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Financial services and the African-American market: what every financial planner should know

D. Anthony Plath[a,*], Thomas H. Stevenson[b]

[a]*Department of Finance and Business Law, University of North Carolina at Charlotte, Charlotte, North Carolina 28223*

[b]*Department of Marketing, University of North Carolina at Charlotte, Charlotte, North Carolina 28223*

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Abstract

African-American consumers differ markedly from their Caucasian counterparts in terms of financial product preferences, product research, and investment asset portfolio composition. This study examines some of the principal differences between African-American and Caucasian households in evaluating and purchasing investment assets and explores differences in asset holdings between the two racial groups. This information can help financial planners seeking to market to the African-American community better understand this community, tailor investment information for the unique needs of this community, and render more effective service to individuals and families that comprise this attractive and growing market segment.

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The importance of segmentation in the development of an effective marketing strategy is well established in the business literature. There are many bases used for market segmentation, but demographic factors such as age, occupation, income level, educational attainment, and race are frequently used to identify key markets. Race has become increasingly important as a segmentation variable because it has been shown that race can influence

* Corresponding author. Tel.: +1-704-687-4413; fax: +1-704-687-6987.
E-mail address: daplath@email.uncc.edu (D.A. Plath).

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consumption patterns and because racial minorities have come to represent a larger and larger proportion of the U.S. population. The sheer numbers of the largest minority group, African-Americans, and the improving economic status of many of its members, make this racial minority especially attractive.

Nevertheless, relatively few studies in the finance literature have profiled differences in financial asset portfolio holdings of Black versus White households, or examined how these differences should affect the manner in which financial planners tailor their marketing efforts to meet the needs of different racial groups. The purpose of this study is twofold: First, we seek to profile racial differences in investment asset ownership patterns between Black and White households, evaluating the extent to which this profile is consistent with information reported in other academic work that examines racial differences in wealth accumulation patterns and risk tolerance levels. Second, we seek to use the profile of financial asset portfolio holdings reported here to advise financial planners and others in the financial community how to structure their product offerings to more effectively meet the needs of African-American consumers.

The balance of this study provides information and insights regarding the financial holdings and investment asset consumption preferences of Black and White households. Section I profiles the growth of African-American households in recent years and surveys the literature to ascertain extant knowledge about differences in Black versus White financial asset portfolio holdings. Section II introduces the SCF dataset that represents the source of the statistical information reported in the article, and explains the statistical tests used to compare Black versus White households. Section III presents some of the principal differences in asset holding patterns across Black and White consumers, controlling for income, age, and educational attainment in presenting household financial information across different racial groups. Section IV uses the information introduced in Section III to develop a profile of African-American households' wealth-building asset portfolios for financial planners seeking to understand and serve the needs of the African-American market segment. Finally, Section V provides conclusions regarding the differences between Black and White financial consumers and summarizes how these differences influence asset holdings patterns across the two racial groups.

1. Wealth accumulation and the African-American consumer

The number of African-Americans in the U.S. has grown rapidly. In the ten-year period from 1985 to 1995 for example, there was an increase of more than 4.5 million African-Americans in the U.S., a nearly 16 percent increase. The corresponding percentage increase for Caucasians in the same period was just under 8 percent. During the same ten-year period, the number of Black households grew by 23 percent; White households grew by only 11 percent. Moreover, the total U.S. population of Blacks is predicted to increase by as many as 17 million by the year 2020. This represents a projected 53 percent increase over the 25 years from 1995; the White population is forecast to grow only 28 percent during the corresponding period (U.S. Department of Commerce, 1998).

In spite of this rapid growth, very little academic research examines how financial asset

consumption preferences differ between African-American and Caucasian households, and most prior research examines investment portfolio differences between Black and White households only as a secondary issue. In general, past studies focus on (1) differences in wealth accumulation rates between Black and White households, invoking asset portfolio differences only to explain divergent rates of wealth accumulation, or (2) differences in risk tolerance across the races, using portfolio composition differences to illustrate differences in exposure to liquidity and default risk across different racial groups. While these studies touch on investment portfolio composition differences across different racial groups, portfolio differences are seldom the focal point of the research effort and they frequently reference a limited spectrum of investment assets in only two or three financial categories.

In spite of these limitations, the wealth accumulation literature does provide a useful starting point to characterize differences in the investment portfolio holdings of Black and White financial consumers. For example, it is widely recognized that the rate of wealth accumulation across Black households is significantly below the rate at which White households build wealth (Blau & Graham, 1990; Wolff, 1994; Myers & Chung, 1996). Wealth accumulation rates are positively related to household income levels (Zhong & Xiao, 1995; Gutter et al., 1999), positively related to educational achievement (Zhong & Xiao, 1995; Gutter et al., 1999), and positively related to consumer age (Blau & Graham, 1990; Zhong & Xiao, 1995), yet this does not lead to the corollary conclusion that the wealth gap between Black and White households narrows with advancing income, educational attainment, and age across different racial groups. In contrast, evidence suggests that the wealth gap widens with increasing consumer age (Wolff, 1994), while the literature is silent about how the wealth gap changes with advancing income and educational attainment levels across different racial groups.

Concerning investment portfolio composition differences across different racial groups, Boyce (1998), Gutter et al. (1999) and Badu et al. (1999) report that Black investors display little preference for risky financial securities such as common stocks, while White investors select these riskier financial investments with greater frequency. This leads to the conclusion that Black consumers should display relatively smaller holdings of risky financial securities, such as municipal and corporate bonds, common stocks, equity mutual funds, and brokerage accounts than White consumers; and relatively larger holdings of low-risk financial securities such as bank savings and time deposits, savings bonds, and Treasury bonds in their investment portfolios.

