

NOT A BLACK AND EUROPEAN-AMERICANS QUESTION: HOW ARE INVESTOR BEHAVIOR AND PERCEPTIONS RELATED TO RACE AND ETHNICITY?

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Abstract

This paper explores racial/ethnic differences among investors' risk tolerance, confidence, and asset ownership. The data for this study is derived from a national telephone survey conducted at a regional Midwest university. The data collection began by purchasing 7,500 phone numbers from Survey Sampling International. Potential households were selected by targeting phone numbers from the sample in geographical areas with average household incomes of \$100,000 per year or higher. Results show that among higher

income investors, African-Americans were less likely to invest in corporate stocks and bonds; Asian-Americans expressed particularly high investor confidence and had a preference for purchasing Certificates of Deposit (CDs); Hispanic-Americans expressed significantly lower risk tolerance and lower holdings of corporate stocks. These findings indicate that community-based financial education should be aware of these racial/ethnic characteristics and aim to tailor educational interventions to it, where possible. These findings offer valuable insights to educators, financial planners and financial

institutions offering these products.

Keywords: investment behavior, racial/ethnic differences, risk tolerance, investor confidence, and financial assets.

Introduction

What is the next generation of investors in the United States going to look like? If the composition of the investor community resembles the projected census for the next quarter century, the proportion of investors with diverse ethnic/racial backgrounds will increase significantly in the coming years (U.S. Bureau of the Census [CB], 2004). Some scholars have contended that ethnic diversity has defined the American character (Fuchs, 1991). However, diversity within the investment community may lead to wealth gaps due to variation in investment knowledge. Previous studies on racial/ethnic differences in investment behavior and confidence have shown that minorities are less likely to take financial risks and, as a result, may be less prepared for retirement (Badu, Daniels, & Salandro, 1999; Kim, Kwon, & Anderson, 2005).

This study describes differences in assets ownership and explores two areas of investment behavior among four different groups of Americans (European-Americans, Blacks, Asians, and Hispanics): risk tolerance and investor confidence. Although these racial/ethnic categories are subject to debate, the present study explored attitudes towards investing in relation to investors' self-identified categories. For each area, two questions were asked: (a) are there racial/ethnic differences? and (b) if so, are these differences potentially harmful?

Risk tolerance, defined as the level of risk

investors are willing to take, is usually lower for Blacks and Hispanics, causing them to be less invested in high-risk and high-return assets (Badu et al. 1999). A limited amount of research on investor confidence exists. It describes investor confidence as the perceived confidence a person has in his/her investing ability and it reports that males are more confident than females in their abilities to make investment decisions (Estes & Hosseini, 1988; Barber & Odean, 2001). However, no previous studies included Asians in the sample and focused on the differences in various aspects of investment behavior among racially/ethnically diverse investors. More importantly, the Asian community has been ignored in previous studies; traditionally, they have been aggregated under the ubiquitous and non-descriptive "other" category. This omission is a bit puzzling since Asians are often perceived as highly educated with well-paying jobs. The Asian-American population has increased substantially (48%) between 1990 and 2000. Following Mexicans, the second and third largest groups of immigrants originate from China and the Philippines, respectively (CB, 2001). Shapiro, Meschede, and Osoro (2009) reported that the total wealth gap between European-Americans and African-American families nearly triples, increasing from \$85,000 in 1984 to \$236,500 in 2009. According to Rakesh, Kochhar, Fry and Taylor (2011) a representative survey of American households found that the median wealth of European-Americans families was \$113,149 compared with \$6,325 for Latino families and \$5,677 for black families. Barsky, Juster, Kimball, and Shapiro (1997), Donkers and Van Soest (1999), and Kapteyn and Teppa (2011) argue that different types of individuals are characterized by varying levels of risk aversion related to their background and

wealth characteristics. For many years, redlining, discriminatory mortgage-lending practices, lack of access to credit, and lower incomes have blocked the homeownership path for African-Americans while creating and reinforcing communities segregated by race. African-Americans, therefore, are more recent homeowners and more likely to have high-risk mortgages, hence they are more vulnerable to foreclosure and volatile housing prices. (Shapiro et al., 2013)

The objective of this study is to examine differences in asset ownership, and impact of risk tolerance and investor confidence on investment behavior among various population groups (European-Americans, African-Americans, Asian-Americans, and Hispanic-Americans). This study contributes to our knowledge in two ways: (a) it presents investor behavior of different racial and ethnic groups, and (b) it focuses on the higher-income households with an average annual household income of \$75,000, a group more likely to have resources to invest. These results will be useful for educators (in both formal and informal settings), financial planners and financial institutions for the development of financial products and services to target different racial and ethnic groups.

