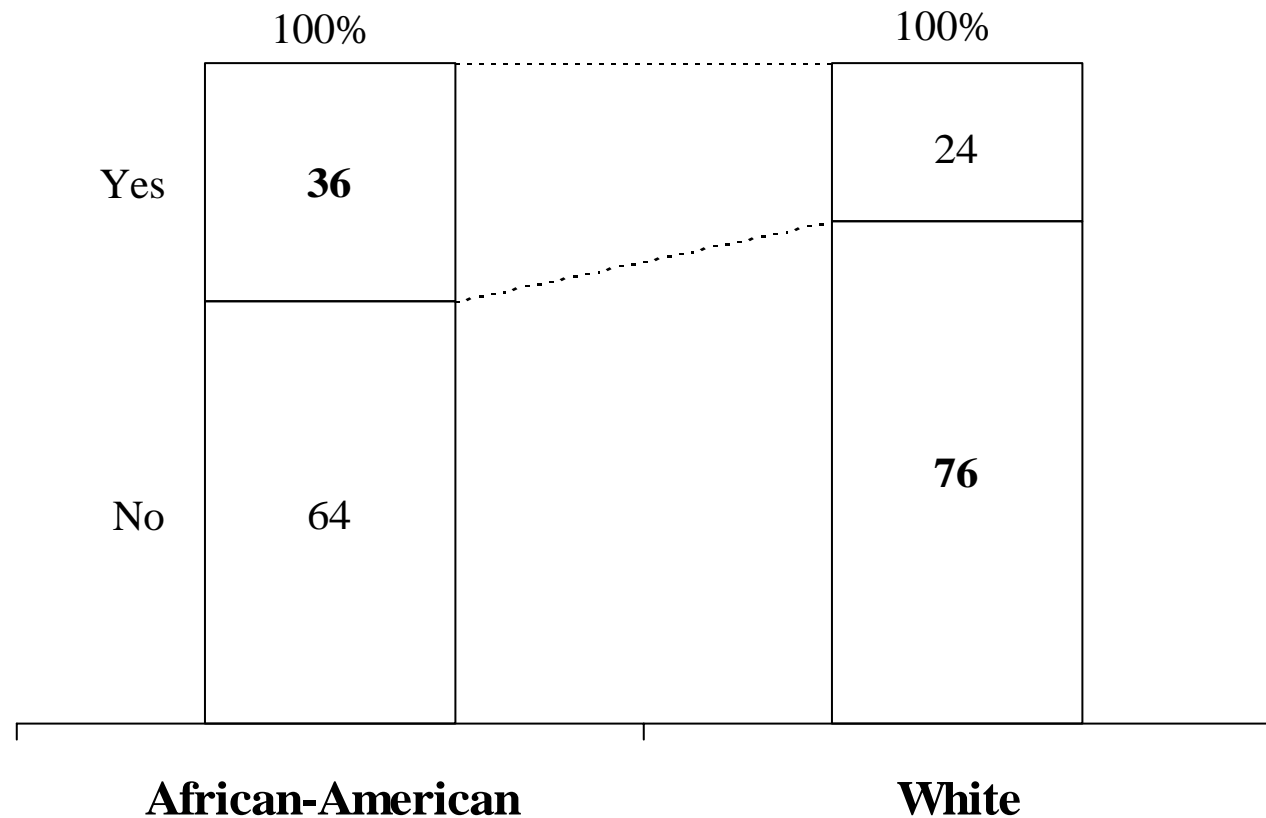
*How confident do you feel making investing decisions within your retirement plan?*

*Base: Have a retirement plan*



# EARLY WITHDRAWAL OF RETIREMENT FUNDS

*Have you ever taken money out of a 401(k), 403(b) or other employer sponsored retirement plan before you reached the age of 59 1/2?*