In addition, Blau & Graham (1990) and Brimmer (1991) point out that Black consumers display a preference for holding tangible, nonfinancial assets that yield consumptive services, while White consumers tend to hold financial assets and income-producing nonfinancial assets. Given this evidence, Black consumers should display relatively larger investments in consumption-oriented real property, such as a personal residence and vacation property, and a relatively smaller investment in income-producing real property, such as rental property and commercial real estate, in their investment portfolios.

Consistent with their demonstrated preference for lower risk, Brimmer (1991) and Badu et al. (1999) also report that Black consumers show a greater preference for financial assets with a high degree of liquidity; while White investors will more willingly sacrifice financial asset liquidity in order to earn higher risk-adjusted total investment returns. Based on this

finding, African-American consumers should show relatively larger holdings of highly liquid, short-term instruments such as bank accounts, savings bonds, and bond-based mutual funds; and correspondingly smaller holdings of less liquid, longer-term assets such as corporate bonds, common stocks, and brokerage accounts, in their financial asset portfolios.

Regardless of racial background, Zhong and Xiao (1995) and Gutter et al. (1999) report that investment risk tolerance increases with increasing income levels, leading to the conclusion that risk-related investment portfolio differences between African-American and Caucasian consumers should diminish with increasing income. Similar to this finding, Zhong and Xiao (1995) and Gutter et al. (1999) report that investment risk tolerance increases with heightened levels of educational attainment, suggesting that risk-related investment portfolio differences between Black and White consumers should also diminish with rising educational attainment.

In contrast to these results, the literature offers less consensus on the issue of how investment risk tolerance changes with advancing investor age. Morin and Suarez (1983) find that investment risk tolerance decreases with increasing age, while Zhong and Ziao (1995) report that investment risk tolerance increases with increasing age, and Gutter et al. (1999) suggest that investment risk tolerance first increases with increasing age, reaches a maximum in middle age, and then declines with further increases in age. In spite of the lack of agreement across these studies, virtually all past research indicates that there is a significant relationship between investment risk tolerance and age, leading to the conclusion that investment portfolio composition across both African-American and Caucasian households should differ when age is introduced as a control variable in the analysis.

Virtually all of the research results discussing investment portfolio composition differences across different racial groups may be considered somewhat tentative, because investment portfolio preference differences usually do not represent the primary focal point of the research efforts cited here, and these studies offer their respective research conclusions on the basis of very few categorical investment choices. The remainder of this study seeks to build on past research conclusions, offering an expanded array of investment alternatives to profile portfolio preference differences across Black and White households, and reviewing whether the investment portfolio implications discussed above hold true under the wider array of investment alternatives presented below.

While the results reported below highlight statistically significant pairwise differences between Black and White investment portfolios, these isolated pairwise differences may fail to capture the full range of investment portfolio differences between Black and White consumers. A large body of prior research has shown that the rate of wealth accumulation across African-American households significantly lags that of White households, so statistically significant pairwise differences may not capture many of the substantive differences in Black versus White portfolio holdings. The magnitude of investment balances in Black households almost always lags White investment balances because White consumers possess greater financial wealth. Consequently, this research effort also examines the changing *relative* magnitude of investment portfolio differences across Black and White households, noting whether these differences are increasing, decreasing, or remaining the same, as variables known to influence investment portfolio preferences—such as age, income, and educational attainment level—change.

2. Data and methodology

This study reports and evaluates data gathered from the 1998 Survey of Consumer Finances (SCF) prepared by the Board of Governors of the Federal Reserve System in cooperation with the Statistics and Income Division of the Internal Revenue Service. Conducted triannually since 1983, the SCF provides detailed information on the financial characteristics of U.S. households, including financial asset and liability holding patterns, real estate ownership, and household net worth. Also included is a variety of demographic and attitudinal characteristics covering age, sex, race, educational attainment, income, and other classificatory variables useful for characterizing household balance sheet characteristics across different subgroups within the American population. A more complete description of the SCF dataset is given by Kennickell et al. (2000).

The SCF dataset uses a dual-frame sampling plan that incorporates both an area-probability sample and a special list sample derived from IRS tax records. The area-probability sample provides information on financial variables that are widely distributed in the general U.S. population, such as automobile ownership and home mortgages. The list sample represents an oversample of relatively wealthy families designed to capture financial data items that are highly concentrated within a relatively small proportion of the population, such as commercial real estate holdings and household trust fund ownership. This unique sampling methodology results in the oversampling of households more likely to be wealthy, which requires that descriptive statistical measures derived from the SCF sample be weighted to generate sampling estimates that are projectible to the entire U.S. population (Board of Governors of the Federal Reserve System, 2000, p. 27). The descriptive statistics reported below are derived from the full, weighted version of the SCF sample.

The SCF handles missing data attributable to item nonresponse using a multiple imputation procedure known as repeated imputation inference (RII). As Montalto and Sung (1996) discuss, this procedure uses stochastic multivariate methods to replace each missing value with five different imputed values to approximate the sampling distribution of missing values, so that imputed values can be averaged to produce a more accurate estimate of what a given missing value would have been in the absence of item nonresponse. The statistics reported below rely upon the full public version of the 1998 SCF dataset, surveying 4,305 households to produce a total of 21,525 potential observations (Board of Governors of the Federal Reserve System, 2000, p. 27). Using all five implicates in developing descriptive statistical measures introduces imputation error into the research design, however, and this additional source of variability requires the use of a specialized adjustment procedure to calculate accurate standard error terms for each of the statistics reported below. The adjustment procedure used below permits the development of standard error terms that incorporate both sampling error and imputation error for mean and proportion statistics, following the recommend course of action reported in the 1998 *Codebook for the Survey of Consumer Finances* (Board of Governors of the Federal Reserve System, 2000, pp. 28–32). In all cases, the statistically significant mean differences and proportion differences reported below have been obtained using a test statistic suitable when target population variances are assumed to be both unequal and unknown.

