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What's Inside

Stata code used for analyses conducted for this issue brief is available for download at FINRAFoundation.org. The data can be found at USFinancialCapability.org.

Regression output can be obtained by contacting the authors

Bridging the Divide: A Closer Look at Changes in the Racial and Ethnic Composition of Investor Households

Background and Objective

In the year following the death of George Floyd and others, a social reckoning in the United States has unfolded, prompting large-scale efforts to advance racial equity and inclusiveness across the country. Historically, people of color have been under-represented in the investor ranks. Increasing representation of these groups may serve as an avenue to narrow a significant racial and ethnic wealth gap, enabling people of color to benefit from market returns. This study leverages a rich data source to examine the racial and ethnic composition of investors across a six-year period and explores the socio-demographic and psychographic characteristics that are tied to investment account ownership. The insights from this study can inform initiatives aimed at encouraging market participation.

Summary

Nearly two-thirds of American households have some form of investment, typically through taxable accounts[1], IRAs or employer-sponsored retirement funds.[2] Although a sizeable number of households report owning investment accounts, people of color, particularly those who identify as African American or Hispanic/Latino, are underrepresented as investment account holders. While African American and Hispanic/Latino adults make up 12 and 16 percent of the U.S. adult population, respectively, they comprise only 10 and 11 percent of households with taxable investment accounts.

Using data from three waves of the FINRA Foundation's National Financial Capability Study, we examined investment account ownership over a six-year period across households of differing racial and ethnic backgrounds.[3] Our findings confirmed the presence of a persistent investment racial and ethnic divide: African American and Hispanic/Latino respondents were largely

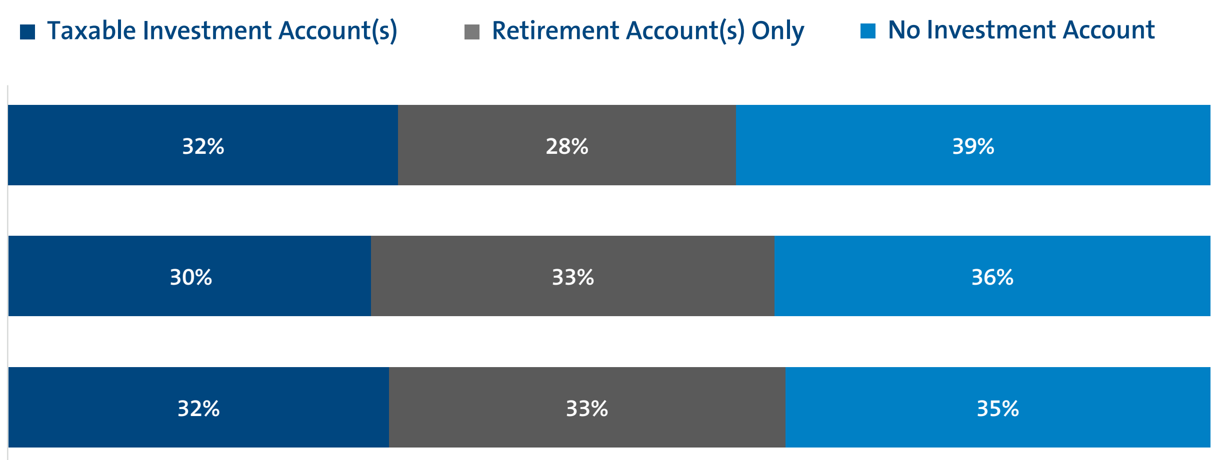
underrepresented as taxable investors and overrepresented in households without any investment accounts. That is, few had investments outside of a retirement account and many had no investment accounts whatsoever. However, after controlling for sociodemographic variables, the gap in the likelihood of owning a taxable investment account between white and African American and Hispanic/Latino adults closed substantially, particularly in 2018. For Asian American adults, we saw a somewhat different pattern in that the rate of taxable account ownership surpassed that of white Americans. However, upon controlling for sociodemographic variables, the differences between the two race/ethnicities were minimized, though the likelihood of owning a taxable investment account remained higher for Asian American adults than for their white counterparts.