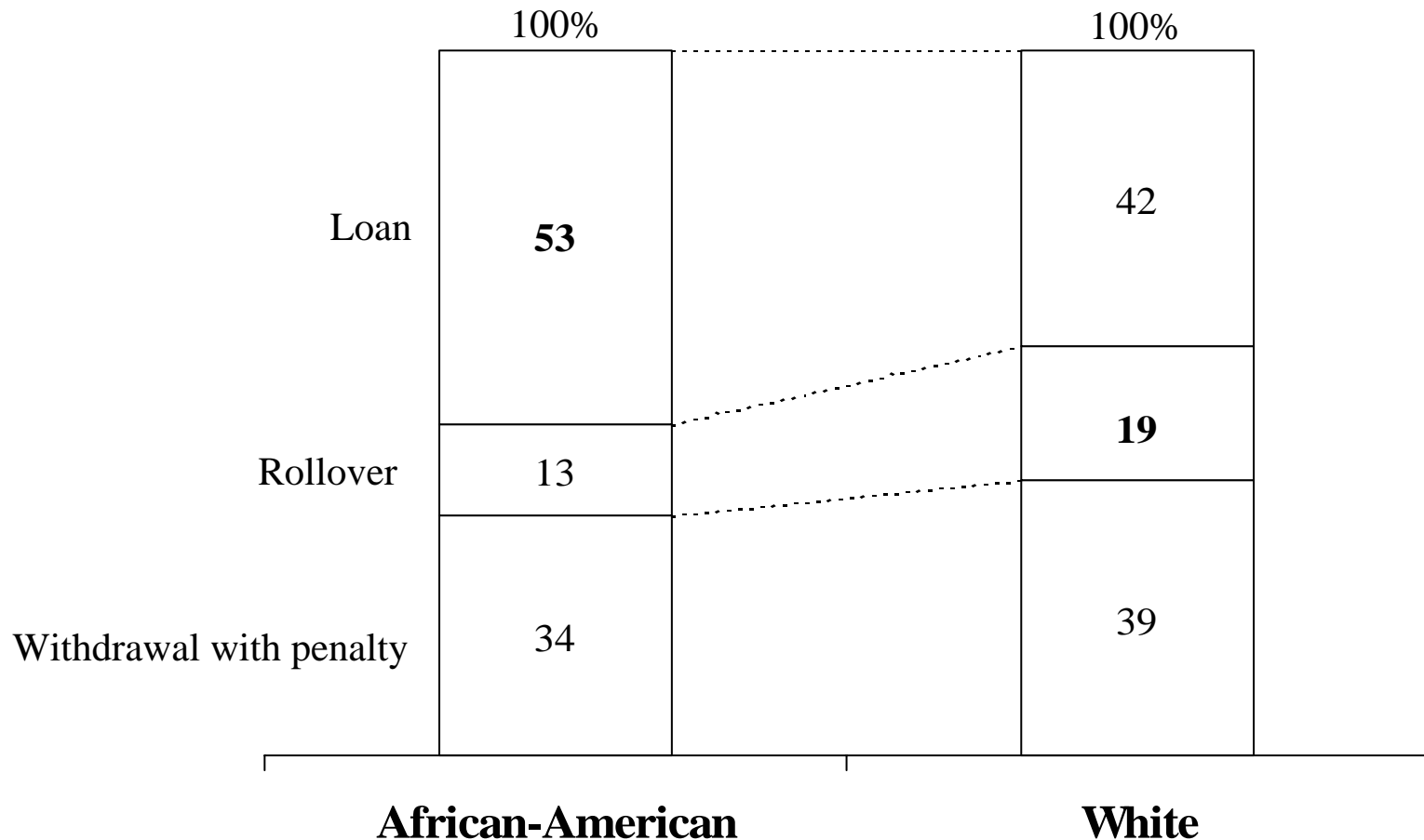


Despite controlling for all key demographic variables, Blacks are still 72% more likely than Whites to have taken money out early from a retirement plan.

# USE OF WITHDRAWN RETIREMENT FUNDS

*Did you take out this money as a loan to be repaid, as a rollover, or did you withdraw the money permanently and pay the penalty?*