3. Results: asset holding patterns across Black and White consumers

The portfolio of wealth-accumulation assets, including both financial and real property assets, varies markedly between Black and White households. Tables 1 through 3 present proportionate holdings of various financial asset categories, as well as household real estate holdings covering respondents' primary residence, other vacation property owned, and other nonvacation property. In addition, these tables provide mean dollar values of financial accounts and real property holdings across the full SCF dataset. In all cases, the results report mean financial values rather than the median percentile values, because the public version of the SCF dataset is adjusted for outliers and other plausible errors in data reporting and coding before it is released to the public, and the mean is better able to convey the wide dispersion in the reported data for some response groups (Board of Governors of the Federal Reserve System, 2000, pp. 7–8). In this case, understanding the wide range of item responses across particular groups is important in helping to characterize differences between Black and White investment portfolios. In order to control for differences in asset holdings that can be explained by demographic characteristics such as income, age, and education, the reported data stratify household asset holdings by respondent income (Table 1), respondent age (Table 2), and the highest educational grade-level attained by respondents (Table 3).

In each of these cases, advances in income, age, and educational attainment do lead to changes in asset holdings consistent with the results of Yuh and Hanna (1997). While asset portfolios of Black and White consumers do become increasingly similar with advances in income and educational attainment, particularly across bank-related financial asset categories, substantial differences across both financial and real property assets held by Black and White households persist even in the highest income and education categories. This finding regarding asset holdings tends to support the conclusion of Williams and Qualls (1989), who note that as African-American consumers make more money and move up in class standing, they do not lose their ethnic orientation and begin to resemble White consumers.

The most notable difference between Black and White households, however, is unrelated to cultural considerations. The dollar value of virtually all asset holdings is substantially greater across White respondents. This gap reflects the wide net worth disparity between Black and White consumers reported by Scott (1998), Myers and Chung (1996), and a host of other researchers. Moreover, the gap does not appear to be related to the relative popularity of various asset categories, such as common stock versus real estate, across different racial groups. As Scott (1998), Lach (1999), and Badu et al. (1999) suggest, African-American households are particularly conservative in their investment style, preferring real estate assets and insurance products to stock and bond investments. Even within these relatively more popular investment categories, however, the mean values for all categories of real property investments across the African-American sample lie well below their corresponding values in White households. This trend persists across all income, age, and education levels; and unlike other asset holding patterns, the real estate gap grows wider, not more narrow, as income and educational attainment increase. In most cases, this is attributable to the increased valuation dispersion observed across real estate holdings of White households. The wide range of real estate values is particularly evident in the