Literature Review

The Impact of Culture in Asset Ownership and Wealth

Over the years the population of the United States continues to become more and more diverse. The 2004 Census revealed the racial and ethnic distribution of the U.S. population as European-Americans (75.1%), Black (12.3%), Asian (3.6%), American Indian and Alaska Native (0.9%), Native Hawaiian and Pacific Islander (0.1%),

and other (7.9%). The reports on consumer income (2004) show that among various ethnic/racial groups, Black households had the lowest median income (\$33,916) in 2007, which was 62% of the median for non-Hispanic European-Americans households (\$54,920). Asian households had the highest median income (\$66,103) about 120% of the median for non-Hispanic European-Americans households. The median income for Hispanic households (\$38,679) was 70% of the median for non-Hispanic European-Americans households.

Net worth is both a measure of wealth and a source of investment income such as interest, dividends, and capital gains. Not only can investors use this income to purchase leisure, physical protection, and economic security, but also to gain advantages such as social prestige, political influence, and improved education (Keister, 2000). DeVaney, Anong, and Yang (2007) suggested that wealth was an important measure of economic well-being and, as might be expected, was not equally distributed by race/ethnicity. According to Hanna, Waller, and Finke (2008) households in the United States had substantial levels of noninvestment wealth, and investment portfolios typically amounted to small proportions of total wealth when human wealth was included.

Gutter (2000) found that for over 80% of U.S. households in 1998, investment assets amounted to less than 20% of total wealth. Researchers have shown that different cultural values, preferences, and tastes may affect the risk tolerance of both European-Americans and non-European-Americans (Zhong & Xiao, 1995; Sung & Hanna, 1996). Grable and Lytton (1998, p. 65) identified four possible reasons for

racial differences in risk tolerance: (a) non European-Americans may not have the same exposure to banks and other financial institutions as European-Americans; (b) minority groups may be exposed to non-traditional investment opportunities; (c) non European-Americans cultures are often oriented towards past or present rather than future returns (Zhong & Xiao, 1995); and (d) European-Americans, in general, may be more confident in their analytical and decision-making skills (MacCrimmon & Wehrung, 1986).

Although household wealth in general has grown, previous studies have shown that there is still substantial inequality between European-Americans and non European-Americans (Aizcorbe, Kennickell, & Moore, 2003; Coleman, 2003; DeVaney et al., 2007). Gutter and Fontes (2006, p. 75) suggested that the differences in risky asset ownership between Black and European-Americans households were due to access and awareness barriers rather than personal preferences. Racial differences in investment choice—perhaps due to racial differences in exposure to investment fundamentals may result in differences in the types of assets owned leading to inequality in household wealth over a long period. Keister (2000) suggested that racial differences in saving and investment behavior, portfolios, and investment opportunities may explain the differences in levels of wealth between European-Americans and non European-Americans..

According to Coleman (2003) European-Americans households were more likely to have diverse investment portfolios than either Black or Hispanic households. In terms of preferences for different types of asset classes, Hispanic

households concentrated their assets into very low risk, low yield types of accounts such as transaction accounts and certificates of deposit (CDs). European-Americans households, on the other hand, held a higher percentage of their total financial assets in stocks and bonds, and Black households accumulated their assets in investments that produced future wealth such as pensions, life insurance policies, trusts, and annuities rather than current wealth.

DeVaney et al. (2007) used data from the 2004 Survey of Consumer Finances to investigate asset ownership differences between Black and European-Americans families. They reported that European-Americans families were more likely than Black families to own homes, invest in financial assets, and have retirement accounts; European-Americans families were also more likely to have greater home equity, more valuable investments, and greater savings in retirement accounts. Keister (2000) examined the impact of racial differences in asset ownership using data from the 1983–1986 panel of the Survey of Consumer Finances. She found that Blacks were less likely than European-Americans to own high-risk assets (such as businesses and stocks or bonds), and more likely to invest in fixed income investments; hence, many Blacks did not earn high investment returns during the economic boom.