One encouraging trend was that the proportion of those owning a taxable investment account increased by 18 percent for African Americans over the six-year period. However, gender differences, particularly among respondents of color, were more troubling, even when controlling for demographic differences. While the gap between white women and white men was relatively minor, with white women 6 percent less likely to own a taxable account than white men, across the six-year period, African American women and Hispanic/Latina women were 14 percent less likely than their male counterparts to own a taxable investment account. Similar gender gaps were identified among Asian American respondents.

Investment Account Ownership (of Any Kind)

The proportion of all households reporting owning or not owning investment accounts remained largely stable throughout the six-year span (*see* Figure 1). A substantial portion of households reported owning no investment accounts of any kind, although the overall proportion declined over time. In 2012, 39 percent reported no investment accounts, falling to 36 percent in 2015 and ultimately 35 percent in 2018. By contrast, 28 percent of households reported owning only retirement accounts in 2012. The proportion rose to 33 percent in 2015, remaining stable in 2018. Given that many are automatically enrolled in retirement accounts through an employer, the relative stability in retirement account ownership is not surprising. The proportion of households reporting taxable investment accounts remained relatively flat across the six-year period (note that the vast majority of households owning taxable investment accounts also owned retirement accounts). In 2012, 32 percent of respondents reported having a taxable account, 30 percent in 2015 and 32 percent in 2018.

Figure 1. Households by Investor Status, 2012 to 2018

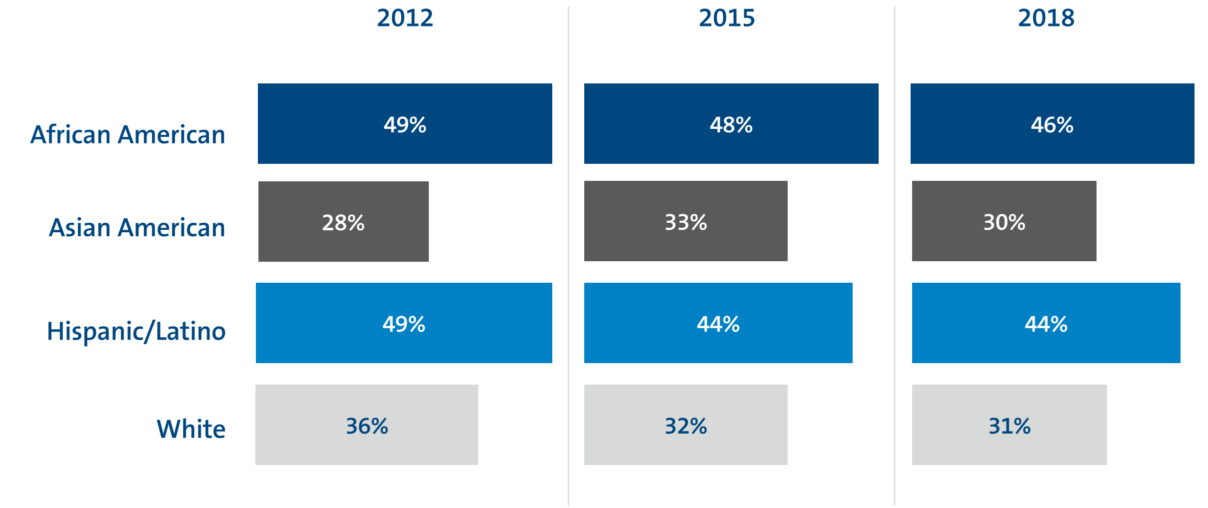


A Look at Account Ownership Across Different Races and Ethnicities

Households Owning No Taxable or Retirement Investment Accounts

Nearly half of African American and Hispanic/Latino respondents reported having neither a taxable investment account nor a retirement account (Figure 2). However, encouragingly for these groups, from 2012 to 2018, the portion of African Americans reporting no investment accounts fell from 49 to 46 percent. Among Hispanics/Latinos, this number fell from 49 to 44 percent. The share of white respondents who reported not having an investment account was 36 percent in 2012 and fell to 31 percent in 2018. For white respondents, changes over time were particularly encouraging; the proportion of those reporting no investment accounts fell by 14 percent from 2012 to 2018. Fewer than a third of Asian American respondents (28 percent) reported lacking any investment account in 2012. However, this proportion increased to 30 percent by 2018.