Table 1
Family asset holdings by income and race characteristics

Asset category	Household income in 1998 dollars															
	$10,000 to $24,999				$25,000 to $49,999				$50,000 to $100,000				More than $100,000			
	Race				Race				Race				Race			
	Black		White		Black		White		Black		White		Black		White	
	N = 573		N = 2,795		N = 452		N = 3,781		N = 286		N = 3,915		N = 117		N = 5,770	
	Proportion	Mean	Proportion	Mean	Proportion	Mean	Proportion	Mean	Proportion	Mean	Proportion	Mean	Proportion	Mean	Proportion	Mean
Financial asset ownership																
Transaction accounts	57.8%***	$ 361***	88.8%	$ 2,901	88.0%	$ 4,285	95.7%	$ 3,539	96.3%	$ 4,220	99.4%	$ 5,514	99.4%	$ 9,282***	99.7%	$ 32,782
Certificates of deposit	4.8%***	$ 374***	21.8%	$ 7,089	13.1%	$ 728***	17.7%	$ 6,293	7.5%**	$ 278***	17.7%	$ 6,241	18.6%	$ 2,776*	16.0%	$ 14,349
Savings deposits	45.5%	$ 1,417	48.1%	$ 2,907	64.2%	42,401	60.7%	43,689	76.8%	43,858*	72.3%	$ 6,521	64.8%	$ 4,418**	60.3%	$ 14,035
Savings bonds	6.4%	$ 212	12.3%	$ 388	14.2%**	$ 238***	22.5%	$ 902	17.0%**	$ 300***	32.2%	$ 1,508	4.1%***	$ 1,526	32.5%	$ 3,065
Bonds:																
Treasury bonds	0.0%	$ 0	0.2%	$ 50	0.0%**	$ 0**	0.9%	$ 632	0.0%***	$ 0*	1.2%	$ 273	0.4%***	$ 1,463**	5.4%	$ 15,430
Municipal bonds	0.0%*	$ 0	1.1%	$ 611	0.0%**	$ 0	1.5%	$ 753	0.0%***	$ 0	1.7%	$ 1,852	10.0%	$ 4,619*	8.4%	$ 33,583
Corporate bonds	0.0%	$ 0	0.8%	$ 321	0.0%**	$ 0*	1.2%	$ 181	0.0%***	$ 0*	1.5%	$ 941	0.0%***	$ 0**	2.5%	$ 9,615
Mortgage-backed bonds	0.0%	$ 0	0.1%	4127	0.0%*	$ 0	0.7%	$ 434	0.0%*	$ 0	0.7%	$ 398	0.0%**	$ 0*	1.8%	$ 4,459
Stocks	0.9%***	$ 175*	9.0%	$ 4,503	11.8%	$ 1,160***	19.3%	$ 9,009	14.2%***	$ 6,893**	29.3%	$ 22,259	61.6%	$ 54,735***	56.3%	$282,400
Retirement accounts (IRA/KEOGH)	6.1%***	$ 682***	18.2%	44,900	26.3%	$ 3,817*	29.1%	$ 7,985	37.1%	$ 6,319***	44.6%	$ 18,160	37.9%	$ 9,665***	67.8%	$103,649
Mutual funds																
Stock funds	1.3%***	$ 46***	8.1%	$ 2,395	12.7%	$ 1,139**	12.3%	$ 3,824	14.4%*	$ 2,111***	23.7%	$ 13,899	29.9%	$ 20,619***	44.0%	$ 81,554
Government bond funds	0.0%*	$ 0*	0.8%	$ 158	3.0%	$ 87	1.0%	$ 223	0.0%***	$ 0*	2.6%	$ 914	0.0%***	$ 0***	5.0%	$ 4,126
Municipal bond funds	0.0%**	$ 0	2.2%	$ 1.378	2.9%	$ 330	2.3%	$ 748	1.5%*	$ 2,316	5.9%	$ 1,990	0.6%***	$ 30***	12.0%	$ 17,760
Corporate bond funds	0.0%*	$ 0	1.2%	$ 577777	0.0%**	$ 0	1.2%	$ 359	2.4%	$ 29*	3.4%	$ 2,490	0.0%***	$ 0*	6.7%	$ 9,046
Combination funds	0.0%	$ 0***	1.9%	$ 761	2.4%	$ 320	2.0%	$ 645	5.9%	$ 3,017	2.7%	$ 1,389	6.2%	$ 1,994	7.4%	$ 6,706
Life insurance	65.8%*	$24,199	59.9%	$ 20,511	83.4%	$65,446	73.8%	$ 55,636	90.8%	$124,238	86.3%	$ 117,744	90.7%	$413,460	89.5%	$315,783
Brokerage accounts	0.9%***	$ 0	8.4%	$ 0	5.8%*	$ 0	13.3%	$ 0	11.2%**	$ 0	23.3%	$ 0	47.9%	$ 0	54.9%	$ 0
Trust accounts and annuities	0.7%***	$ 820	6.1%	$ 1,530	3.2%	$ 2,056	5.5%	$ 1,442	4.5%	$ 482**	8.2%	$ 3,691	7.8%	$ 4,169	13.6%	$ 14,879
Real property ownership																
Personal residence	35.8%**	$60,735	57.9%	$ 88,511	59.7%	$92,515	71.3%	$109,857	66.8%	$115,339	87.8%	$ 151,004	80.3%	$238,449	93.7%	$337,352
Indebtedness on personal residence	19.7%	$31,211	21.2%	$ 45,070	45.2%	$67,786	44.2%	$ 52,596	63.8%	$ 66,770	71.5%	$ 80,210	60.5%	$164,376	70.7%	$164,959
Other vacation property	8.4%	$ 7,327	11.5%	$ 12,767	12.6%	$11,171	17.4%	$ 12,167	32.8%	$ 13,655	25.9%	$ 13,378	36.5%	$ 18,509	46.4%	$ 19,826
Indebtedness on other vacation property	2.0%	$37,919	1.7%	$ 182,039	3.7%	$20,499*	5.2%	$ 52,618	13.7%	$ 56,295	9.3%	$ 93,890	15.6%	$128,694	21.4%	$223,360
Other nonvacation property	0.0%	$ 0	0.2%	$2,491,560	0.0%	$ 0	0.4%	$ 63,302	1.2%	$ 25,000*	2.1%	$ 13,856	2.2%	$ 25,000***	4.4%	$640,681
Indebtedness on other property	0.0%	$ 0	0.1%	$ 718,188	0.0%	$ 0	0.2%	$ 37,030	0.0%**	$ 0	1.0%	4136,181	2.2%	$ 23,000**	1.1%	$720,251

Note: *** denotes significance at the 0.001 level; ** denotes significance at the 0.01 level; * denotes significance at the 0.05 level.