Several studies have already shown that religiousness is linked to risk aversion (Hilary and Hui, 2009). Peifer (2011) shows that alignment of investments with religious principles is not confined to SRI funds, thereby indicating that religious funds can be seen as a separate segment of the mutual fund universe that may avoid controversial business exposure. Shapiro et al. (2013) found that getting married over the 25-year

study period significantly increases the wealth holdings for European-Americans families by \$75,635 but have no statistically significant impact on African-Americans. Single European-Americans are much more likely to possess positive net worth, most likely due to benefits from substantial family financial assistance, higher paying jobs, and homeownership. Hence, marriages that combine modest wealth profiles seem to move European-Americans past emergency-level savings to opportunities to invest and build wealth. By contrast, marriage among African-Americans typically combines two comparatively low-level wealth portfolios and, unlike European-Americans households, does not significantly elevate the family's wealth. While the number of household wage earners bringing in resources does correlate to higher wealth, the impact of marriage is not statistically significant for blacks and the reality is that most do not marry out of the racial wealth gap.

Risk Tolerance and Race/Ethnicity

Investor risk tolerance refers to the maximum amount of risk that an investor is comfortable taking when selecting an asset and/or making investment decisions. Investors with better understanding of risk-return relationship and high levels of risk tolerance would be expected to accept high levels of risk (no guarantee return), while low-risk tolerant investors would look for certainty (Grable & Lytton, 1998, p. 63). According to Yao, Hanna, and Lindamood (2004) investors with higher levels of risk tolerance tended to obtain higher returns in the long run. The same authors asserted that investors with low-risk tolerance preferred not to invest in stocks and thus may have had greater difficulty in accumulating adequate funds to meet long term goals, including

saving and investing for retirement.

Keister (2000) attributed some of this wealth inequality among races to the composition of wealth, because different assets provide different returns. Due to risk preferences, the wealth of Black and Hispanic households may grow at a slower rate than that of European-Americans. This would lead to a continuation of the inequality in the distribution of wealth (Bertaut & Starr-McCluer, 2000). Sung and Hanna (1996) studied various factors related to risk tolerance and found that European-Americans had higher financial risk tolerance than Hispanics and those of other ethnic and racial backgrounds. Coleman (2003) found that, compared with European-Americans, Blacks and Hispanics were less likely to take high financial risks and more likely to prefer not to take any financial risks.

Yao, Gutter, and Hanna (2005) also investigated the effect of race and ethnicity on financial risk tolerance and found that European-Americans were more likely than Blacks and Hispanics to be willing to take some financial risk. However, European-Americans were less likely than Blacks and Hispanics to be willing to take substantial financial risk. Yao et al. (2005) suggested that the lower likelihood among Blacks and Hispanics to take some financial risk might explain their low participation in financial markets.

Grable and Lytton (1998) found that the level of risk tolerance varied significantly among European-Americans, Blacks, and Hispanics. European-Americans were more likely to have a higher mean vector than Blacks and Hispanics on the three levels of investor risk (i.e., high, average, and none). Gutter and Fontes (2006) studied the impact

of race on investment behavior. They found that European-Americans were more likely to have a higher mean household income, own a home, take average and above average risk, and invest in risky assets than Blacks. They also found that those who were willing to take above average risks had larger amounts of risky assets.

According to DeVaney et al. (2007) slightly over half of the Black families (57%) were not willing to take risks when saving and investing as compared to 37% of European-Americans families. On the other hand, higher percentages of European-Americans (20%) were willing to take high risks than Blacks (15%). They also found that those who were risk-averse were less likely to be homeowners or hold investment accounts, and had less in their investment and retirement accounts.

Research by Amanatullah et al. (2010) explored the difference in risk aversion by gender in managerial decision-making and found it to be a result of the self-interest-orientation. Men are more selfish and, therefore, make riskier choices, which are more in their interest than in the corporation's interest. In contrast, women focus more on the interest of the firm they work for. Another explanation for differences may be overconfidence of men.