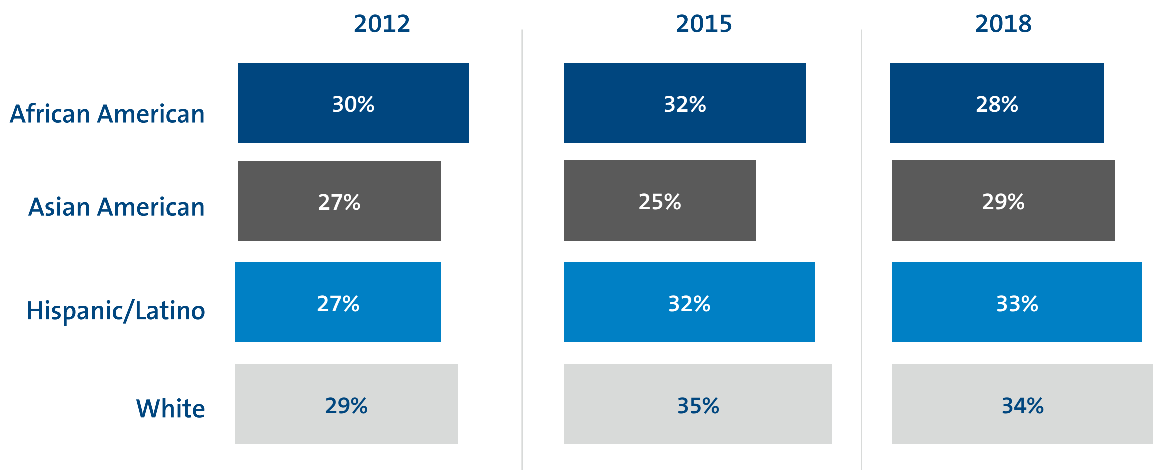
Figure 2. Proportion of Respondents Owning No Taxable or Retirement Investment Accounts, By Race and Ethnicity



Households Owning Only Retirement Investment Accounts

Across the different races and ethnicities studied, about 3 in 10 respondents reported owning only retirement accounts (Figure 3). While the proportion fell slightly for African Americans, from 30 to 28 percent from 2012 to 2018, it rose steadily for Hispanics/Latinos (27 to 33 percent). For Asian American respondents, the share that reported owning only retirement accounts rose from 27 percent to 29 percent across the six-year period. For white respondents, it increased from 29 percent to 34 percent. Increases in retirement account ownership were greatest for white and Hispanic/Latino respondents; the proportion of white and Hispanic/Latino who owned a retirement account increased by 17 and 22 percent, respectively.

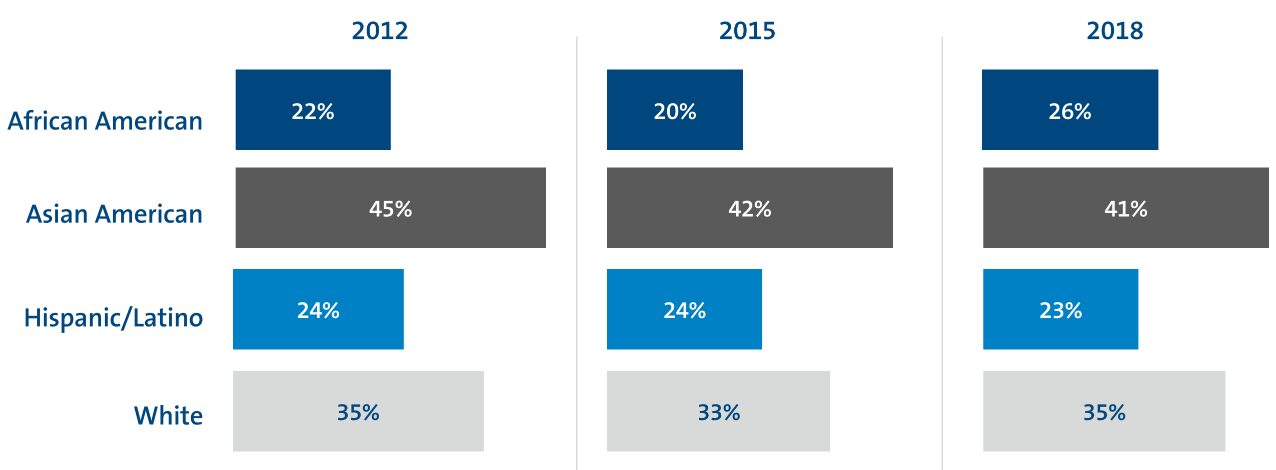
Figure 3. Proportion of Respondents Owning Only Retirement Account(s), By Race and Ethnicity