Table 2
Family asset holdings by age and race characteristics

Asset category	Head of household age															
	35 to 44				45 to 54				55 to 64				65 to 74			
	Race				Race				Race				Race			
	Black		White		Black		White		Black		White		Black		White	
	N = 528		N = 3698		N = 379		N = 3,948		N = 235		N = 2,976		N = 190		N = 2,346	
	Proportion	Mean	Proportion	Mean	Proportion	Mean	Proportion	Mean	Proportion	Mean	Proportion	Mean	Proportion	Mean	Proportion	Mean
Financial asset ownership																
Transaction accounts	65.0%***	$ 981***	91.9%	$ 4,648	69.0%**	$ 4,460	95.0%	$ 7,461	75.8%	$ 4,279*	94.5%	$ 11,657	61.2%***	$ 2,064***	97.0%	$ 9,607
Certificates of deposit	8.0%	$ 470***	9.9%	$ 1,177	4.1%***	$ 214***	13.7%	$ 5,416	3.4%***	$ 309***	21.4%	$ 9,163	13.4%***	$ 1,280***	33.1%	$ 14,845
Savings deposits	59.0%	$ 1,384***	65.6%	$ 3,839	44.0%***	$ 1,400***	65.7%	$ 5,815	58.8%	$ 2,287***	56.3%	$ 6,299	37.3%	$ 2,299**	51.3%	$ 8,099
Savings bonds	12.9%***	$ 132***	29.0%	$ 858	6.7%***	$ 208***	24.9%	$ 1,249	9.1%**	$ 135***	20.3%	$ 1,681	6.1%**	$ 423*	18.0%	$ 1,105
Bonds:																
Treasury bonds	0.0%*	$ 0	1.0%	$ 957	0.0%**	$ 88*	1.2%	$ 1,832	0.0%**	$ 0	1.4%	$ 5,708	0.0%**	$ 0***	2.4%	$ 1,707
Municipal bonds	0.0%*	$ 0**	0.6%	$ 1,028	0.0%***	$ 346	1.8%	$ 3,906	0.0%***	$ 0***	2.8%	$ 7,669	0.0%***	$ 0**	5.7%	$ 10,326
Corporate bonds	0.0%*	$ 0	0.6%	$ 400	0.0%**	$ 0**	1.3%	$ 1,913	0.0%**	$ 0	0.9%	$ 834	0.0%*	$ 0**	2.0%	$ 2,169
Mortgage-backed bonds	0.0%*	$ 0*	0.2%	$ 186	0.0%	$ 0	0.5%	$ 280	0.0%*	$ 0	0.9%	$ 1,398	0.0%**	$ 0**	2.0%	$ 1,252
Stocks	8.0%***	$ 1,404***	21.8%	$ 20,048	9.4%***	$ 8,655***	25.6%	$ 33,985	3.5%***	$ 3,751***	29.2%	$ 83,278	0.2%***	$ 46***	24.1%	$ 71,196
Retirement accounts (IRA/KEOGH)	24.4%	$ 3,309**	30.4%	$ 7,718	12.0%***	$ 2,523***	39.7%	$ 18,409	29.3%*	$ 5,482***	46.3%	$ 50,486	9.0%***	$ 4,182***	48.2%	$ 38,114
Mutual funds																
Stock funds	12.1%	$ 2,179***	15.7%	$ 10,888	4.1%***	$ 2,115***	24.3%	$ 19,364	0.1%***	$ 25***	16.4%	$ 22,683	5.5%**	$ 969***	15.9%	$ 23,618
Government bond funds	1.2%	$ 74	1.1%	$ 341	0.0%***	$ 0**	2.3%	$ 657	0.0%***	$ 0*	2.1%	$ 1,423	0.0%**	$ 0**	3.3%	$ 2,047
Municipal bond funds	1.8%	$ 1,561	2.4%	$ 909	0.0%***	$ 0**	4.2%	$ 2,719	0.1%***	$ 5**	4.7%	$ 4,589	0.0%***	$ 0***	7.3%	$ 7,115
Corporate bond funds	1.3%	$ 16	2.2%	$ 1,135	0.0%***	$ 0	3.6%	$ 3,435	0.0%**	$ 0*	1.7%	$ 1,084	0.0%**	$ 0*	3.2%	$ 4,810
Combination funds	2.5%	$ 698	2.4%	$ 1,155	0.0%***	$ 0**	2.9%	$ 1,536	0.0%***	$ 0*	2.4%	$ 1,609	4.6%	$ 3,650	4.2%	$ 2,583
Life insurance	67.5%	74,388***	74.7%	$128,183	65.6%	$ 38,767***	75.7%	$128,395	81.8%	$ 32,420**	79.6%	$ 66,342	77.2%	$ 27,004	75.8%	$ 19,893
Brokerage accounts	9.4%***	$ 0	17.0%	$ 0	4.8%***	$ 0	23.1%	$ 0	3.4%***	$ 0	19.3%	$ 0	0.2%***	$ 0	23.8%	$ 0
Trust accounts and annuities	1.5%	$ 1,467	3.7%	$ 2,068	4.7%	$ 1,108	6.8%	$ 3,221	0.1%***	$ 0**	6.4%	$ 6,888	0.4%***	$ 44***	15.0%	$ 6,373
Real property ownership																
Personal residence	51.6%***	$87,323***	72.1%	$144,338	43.7%***	$101,891**	79.4%	$170,754	61.6%*	$109,084*	84.2%	$167,366	61.6%*	$ 62,322***	85.0%	$150,524
Indebtedness on personal residence	41.9%***	$69,532	63.8%	$ 88,423	30.6%***	$ 52,678**	63.5%	$ 88,766	39.1%	$ 67,528	50.1%	$ 72,353	20.3%	$ 40,532	24.3%	$ 55,655
Other vacation property	13.5%	$ 9,324	18.8%	$ 13,320	12.7%**	$ 12,848	26.4%	$ 15,563	24.8%	$ 16,244	24.4%	$ 16,619	13.3%***	$ 7,067*	29.3%	$ 14,585
Indebtedness on other vacation property	4.5%*	$25,904***	9.1%	$106,916	2.3%***	$ 72,180	9.8%	$115,733	15.5%	$ 59,558*	7.8%	$215,155	0.6%***	$329,042	5.9%	$155,829
Other nonvacation property	0.0%***	$ 0*	0.7%	$190,024	0.3%**	$ 25,000*	1.9%	$197,567	1.4%	$ 25,000*	1.9%	$974,283	0.0%***	$ 0*	1.8%	$394,334
Indebtedness on other property	0.0%*	$ 0	0.5%	$115,106	0.3%	$ 23,000	0.&%	$121,921	0.0%*	$ 0*	0.6%	$695,094	0.0%	$ 0	0.6%	$343,148

Note: *** denotes significance at the 0.001 level; ** denotes significance at the 0.01 level; * denotes significance at the 0.05 level.