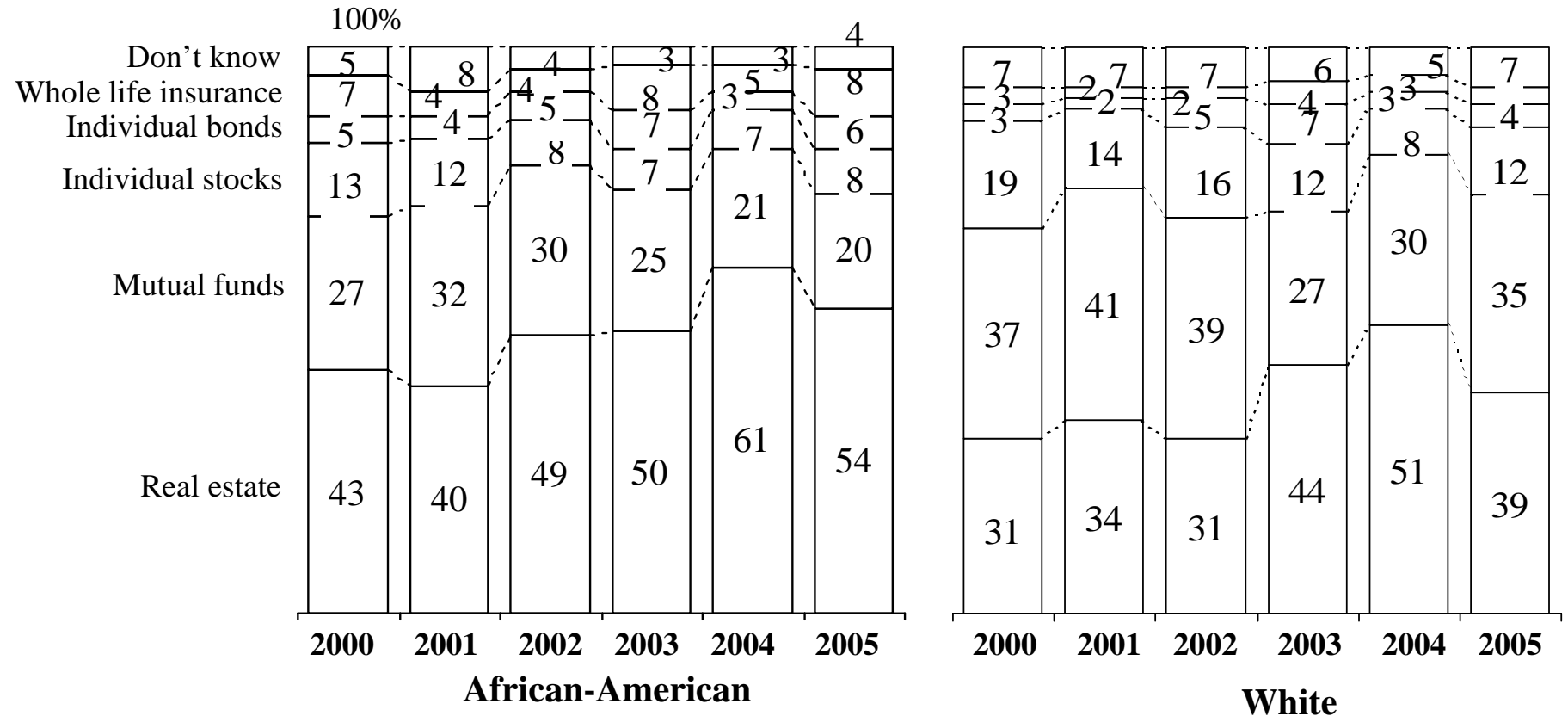
*Base: Have withdrawn retirement funds prior to age 59 ½*