Households Owning Taxable Investment Accounts

Among African American respondents, 22 percent reported having a taxable investment account in 2012 (Figure 4). The number rose to 26 percent in 2018. Of all Hispanic/Latino respondents, 24 percent reported having a taxable investment account in 2012. The proportion remained steady through the years, falling only slightly to 23 percent in 2018. Thirty-five percent of white respondents reported having a taxable investment account in 2012. The number was relatively stable, falling to 33 percent in 2015 and rising back to 35 percent in 2018. Asian American adults had the highest proportion of taxable investment account owners. Forty-five percent of Asian Americans reported owning a taxable investment account in 2012. While this number fell to 41 percent by 2018, this proportion was substantially higher than that of other races and ethnicities examined.

Figure 4. Proportion of Respondents Owning Taxable Investment Account(s), by Race and Ethnicity



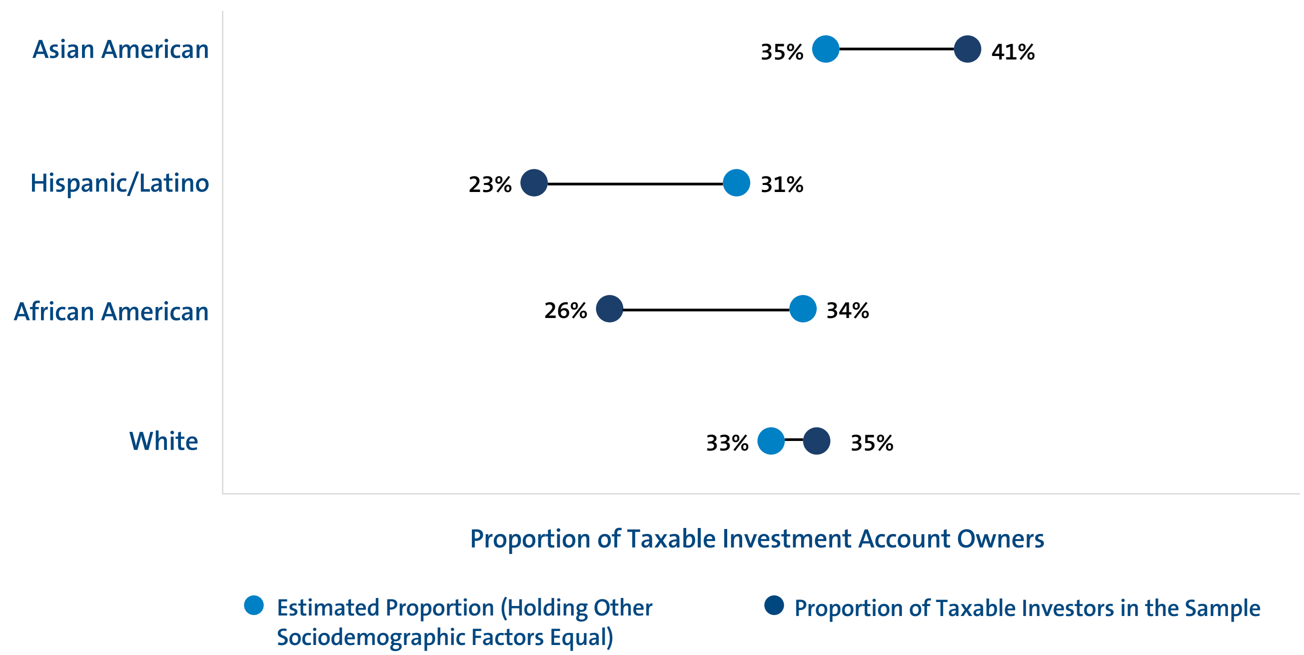
A Closer Look at Taxable Investment Account Holders: Is the Race/Ethnicity Gap Closing?