Table 3
Family asset holdings by educational attainment and race characteristics

Asset category	Head of household highest educational attainment															
	Completed 9th through 11th grade				High school graduate				Colege graduate				Attended or completed graduate school			
	Race				Race				Race				Race			
	Black		White		White		Black		White		Black		White			
	N = 393		N = 1,252Tc;;2Black		N = 4,085		N = 161		N = 3,800		N = 127		N = 3,756			
	Proportion	Mean	N = 669 Proportion	Mean	Proportion	Mean	Proportion	Mean	Proportion	Mean	Proportion	Mean	Proportion	Mean	Proportion	Mean
Financial asset ownership																
Transaction accounts	29.8%***	$ 226***	77.1%	$ 2,633	65.7%***	$ 998***	90.5%	$ 3,446	84.7%	$ 2,848**	98.4%	$ 6,977	96.5%	$ 2,297***	99.4%	$ 10,680
Certificates of deposit	4.0%***	$ 186***	15.6%	$ 3,970	6.9%***	$ 394***	19.1%	$ 7,030	3.4%***	$ 50**	15.8%	$ 7,522	8.4%***	$ 464***	25.6%	$ 10,763
Savings deposits	30.3%*	$ 319***	42.8%	$ 2,131	48.7%	$ 1,592***	58.7%	$ 4,188	40.5%	$ 834***	44.8%	$ 3,213	59.5%	$ 1,591***	43.1%	$ 5,308
Savings bonds	3.3%***	$ 21	11.8%	$ 604	8.6%***	$ 131***	20.8%	$ 825	21.1%	$ 141***	33.3%	$ 1,407	33.0%	$ 1,001**	32.0%	$ 3,193
Bonds:																
Treasury bonds	0.0%	$ 0	0.1%	$ 154	0.0%	$ 0	0.2%	$ 280	0.0%***	$ 0***	2.0%	$ 2,220	0.0%***	$ 0**	3.4%	$ 6,261
Municipal bonds	0.0%	$ 0	0.9%	$ 1,280	0.0%**	$ 0	0.6%	$ 1,428	0.0%***	$ 0***	2.9%	$ 7,847	0.0%***	$ 0***	8.5%	$ 14,574
Corporate bonds	0.0%*	$ 0	0.8%	$ 944	0.0%*	$ 0	0.7%	$ 1,521	0.0%**	$ 0*	0.8%	$ 1,646	0.0%***	$ 0	2.8%	$ 5,839
Mortgage-backed bonds	0.0%	$ 0	0.1%	$ 74	0.0%	$ 0	0.2%	$ 757	0.0%*	$ 0	0.6%	$ 603	0.0%**	$ 0*	1.0%	$ 1,102
Stocks	1.3%***	$ 3**	9.0%	$ 4,348	4.7%***	$ 1,086***	15.5%	$ 18,783	14.3%**	$ 2,417***	29.0)	$ 28,720	10.2%***	$ 446***	36.2%	$ 56,709
Retirement accounts (IRA/KEOGH)	3.4%***	$ 361***	16.8%	$ 2,640	7.4%***	$ 1,036***	25.1%	$ 7,862	7.3%***	$ 1,649***	43.5%	$ 18,495	19.0%***	$ 4,510***	55.9%	$ 32,526
Mutual funds																
Stock funds	1.1%*	$ 33**	4.8%	$ 1,268	6.8%	$ 368***	9.7%	$ 6,315	6.3%***	$ 461***	20.7%	$ 12,010	10.1%**	$ 1,430***	27.2%	$ 23,636
Government bond funds	0.0%	$ 0	0.3%	$ 327	0.0%***	$ 0	0.9%	$ 98	0.0%***	$ 0***	4.4%	$ 1,108	0.1%***	$ 304	5.7%	$ 2,643
Municipal bond funds	0.0%*	$ 0*	1.1%	$ 621	1.4%	$ 24***	2.7%	$ 1,938	0.0%***	$ 0***	6.5%	$ 4,002	5.8%	$ 377**	11.1%	$ 7,060
Corporate bond funds	0.0%	$ 0	0.3%	$ 431	0.0%**	$ 0	1.3%	$ 696	0.0%***	$ 0**	2.2%	$ 926	p***	$ 0	4.9%	$ 4,911
Combination funds	0.0%	$ 0	0.7%	$ 407	2.8%	$ 1,158	1.8%	$ 989	0.0%***	$ 0*	4.8%	$ 3,518	0.0%***	$ 0***	6.9%	$ 4,388
Life insurance	60.3%	$ 9,454*	62.0*	$34,364	69.2%	$41,252	70.1%	$ 44,693	84.8%	$ 88,807	81.1%	$104,042	81.1%	$ 92,785*	82.8%	$149,202
Brokerage accounts	0.0%***	$ 0	6.0%	$ 0	3.1%***	$ 0	11.4%	$ 0	9.5%***	$ 0	26.0%	$ 0	7.9%***	$ 0	35.0%	$ 0
Trust accounts and annuities	‘0.0%**	$ 0*	2.6%	$ 679	0.7%***	$ 204*	6.1%	$ 1,544	0.3%***	$ 16,314	7.1%	$ 6,999	5.2%	$ 3***	9.7%	$ 17,843
Real property ownership																
Personal residence	26.2%***	$59,357	66.7%	$80,816	45.7%***	$75,069**	72.6%	$112,786	48.0%*	$118,946	71.6%	$155,272	67.2%	$141,450*	74.5%	$207,416
Indebtedness on personal residence	12.8%***	$10,540***	31.8%	$40,369	27.5%**	$52,189	42.6%	$ 56,862	34.1%*	$ 71,897	53.8%	$ 81,999	42.0%	$102,560	54.7%	$100,679
Other vacation property	3.6%**	$12,656	11.7%	$14,313	9.3%**	$12,296	17.6%	$ 12,653	11.6%	$ 11,643	22.3%	$ 14,216	31.5%	$ 12,316	30.8%	$ 14,843
Indebtedness on other vacation property	0.9%	$27,352	2.2%	$40,725	3.6%	$23,947*	5.2%	$ 62,238	9.8%	$ 23,699**	6.5%	$197,702	21.3%	$ 56,443	13.6%	$588,194
Other nonvacation property	0.0%	$ 0	0.5%	$86,706	0.5%	$25,000	0.6%	$287,331	0.1%***	$ 601***	1.7%	$419,850	2.4%	$244,659	1.7%	$389,778
Indebtedness on other property	0.0%	$ 0	0.4%	$35,546	0.0%*	$ 0*	0.3%	$ 70,054	0.1%*	$ 272**	0.&%	$336,592	0.5%	$ 50,000	0.6%	$409,805

Note: *** denotes significance at the 0.001 level; ** denotes significance at the 0.01 level; * denotes significance at the 0.05 level.

nonvacation real estate category, where commercial real estate assets are particularly concentrated across a White ownership group.