# HOME OWNERSHIP

# PERCEPTIONS OF BEST INVESTMENTS OVERALL

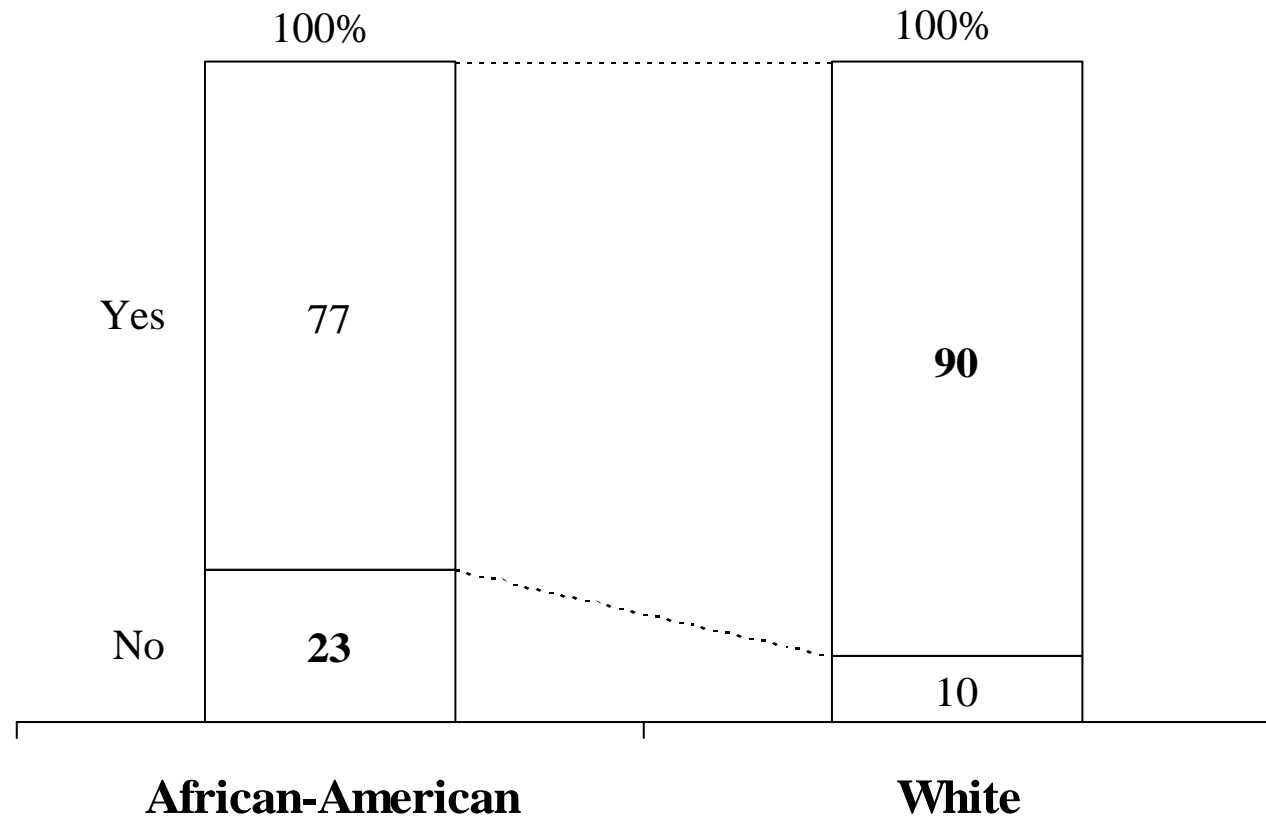
*Which of the following do you think is the best investment overall?*



Even when controlling for demographic variables, Blacks are 62% more likely than Whites to believe that real estate is the best investment overall.