The racial/ethnic composition of investing households indicates sizeable gaps between some communities of color and white respondents throughout the six-year period studied. Focusing on those with taxable investment accounts, African American and Hispanic/Latino adults are underrepresented relative to white respondents, although for African American respondents, the gap seems to be closing.

Still, understanding the role that race and ethnicity play in the likelihood of owning a taxable investment requires consideration of other key factors. Many people of color face obstacles that can hinder their capacity to invest. For example, income, wealth and educational disparities, stemming largely from structural racism, create barriers unique to this population. By taking into account sociodemographic differences beyond race and ethnicity, we can better understand the unique role of race and ethnicity. We controlled for a series of sociodemographic factors, including age, income, educational level, employment status, marital status, the presence of dependents, as well as financial correlates of taxable account ownership, including emergency savings, home ownership status, financial knowledge and risk tolerance. Upon doing so, we found that gaps between white and non-white respondents' likelihood of owning a taxable investment accounts closed significantly.[4]

Figure 5 shows the proportion of taxable investment account owners across different races and ethnicities when other sociodemographic factors are and are not controlled for.

Figure 5. Observed and Estimated Proportion of 2018 Taxable Investment Account Owners



Results shown using **dark blue dots** reflect the observed proportion of white, African American, Hispanic/Latino and Asian American respondents in our sample who owned a taxable investment account in 2018. Large discrepancies were observed between white and non-white adults in 2018. Thirty-five percent of white respondents owned taxable investments, whereas this figure dropped to 26 percent for African Americans and 23 percent for Hispanics/Latinos. Forty-one percent of Asian Americans owned taxable investment accounts.

Results shown using **light blue dots** reflect what the estimated proportion of white, African American, Hispanic/Latino and Asian American respondents owning a taxable investment in 2018 would have been if other key sociodemographic factors were controlled for. These findings hold all other sociodemographic factors constant to examine the unique role of race and ethnicity. That is, they allow us to compare respondents of differing racial/ethnic background who are otherwise demographically identical, in terms of their gender, age, income level, employment status, education level, marital status, number of dependents, risk tolerance, home ownership status, availability of emergency savings and financial knowledge. In doing so, we can isolate and more accurately assess the unique association that exists between race/ethnicity and taxable investment account ownership. After accounting for important demographic factors, we estimate that, in 2018, 33 percent of white adults would have owned a taxable investment account. Similarly, we estimate 34 percent of African Americans and 31 percent of Hispanics/Latinos would have owned a taxable investment in 2018, whereas the proportion of Asian Americans owning a taxable investment account would have dropped to 35 percent. As observed by the light blue dots, after controlling for demographic factors other than race/ethnicity, the likelihood of owning a taxable investment is quite similar across the different groups examined.

Together, the findings indicate that many racial and ethnic differences may be driven largely by sociodemographic factors that impede people of color from owning taxable investments. Once these factors were controlled for, the impact of race and ethnicity was minimal. However, it is important to emphasize that while this analysis statistically controls for key demographic variables, thereby creating a "level playing field" for individuals of different races and ethnicities, the reality is that many people of color face hurdles and barriers that many white persons do not. Therefore, these results are hypothetical in nature. Overall, few changes were observed across the six-year period in the likelihood of owning taxable investment account. However, among African Americans there was a clear upwards trend; the likelihood of owning a taxable investment account increased over the six-year period examined even when other demographics were accounted for.