Investor Confidence

Newman (1982) suggested that feelings of confidence involve an interaction between what people know and feel about their own abilities and what they know and feel about a particular task and its level of difficulty. Estes and Hosseini (1988) examined the personal characteristics that influence confidence in an investment decision. They found that confidence in an investment

decision was a complex construct that may be affected by factors such as the nature of the task, personal characteristics, knowledge of the domain, and information processing capabilities..They reported that the decision maker's gender was the most important factor for explaining investment decision confidence. Women were less likely than men to be confident in their ability to make investment decisions after controlling for all of the other variables. According to Estes and Hosseini (1988) confidence was also lower among stockholders and among those who were less familiar with current stock prices compared with professional investors and general businesspersons. They also reported that confidence increased with a rising stock market and a positive attitude and among those who had degrees in accounting and finance. Breuer, Wolfgang, Riesener, Michael and Salzmann, Juliane (2011) find that individualism is linked to overconfidence and over optimism and has a significantly positive effect on individual financial risk-taking and the decision to own stocks.

Conceptual Framework

Many researchers have used the life cycle hypothesis model to study the risk tolerance, asset ownership, wealth accumulation, and retirement planning issues (Delpechitre & DeVaney, 2007; Finke & Huston, 2003; Li, Montalto, & Geistfeld, 1996; Schooley & Worden, 2008; Yao et al. 2004; Yao et al. 2005). According to the life cycle hypothesis, individuals and families tend to borrow to finance consumption while they acquire education and professional skills when young. During their middle ages when their income has increased, they are more likely to save and accumulate wealth, and they typically spend their accumulated wealth in retirement.

Shefrin and Thaler (1988) who developed the behavioral life-cycle model of savings, suggested that individuals developed a hierarchy of spending based upon types of wealth. They argued that individuals were more likely to spend liquid assets (cash, checking accounts, and money market accounts) first, and then access accumulated wealth in the form of mutual funds, stocks, bonds, and home equity. Individuals were more likely to access retirement savings account as a last resort.

The standard life-cycle hypothesis and Symbolic Interaction Theory guided the approach to framing the objectives of this study. We modified and adapted the conceptual model of relationships of race/ethnicity with risk preferences and investment behavior developed by Yao et al. (2005) to explore the relationships between race/ethnicity and risk tolerance and investor confidence. Gutter and Fontes (2006) suggested that cultural differences shaped preferences that in turn impacted functioning within the current American financial system. Issues related to both access and preferences may have impacted both the likelihood of owning risky assets and the levels of allocation to such assets. Symbolic Interaction Theory assumes that participants in any social situation are constantly negotiating a shared definition of the situation. They take one another's point of view into account and interpret one another's behavior as they construct possible lines of interaction and select lines of action for implementation (Delpechitre&DeVaney, 2007). Campbell and Viceira (2002) suggested that the life cycle stage, financial status, and other household characteristics influence a person's willingness to take financial risk. Thus, the present study propose that race and ethnicity directly influence investors'

risk tolerance and investment confidence, and those in turn influence investors' investment preferences (types of assets) and potential to build wealth over the life cycle.

Method

Data and Sample

To collect information from investors about their investment decisions, a telephone survey was conducted using a list-assisted sample of 7,500 households in the United States. Telephone surveys were conducted between October 2005 and February 2006. Trained interviewers conducted the interview with the individual who was identified as the primary maintainer of finances in the household. On average, it took approximately 22 minutes to complete a survey. Eligible households consisted of primary residences with a household income of \$75,000 or higher, as determined in the screening process. When conducting screening calls and interviews, staff followed standard random-digit-dialing protocols. The first screening condition was that an adult person was living in the household. If there were only one adult living in the household, that individual was automatically eligible to be interviewed. If there were more than one adult in the household, interviewers asked to speak with the one household member "who is the most knowledgeable about saving and investing." The interviews were then conducted with this household member. The interviews averaged 22 minutes in length (SD = 5.8). Unless the incentive was declined, a \$20 check was mailed to each respondent who completed the interview. A total of 911 individuals were interviewed, resulting in a response rate of 18.3 percent (total N=7,500); 859 responses were used for this research excluding a sub-sample of

respondents who used no investment vehicles other than savings account and certificates of deposit. The survey respondents approximate the socio-demographic characteristics of households in the 2004 Survey of Consumer Finances (Bucks, Kennickell, Mach, & Moore, 2009) with an average household income of at least \$75,000 per year. The data differ from the Survey of Consumer Finances because they explored a variety of behavioral factors that may impact investment behavior and household networth.