Interestingly, Black households do appear to display a preference for consumptive-type real estate, a finding that supports the work of Terrell (1971), Sobol (1979), Blau and Graham (1990) and Brimmer (1991). Black consumers show a far greater relative investment in consumption-oriented real property, such as a personal residence or vacation property, and a smaller corresponding investment in income-producing business property, captured in the other nonvacation property classification within the SCF dataset. While White households also report a relative preference for residential and vacation-type properties over business properties, the relative strength of this preference is not as great as it is for Black households. In contrast to this interpretation of commercial real estate holdings, however, it is also likely that the absence of business property ownership across Black households reflects a lower incidence of family business ownership within Black households.

While Lach (1999) suggests that life insurance holdings often parallel real estate holding patterns across Black households, this trend is not evident in the 1998 SCF dataset. The mean value of life insurance assets across Black households modestly exceeds the value of White households' life insurance assets for every income category in the SCF dataset. While these pairwise mean differences are not statistically significant, the life insurance category represents the only financial asset classification for which the dollar value of Black household holdings exceeds that of White households. For all income groups, this supports the assertion by Scott (1998) and Badu et al. (1999) that African-Americans prefer relatively conservative financial alternatives in their investment portfolios.

Reviewing financial asset holdings across the various income categories shown in Table 1 reveals a striking difference in portfolio composition for relatively high-risk, high-return financial assets between Black and White consumers. The absence of corporate debt and equity securities within Black families' investment portfolios—and the corresponding concentration of wealth in real property and life insurance assets across these households—creates a stark contrast with White households' portfolio holdings. This absence of financial diversification, coupled with the concentration of wealth in lower-yielding financial assets and real property, signals that African-American households face far greater unsystematic financial risk, lower portfolio returns, and a diminished rate of wealth accumulation over time in their wealth-creating asset portfolios.

While this conclusion is troubling, it is consistent with other research results investigating racial differences in investing preferences. A number of studies—including Boyce (1998), Zhong and Xiao (1995), Lach (1999), and Gutter et al. (1999)—point out the wide disparity in equity ownership between Black and White households. Past research offers a number of different explanations for this disparity. Bajtelsmit and Bernasek (1996) attribute it to the greater relative influence of Black women in making household investment decisions and the relatively greater risk aversion observed across these investors. Lach (1999) and Vatter and Palm (1977) attribute it to a lack of understanding of corporate equity and debt instruments across Black households, and limited access to information regarding these investment alternatives. Still other researchers attribute it to differences in risk tolerance related to socioeconomic factors (Schooley & Worden, 1996), educational attainment (Shaw, 1996), and a savings motive driven by near-future needs for cash, such as saving for college

expenses, rather than distant-future events, like retirement savings (Lach, 1999). Finally, Burlew et al. (1992) attribute the absence of relatively illiquid financial investments—such as stocks, bonds, and 401-K retirement assets—in African-American households to stronger current consumption preferences across Black households, while Pitts, Whalen, O'Keefe, and Murray (1989) and Morrall (1996) suggest that Blacks display a higher preference for very liquid investments as well as cash holdings.

The SCF results reported in Table 1 support this final contention. For most financial assets, there is a wide disparity between Black and White households' portfolio holdings. This gap is much smaller in the case of bank transaction accounts, particularly for upper middle- and high-income families, reflecting the Black families' greater preference for highly liquid financial assets. Within lower-income families, however, the use of basic banking services is less prevalent among Black households. The distance between the percentage of Black and White families reporting holdings of checking and savings deposits narrows with increasing income, but the valuation gap between the dollar value of mean account balances across Black and White households does not diminish in similar fashion. Like other wealth-oriented asset categories, there is a persistent difference between bank demand, time, and savings deposit balances reported by Black and White households. This difference remains unexplained by income, age, or advancing educational attainment.

Consistent with the notion that Black families focus on near-term savings goals (Lach, 1999), the use of tax-advantaged retirement savings vehicles such as IRA and KEOGH accounts is much less pronounced across African-American families. Moreover, Tables 1 through 3 illustrate that the retirement savings gap does not diminish with increasing income, household age, or increased educational attainment. While Blacks close much of the gap between differential residential property values as income, household age, and educational attainment levels rise; Black households remain severely underinvested in retirement wealth-building categories. A wide disparity between the IRA/KEOGH holdings of Black and White households persists among even the most affluent, well-educated Black households.

As a final point of interest in Table 1, it is noteworthy that while real estate ownership is far more common among lower- and middle-income White families, the use of debt financing to obtain personal real estate is quite similar across both races. Following the convention suggested by Reichenstein (1998), who shows that time-series price changes in real property and the corresponding mortgage instrument used to finance the property do not necessarily move in lockstep, making it inappropriate to measure the equity position in real estate by netting current mortgage balances against the fair market value of real property, Table 1 reports gross property values and mortgage balances associated with these investments separately.

Examining proportionate data describing the prevalence of mortgage debt across racial groups in various income categories reveals that the incidence of mortgage debt and the magnitude of this debt are frequently quite similar for Black and White families. What is different, however, is the size of mortgage debt relative to the market value of real property encumbered by this debt. Across all income categories, Black families are more heavily leveraged that their White counterparts, with reported mortgage balances representing a far larger percentage of the value of real property owned.

Turning to the results shown in Table 2, which reports asset holdings while controlling for

differences in respondent age, we find results similar to those offered in the income stratification sample. Again, common stock and corporate bond holdings are quite rare across African-American families, regardless of respondents' age. While Zhong and Xiao (1995) report an increasing likelihood of stock ownership as respondent age increases within the African-American population, Table 2 indicates that this increase is really quite modest. Incidence of stock ownership within Black households is 8.9 percent in the group of respondents below 35 years of age, and this proportion actually falls to 8 percent in the 35-to-44 year old age category before peaking at 9.4 percent among 45-to-54 year old respondents and falling to 3.5 percent among 55-to-64 year old respondents and less than 1 percent for respondents aged 65-to-74 years.