# HOME OWNERSHIP

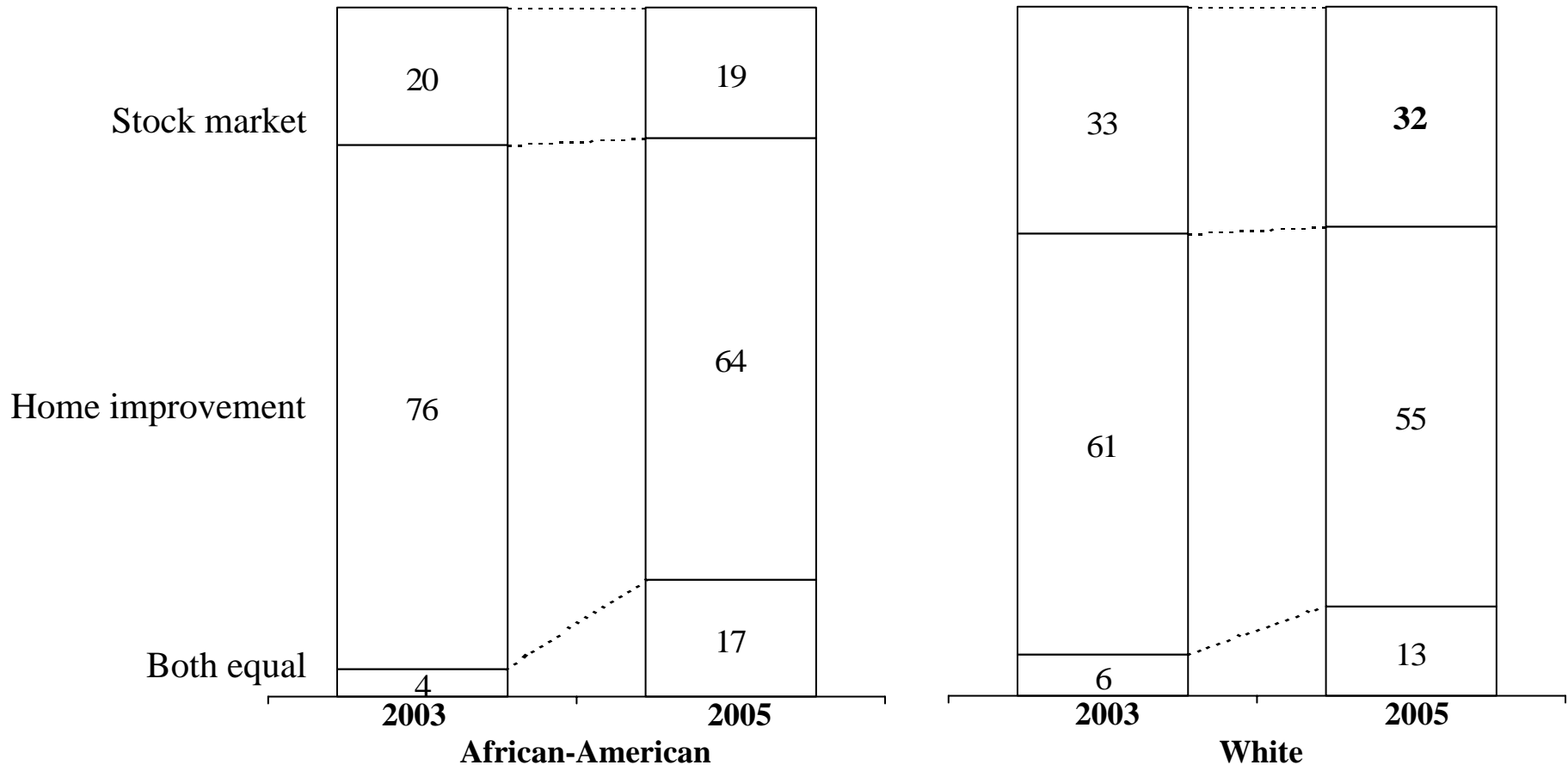
*Do you own your own home?*





# STOCK MARKET VS. HOME IMPROVEMENT