Measurement of Variables

Risk tolerance. Responses to the question, “Generally speaking, are you willing to take substantial financial risk to earn substantial returns (=5), above average risk for above average returns (=4), average risk for average returns (=3), below average risk for below average returns (=2), or no financial risk at all (=1)?” measured risk tolerance levels.

Investor confidence. Responses to the following three statements measured the investor confidence variable: “I am confident about my ability to invest”, “I am knowledgeable about investing” and “I stick with a consistent investment strategy even if the stock market is volatile”. Responses to the three questions were measured on a five-point Likert scale with “Strongly Disagree=1” and “Strongly Agree=5” and then summed up to create a single, composite measure.

Type of financial assets. Respondents were asked if they owned any financial assets, including savings account, certificates of deposit, annuities, government savings bonds or bond mutual funds, corporate bonds or bond mutual funds, and stocks or stock mutual funds. Responses were yes (=1) or no (=0).

Socioeconomic characteristics. They include race/ethnicity, gender, age, marital status, household size, education, employment status, and annual household income. Respondents’ race/ethnicity was coded in four groups: European-American, African-American, Asian-American, and Hispanic-American. Age, education, income, and household size were continuous variables (respondents’ self-reported values).

Four categories existed for employment status: employed full-time, employed part-time, retired, and not currently employed. Respondents’ occupation choices, based on their current or most recently held jobs, were professional, business/finance management, other management, technical, and other service and manual labor. Marital status choices were married, living as married, divorced, widowed, or single/never married. For our analyses, gender, marital status, education, and employment status were coded as binary variables, see Table 1.

Sample Description

As presented in Table 1, a majority of the respondents among Hispanic-American, Asian-American, and European-American investors was male (69%, 67%, and 66% respectively). The average age of respondents was in the mid-forties. A majority of participants in every racial/ethnic group was married. The average household size was between three and four household members. The majority of the participants in this study was highly educated; over three-quarters of European-American and African-American investors were college graduates. Asian-American investors in our sample were most likely to hold bachelor’s degrees and higher. A majority of respondents worked full-time.

Asian-American investors had the highest average annual income (\$137,265) and Hispanic-American investors had the lowest average income (\$119,883).

Table 1: Sample Demographics

Variable	European-American	African-American	Asian-American	Hispanic-American
Gender (male=1)	66.1%	49.3%	67.2%	69.2%
Age (cont.)	49.03	46.60	46.36	46.56
Marital status (married/living as married=1)	90.9%	86.6%	97.0%	86.5%
Household size (cont.)	3.36	3.60	3.63	3.52
Education (B.Sc. and more=1)	76.4%	71.6%	95.5%	65.4%
Employment (full-time=1)	73.4%	79.1%	83.6%	75.0%
Income (cont.)	\$128,388	\$121,636	\$137,265	\$119,883
N	673	67	67	52

Results

Examining Risk Tolerance, Investor Confidence for the Racial/Ethnic Groups

Mean comparison tests indicated that risk tolerance of African-American, Asian-American, and European-American investors did not differ (see Table 2). It was measured as slightly above the mid-point, presenting a willingness to accept at least average risk for average returns.

Hispanic-American investors indicated different behaviors. They were less likely to accept more than average risk, compared to European-American investors ($p < 0.001$). With regards to investor confidence about their ability to invest, the study finds significantly higher confidence among Asian-American investors, compared to European-American investors ($p < 0.05$). They were more likely to express higher confidence about their investment abilities, followed by Hispanic-Americans, European-Americans, and African-Americans.

Table 2: Risk Tolerance and Investor Confidence by Race/Ethnicity

	European-American (N=673)	African-American (N=67)	Asian-American (N=67)	Hispanic-American (N=52)
Risk Tolerance (base category)	3.38 (0.814)	3.23 (1.031)	3.34 (1.108)	3.00 (0.949)***
Investor Confidence (base category)	3.28 (1.120)	3.21 (1.175)	3.60 (0.938)*	3.54 (0.917)

Note: †<.10, *p < .05, **p < .01, ***p < .001

Examining Asset Holdings for the Racial/Ethnic Groups

The survey respondents’ asset holdings differed by race/ethnicity when compared to our base category, European-Americans. As shown in Table 3 and illustrated in Figure 1, African-Americans were