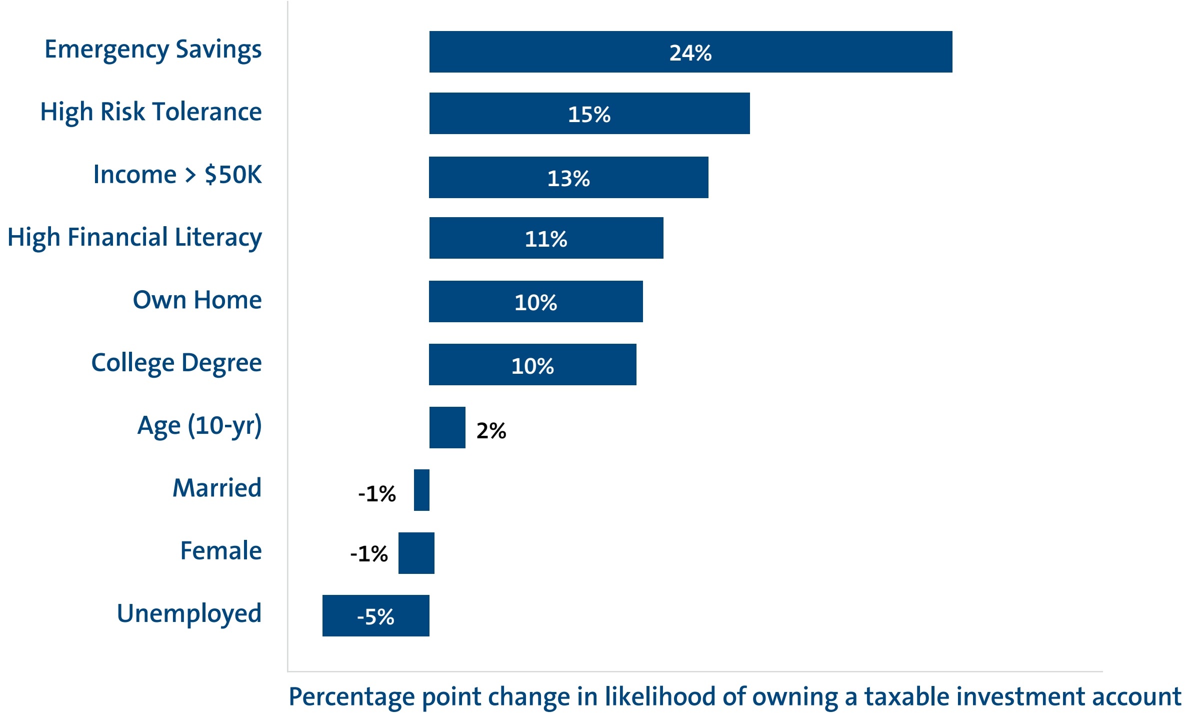
Other Factors Linked to Taxable Investment Account Ownership

In various instances, factors beyond race and ethnicity are much more highly related to taxable investment account ownership. Education level, income, age, marital status and employment status were each tied to the likelihood of owning a taxable investment account. After controlling for the sociodemographic variables noted above, those who had obtained at least a college degree were 10 percentage points more likely to have a taxable investment account than those who had not, while households with annual incomes surpassing $50,000 were 13 percentage points more likely to own a taxable account than those earning lower wages. Unemployed respondents were 5 percentage points less likely to own a taxable account. Age had a subtle, but noteworthy effect; the likelihood of having a taxable investment account increased by 2 percentage points with each 10-year increase in age (Figure 6).

Emergency savings, home ownership, financial risk tolerance and literacy were also tied to taxable investment account ownership. Respondents who had set aside rainy day funds were 24 percentage points more likely to own a taxable investment account than those who had not. Similarly, adults who owned their home were 10 percentage points more likely to have a taxable investment account than those who did not. Respondents willing to take high financial risks were 15 percentage points more likely compared to those who were unwilling to do so, while those with high financial literacy were 11 percentage points more likely than those with lower levels of literacy. It is important to note these findings rely on non-longitudinal data. That is, because we did not examine how the same respondents changed over time, we cannot conclude that these financial factors led to a higher likelihood of taxable investment account ownership or occured as the result of having a taxable investment account.

Finally, we found a very small gender effect. For women, the likelihood of owning a taxable investment account was 1 percentage point lower than that of men. However, the effect of gender differed markedly by race and ethnicity. The next section examines how the intersection of race/ethnicity and gender played a role in the likelihood of owning a taxable investment account.