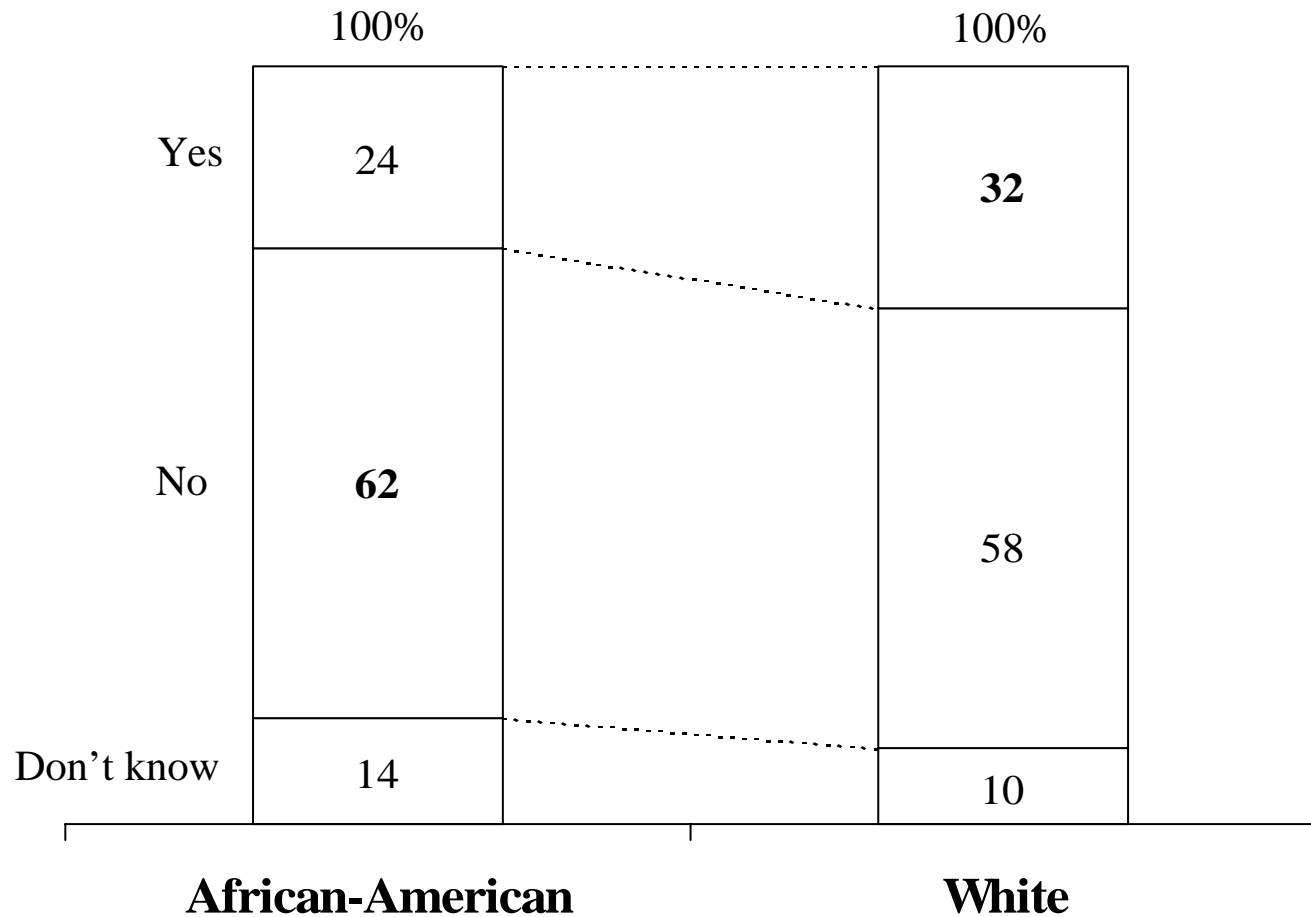
*Which do you think is a better investment: an investment in the stock market, or an investment in improving your home?*