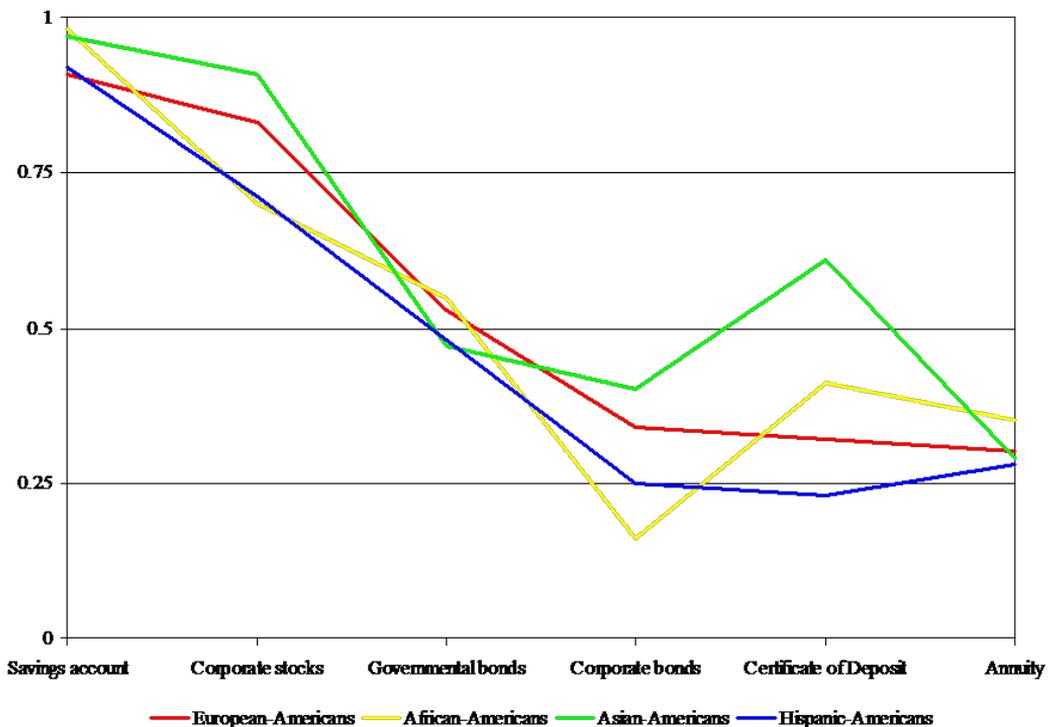
more likely to hold savings accounts ($p < 0.10$) and were least likely to invest in corporate stocks and bonds ($p < 0.01$). Hispanic-Americans were also less likely to hold stock investments ($p < 0.05$). Asian-Americans were much more likely to hold certificate of deposit (“CDs”; $p < 0.001$), compared to European-Americans.

Table 3: Asset Holdings by Race/Ethnicity, Comparison Group: European-American Subsample

	European-Americans (N=673)	African-Americans (N=67)	Asian-Americans (N=67)	Hispanic-Americans (N=52)
Savings account	.91 (.271)	.98 (.122)†	.97 (.171)	.92 (.269)
Certificate of Deposit	.32 (.468)	.41 (.496)	.61 (.490)***	.23 (.425)
Annuity	.30 (.460)	.35 (.483)	.29 (.461)	.28 (.457)
Governmental bonds	.53 (.499)	.55 (.501)	.47 (.503)	.48 (.504)
Corporate bonds	.34 (.474)	.16 (.373)**	.40 (.494)	.25 (.437)
Corporate stocks	.83 (.370)	.70 (.461)**	.91 (.287)	.71 (.457)*

Note: † $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$ compared to the European-American subsample

Figure 1: Illustration Of Asset Holdings By Race/Ethnicity, Comparison Group: European-American Subsample



Correlation between Risk Tolerance and Investor Confidence, Assets Holdings by Race/Ethnicity

Correlation results presented in Table 4 add additional insight for our understanding of the role of risk tolerance in investment decision-making. Results show that higher risk tolerance among European-American respondents was associated with higher confidence about their investment abilities as well as corporate bonds and stocks in their asset mix.