Figure 6. Factors Related to Taxable Investment Account Ownership[8]

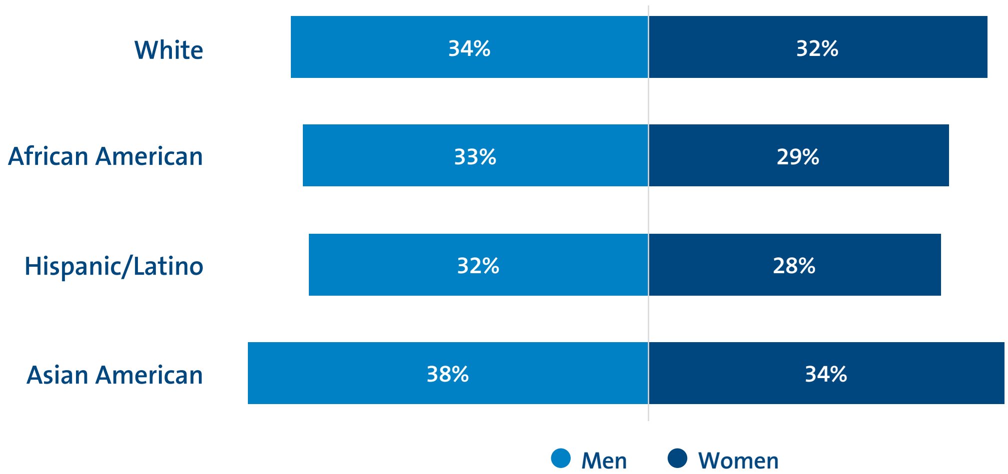


Note: While bars represent true values, numerical labels have been rounded.

The Intersection of Race/Ethnicity and Gender

Racial and ethnic gaps in the taxable investing world are insidious and even more pronounced when the intersection of race/ethnicity and gender is considered. Even after controlling for important sociodemographic factors, the likelihood of owning a taxable investment account is much lower for women of color than men of color (*see* Figure 7). From 2012 to 2018, we estimate the proportion of white men (34 percent) and white women (32 percent) owning a taxable investment account would have been somewhat similar, once other sociodemographic factors were accounted for. However, 33 percent of African American men would have owned a taxable investment account compared to only 29 percent of African American women; 32 percent of Hispanic/Latino men and 28 percent of Hispanic/Latina women, and 38 percent of Asian American men compared to 34 percent of Asian American women. That is, even after controlling for other sociodemographic factors relative to their male counterparts, African American women and Hispanic/Latina women were about 14 percent less likely to own a taxable investment account and Asian American women 12 percent less likely. When compared to white men, African American women were 15 percent less likely to own a taxable investment account and Hispanic/Latina women were 18 percent less likely.[5] These gaps may signal barriers for market participation that extend beyond those studied here. Among others, limited resources, a lack of accessibility to market processes, products and knowledge, as well as a diminished sense of identity as an investor threaten non-white women's ability to own a taxable investment account.[6]

Figure 7. Estimated Likelihood of Owning a Taxable Investment Account by Gender and Race/Ethnicity, Controlling for Other Sociodemographic Factors: An Average From 2012-2018.



Conclusion

We examined three segments of households, each comprising roughly a third of the population: households with taxable investment accounts; households whose only financial investments are in retirement accounts; and households without any investment accounts. Over the course of six years, from 2012 to 2018, the composition of these household segments remained relatively consistent. However, over time, some changes were observed. In particular, the proportion of households reporting that they did not have any investment accounts fell from 39 to 35 percent across the six-year period.

There was a large disparity between the investment account ownership of some communities of color and that of white adults. African Americans and Hispanic/Latino respondents were underrepresented among households with a taxable investment account and overrepresented among households without any type of investment account. Among African American and Hispanic/Latino respondents, nearly half reported not having a taxable investment account, while only about a quarter reported having taxable investment accounts. However, the proportion of African Americans owning taxable investment accounts increased from 22 to 26 percent from 2012 to 2018—a small but encouraging increase, particularly in the face of adversity encountered by this population segment. A study by the Federal Reserve Bank of St. Louis found a narrowing gap between African American and white families from 2016 to 2019 for overall wealth, as well. However, those findings also suggest a narrowing gap for Hispanic/Latino families relative to white Americans, a result that we did not observe in our analyses of investment account ownership.[7] Our study also found that the proportion of Asian American investors owning a taxable investment was much higher than that of any other race/ethnicity. Over two-fifths reported owning a taxable investment account, well higher than the proportion reported by white respondents.