# PLANS TO DOWNSIZE HOME

*Do you plan to downsize your home when you retire ?*

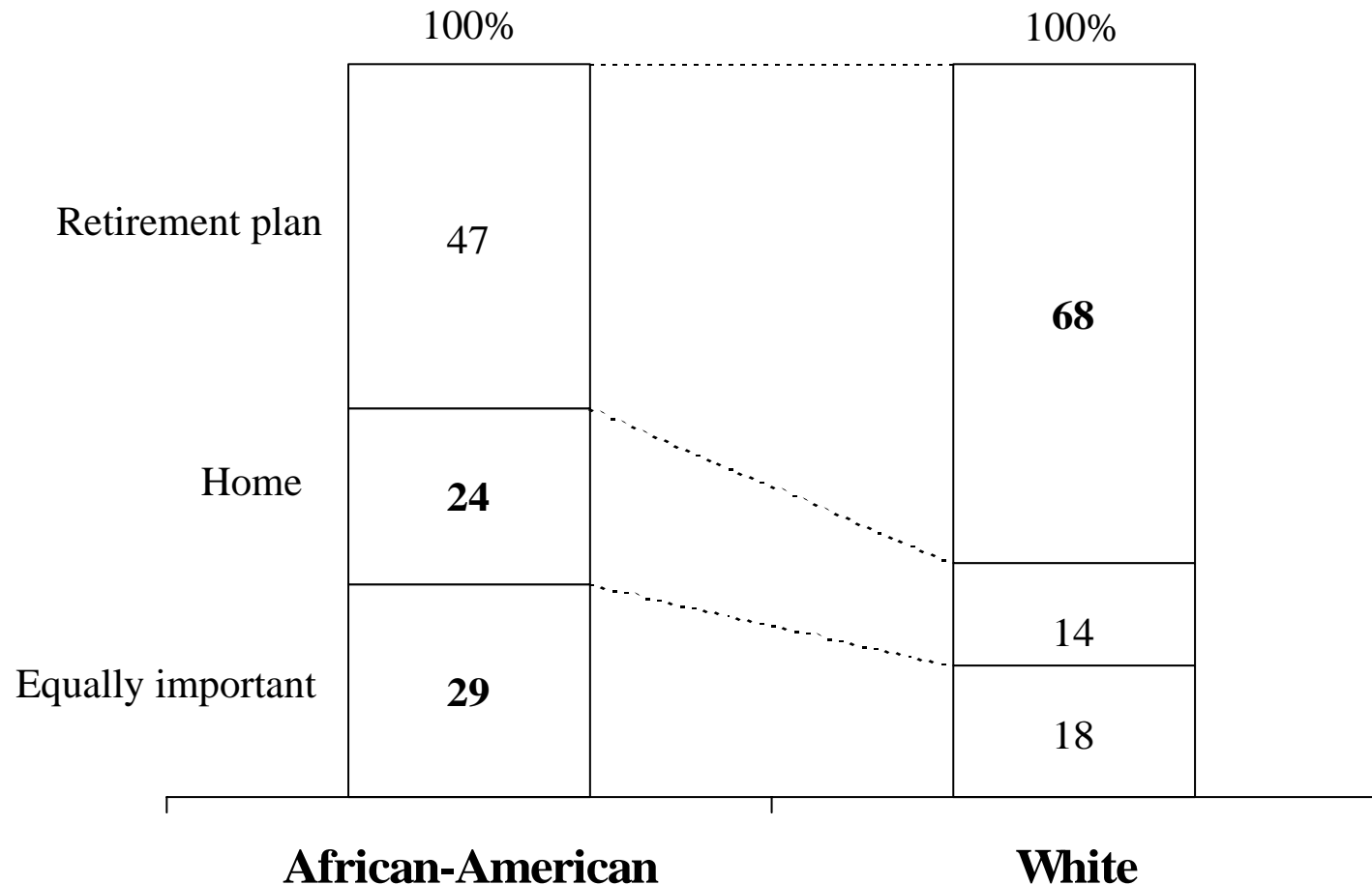
*Base: Own home*



# FINANCIAL IMPORTANCE OF HOME VS. RETIREMENT PLAN

*What do you think will be more important to you, financially, in your retirement: the amount you have saved in your retirement plan, or the value of your home?*

*Base: Own home and have retirement plan*



# **STUDY PARTICIPANT PROFILE**

# DEMOGRAPHIC PROFILE

## GENDER

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

## AGE

	African-American	White
	%	%
18-29	8	9
30-39	25	20
40-49	24	28
50-64	33	32
65+	10	11
Mean	46	48
Median	47	48

## EDUCATION

	African-American	White
	%	%
Some HS or less	5	2
HS graduate	17	15
Some college	25	20
College graduate	36	47
Postgraduate study	17	16

## HOUSEHOLD INCOME

	African-American	White
	%	%
\$50,000-74,999	48	38
\$75,000-99,999	27	28
\$100,000-149,999	15	22
\$150,000-250,000	8	9
Over \$250,000	2	3
Mean	\$94K	\$102K
Median	\$77K	\$86K

## EMPLOYMENT STATUS

	African-American	White
	%	%
Employed full time*	78	74
Retired	15	14
Employed part-time*	3	5
Unemployed	2	2
Homemaker	1	4
Full-time student	1	1

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

## TYPE OF EMPLOYER

(of those employed)

	African-American	White
	%	%
Private co.	54	63
State/fed. gov't	38	24
Not-for-profit	8	13

# DEMOGRAPHIC PROFILE (CONTINUED)

## MARITAL STATUS

	African-American	White
	%	%
Single/never married	20	12
Not married/living together	2	2
Married	60	74
Divorced/separated	12	8
Widowed	6	4

## CHILDREN

	African-American	White
	%	%
Have children	81	73
Do not have children	19	27

## NON-SPOUSE ADULTS IN HOME

	African-American	White
	%	%
Other adults present	27	22
No other adults present	73	78

# FINANCIAL PROFILE

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

	African-American	White
	%	%
>\$1,000,000	1	<b>5</b>
\$500,00-\$999,999	6	10
\$250,000-\$499,999	11	<b>16</b>
\$100,000-\$249,999	19	20
\$50,000-\$99,999	17	17
\$25,000-\$49,999	<b>20</b>	15
\$5,000-\$24,999	18	13
<\$5,000	<b>8</b>	4
Mean	\$159K	<b>\$273K</b>
Median	\$61K	\$110K

## MONTHLY SAVINGS/INVESTMENTS

	African-American	White
	%	%
\$2,500+	2	6
\$1,001-\$2,500	6	11
\$501-\$1,000	12	15
\$351-\$500	16	14
\$201-\$350	16	17
\$101-\$200	21	16
\$51-\$100	13	10
<\$50	4	3
Nothing at this time	10	9
Mean	\$411	<b>\$613</b>
Median	\$213	\$313