However, European-Americans were less likely to hold certificate of deposits as their risk tolerance increased. African-American respondents' risk tolerance was associated with having a savings account, but not with any other asset holdings. Asian-American respondents with higher risk tolerance were more likely to report higher confidence with their investment abilities and, similarly to African-Americans, were more likely to have a savings account. For Hispanic-American respondents, increased risk tolerance was associated with investments in corporate stocks.

**Table 4 :
Correlation between Risk Tolerance and Investor Confidence as well as Asset Holdings by Race/Ethnicity
(Only Significant Relationships Shown)**

	European-Americans (N=673)	African-Americans (N=67)	Asian-Americans (N=67)	Hispanic-Americans (N=52)
Investor confidence	.151***		.368**	
Savings account		.269*	.214†	
Certificate of Deposit Annuity	-.141***			
Governmental bonds				
Corporate bonds	.071†			
Corporate stocks	.156**			.271†

Note: †<.10, *p < .05, **p < .01, ***p < .001; Phi (Pearson) correlation coefficient estimated for two binary variables; Spearman correlation coefficient estimated for two ordinal variables

Correlation between Risk Tolerance and Investor Demographics by Race/Ethnicity

Examining the correlations between risk tolerance and investor demographics in Table 5, we find that increased risk tolerance among European-Americans was associated with being male, younger aged, married, living in larger families,

college graduated, full-time employed, and having higher income. For the three other subsamples, the findings were not as strong. Younger African-Americans and those with college degrees were more likely to express higher risk tolerance. Among Asian-Americans, younger and unmarried respondents were more likely to express higher risk tolerance. There were no significant findings for Hispanic-Americans.

Table 5:
Correlation between Risk Tolerance and Investor Demographics
by Race/Ethnicity (Only Significant Relationships Shown)

	European- Americans (N=673)	African- Americans (N=67)	Asian- Americans (N=67)	Hispanic- Americans (N=52)
Gender	.178***			
Age	-.190***	-.279*	-.217†	
Marital status	.080*		-.264*	
Family size	.191**			
Education	.096*	.276*		
Employment	.158***			
Occupation				
Income	.157***			

Note: †<.10, *p < .05, **p < .01, ***p < .001; Phi (Pearson) correlation coefficient estimated for two binary variables; SPSSpoint-biserial correlation coefficient estimated for continuous and binary variables

Discussion and Implications

This research aims to provide Extension staff working in financial education with insights in the investment behavior of different racial/ethnic groups. Our study uses European-Americans, the largest group of respondents, as the baseline category. Compared to European-Americans, study finds:

- African-American investors reported higher participation rates in savings accounts, but were less likely to invest in corporate stocks and bonds. In general, those reporting higher risk tolerances also reported holding a regular savings account. Risk tolerance was also associated with younger age and higher education.
- Asian-American investors expressed significantly higher investor confidence and were particularly interested in purchasing Certificates of Deposit. Similar to African-American investors, those reporting higher risk tolerance also reported holding a regular savings account.
- Hispanic-American investors expressed significantly lower risk tolerance and

lower holdings of corporate stocks. Risk tolerance was also associated with younger age and unmarried family status. These findings have implications for day-to-day financial education in the community setting. Our study suggests the following two points to consider when working with different racial/ethnic groups:

- Awareness of key differences in investment decision-making. In this study, Hispanic-Americans were less risk tolerant; Asian-Americans had a preference for fixed-interest investments, such as Certificates of Deposit; and African-Americans were least likely to hold corporate stocks and bonds.
- Financial education tailored to past investment decisions. Hispanic-Americans may improve their investment decisions when taught a better understanding of the relative riskiness of different asset categories; Asian-Americans may be interested in learning about other fixed-income investments, such as governmental and corporate bonds; African-Americans may increase their investments in corporate bonds and stocks if they knew more about these investment tools.

Limitations

The authors would like to remind readers that the present study is based on information collected from a national sample of highly educated and high income U.S. Americans. We wanted to learn about the investment behavior of people who had the capacity to invest and were more likely to be engaged in investing. Caution should be exercised when generalizing these results to other income groups. Second, information about investment knowledge was self-reported; did not administer a knowledge test to the participants of this study. Similarly, information about types of investments and the estimated value of household assets and debts were self-reported; and authors did not have access to the actual records.

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