One of our study's more revealing findings was the critical role of sociodemographic factors, beyond race and ethnicity, in the likelihood of owning a taxable investment account. Once other factors are accounted for, gaps between the different races and ethnicities closed dramatically. The estimated proportion of adults owning a taxable investment account for African American adults (34 percent) became virtually identical to that of white Americans (33 percent). Hispanic/Latino adults lagged only slightly (31 percent). For Asian Americans, controlling for these factors lowered the proportion of taxable investment owners to 35 percent, only slightly higher than other studied populations, suggesting that sociodemographic factors play an important role for this population, as well. Our findings suggest that understanding and addressing the challenges that people of color face are imperative to closing race and ethnic gaps in investing.

Among people of color, gender plays an important role in the likelihood of owning a taxable investment account. Even after controlling for other factors, African American and Hispanic/Latina women were each 14 percent less likely to own a taxable investment account than their male counterparts. Asian American women were 12 percent less likely than their male counterparts to own a taxable investment account.

The findings confirm and extend our understanding of racial and ethnic investing disparities among American families. Comparatively fewer African American and Hispanic/Latino respondents reported owning taxable investment accounts and a sizeable portion did not hold any investment accounts. Our research suggests that these differences may be partly driven by factors that disproportionally affect people of color, including income and education disparities, low levels of financial knowledge and low risk tolerance. Once these factors are taken into consideration, divides between white investors and those of color narrow significantly. These results also highlight a need to consider the joint roles that gender, and race/ethnicity play in the propensity to invest through taxable accounts. Women of color, particularly African American and Hispanic/Latina women, are least likely to own taxable investments.

Understanding and addressing the challenges people of color, and women of color, in particular, face can provide valuable information for initiatives seeking to promote diversity, equity and inclusion in the financial market. Of course, while our findings are informative, the results are not exhaustive. Closer examination of other population segments (including Native Americans and those who identify with multiple race/ethnicities) is required for a more comprehensive understanding of the demographics of retail investors in the United States. Further, a closer examination of the unique patterns among Asian American respondents is needed to better understand the factors that affect this population.

Notes

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About the Data

This brief uses data from three waves (2012, 2015, 2018) of the State-by-State National Financial Capability Study, each funded and led by the FINRA Investor Education Foundation and conducted by ARC. The sample included a total of 80,164 adults ages 18 and over. Of this total, 27,091 participated in the 2018 NFCS survey, 27,564 in the 2015 survey and 25,509 in the 2012 survey. Respondents were recruited via non-probability quota sampling using established online panels consisting of millions of individuals who have been recruited to join and who are offered incentives in exchange for participating in online surveys. These panels use industry-standard techniques to verify the identities of respondents and ensure that demographic characteristics provided are accurate and current. All NFCS surveys were self-administered by respondents on a website. Fielding was conducted from June 2018 to October 2018 for the 2018 NFCS survey, from June 2015 to October 2015 for the 2015 NFCS survey, and from July 2012 to October 2012 for the 2012 NFCS survey. National figures are weighted to be representative of the national population in terms of age, gender, ethnicity, education and Census Division (weights are based on data from the American Community Survey). The data used for this brief as well as detailed methodological information, including the questionnaires, can be found at USFinancialCapability.org.

Footnotes

1. Taxable investments include investments in stocks, bonds, mutual funds or other securities outside of retirement accounts (*see* question B14 on the FINRA Investor Education Foundation's 2018 National Financial Capability Survey).
2. *See* Pew Research Center Sept. 2020 report, "Few in U.S. owned stocks outside of 401(k)s in 2019, fewer said market had a big impact on their view of economy."
3. Some of the statistics pertaining to Asian American respondents are based on small sample sizes (Asian Americans comprised under 3 percent of sample) and should be interpreted with caution.
4. Linear Probability Models (LPM) were used to estimate regressions.
5. To calculate relative percentages, we used the following formula: Relative Percentage = (male value – female value)/male value.
6. Commonwealth & Aspen Institute (2021). *A Framework for Inclusive Investing: Driving Stock Market Participation to Close the Wealth Gap for Women of Color*.
7. Kent, A.H., & Rickets, L.R. (2020, December 2). Has Wealth Inequality in America Changed over Time? Here Are Key Statistics. Federal Reserve Bank of St. Louis.
8. Regression analyses also controlled for the presence of dependents. However, because having a dependent did not significantly contribute to the likelihood of owning a taxable investment in the full regression model, we omitted it from Figure 6. All other factors emerged as statistically significant at conventional levels ($\alpha = .05$)