A much stronger relationship between respondent age and the likelihood of equity ownership emerges within White families. Here, the incidence of stock ownership is 15.2 percent for respondents below age 35, increasing to 21.8 percent for respondents between 35 and 44 years old, 25.6 percent for respondents aged 45 to 54 years, and 29.2 percent for respondents aged 55 to 64 years before it declines to 24.1 percent for respondents aged 65 to 74 years. For both racial groups, an inverted U-shape characterizes the relationship between respondent age and equity holdings, although the trend is much more pronounced across White households. Interestingly, a similar inverted U-shape describes the relationship between respondent age and household investment in equity mutual funds, although for most age groups, the incidence of mutual fund ownership is surprisingly below the rate of individual stock ownership. This trend holds for both White and Black consumer groups in the SCF sample.

In the case of individual equity holdings and equity fund holdings, the inverted U-shape profile corroborates the most recent research results reported in Gutter et al. (1999), while contradicting the work of Zhong and Xiao (1995) and Morrin and Suarez (1983). Using equity security holdings as a proxy for investment risk tolerance, it appears that risk tolerance first increases with increasing age, reaches a maximum somewhere between age 45 and 64, and then diminishes with further increases in age. The age at which risk tolerance appears to reach a maximum is lower for Black households, at somewhere between 45 and 54 years of age, than it is for White households, at somewhere between 55 and 64 years of age.

Turning to differences in the dollar value of equity holdings across the two racial groups, it is clear that Black households are seriously underinvested in equities, and this difference persists across all age groups observed in the SCF dataset. For Black households the mean equity investment starts at $490 for respondents below age 35, and rises to only $8,655 for respondents between 45 and 54 years of age before beginning to decline at higher age levels as households seek greater financial liquidity and investment safety with advancing age. In contrast, White households begin with a mean equity investment of $6,797 for respondents below age 35, and this investment grows to a maximum of $83,278 for respondents between the ages of 55 and 64 before it begins to decline. Clearly, White households place a larger quantity of financial resources in equity investments, use these investments to realize a larger absolute level of capital appreciation, and begin liquidating these equity holdings in favor of safer, more liquid financial assets later in life than their Black counterparts. The limited presence of corporate debt and equity investments in African-American households and the

limited time period over which these families invest in higher-yielding assets severely limits the ability of these households to build wealth over time.

Examining real estate holdings, respondent age appears to influence the rate at which families first acquire real property. While Black respondents consistently lag their White counterparts in the sample proportions reporting ownership of residential real estate, the gap between the races is widest for younger respondents. In addition, the proportion of Black households owning residential property accelerates dramatically between the 45-to-54 year old age category and the 54-to-64 year old group, while corresponding changes in property ownership proportions reported by White families is a much smaller increase across these two age categories. Comparing the two racial groups, Black households show an investment preference for residential real estate over almost all other types of assets, yet they tend to acquire this residential real estate at a more advanced age than their White counterparts.

Interestingly, the ownership incidence of bank-type financial assets—including both demand and savings deposits—follows an inverted U-shaped pattern across advancing age categories within African-American households, and a much more linear pattern across White households. Ownership of banking products first rises with increasing age in Black households, reaches a maximum within the 55-to-64 year old age category, and then falls within older families. In the White sample, virtually all respondent households maintain at least one bank account by the time they reach the 35-to-44 year old age category, and the proportion of households holding one or more banking products remains virtually unchanged across successively older age categories. Attitudes toward bank products and banking relationships are a function of age within African-American households, while in White households these attitudes appear to be invariant to changes in age.

Many researchers—including Yuh and Hanna (1997), Shaw (1996), and Lach (1999)—suggest that preferences for holding risky assets in general, and equity securities in particular, rise with increasing educational attainment. The data reported in Table 3 support this contention, as stock and bond ownership rates rise with increasing educational attainment across both Black and White subgroups of the SCF sample. For both races, equity holdings accelerate dramatically among households in which respondents possess a baccalaureate degree. Even among respondents with advanced educational attainment levels, however, Black equity holdings significantly lag their White counterparts in both the proportion of the sample owning stock and the mean market value of equity holdings.

It is noteworthy that increased educational attainment occurring below the college-graduate category contributes to increased family holdings of risky assets, but only in a modest way. Both Black and White respondents who report completing some undergraduate college coursework or receiving a high school diploma evidence only slightly more stock and bond holdings than respondents who failed to complete a secondary school education. Earning a college degree is a significant determinant of household investment patterns across both Black and White households. The impact on the risk-return characteristics of family asset portfolios, however, remains much more pronounced among White households, which evidence greater diversification across financial asset categories and substantially greater investment in stocks, bonds, and mutual fund assets.

In virtually all cases, the proportion of Black households reporting ownership of a particular financial asset lies well below the percentage of White families reporting owner-

ship of the same asset. The exception to this generalization is life insurance holdings across Black households. Within White households, the percentage of respondents reporting some life insurance ownership begins at 62 percent in families that fail to complete a high school education and rises progressively with increasing educational attainment until reaching 83 percent among respondents who report attending or completing graduate school. Black households report remarkably similar rates of life insurance ownership, beginning at 60 percent for Black respondents who fail to complete high school, rising to 81 percent across those who have attended or completed graduate school. The data suggest that Black households prefer the relative stability and security of life insurance products over riskier and more price volatile investments is stocks, corporate bonds, and other brokerage assets. This preference transcends increasing income levels, respondent age, and educational attainment levels within the SCF sample.

Finally, educational attainment levels represent a much more important determinant of household banking relationships among Black consumers than White consumers. The proportion of Black households reporting use of these traditional commercial banking products rises dramatically with increasing education, from less than 30 percent for respondents who fail to complete high school to over 96 percent for respondents who have attended or completed graduate school. Across White respondents, more than 72 percent of non-high school graduates report demand deposit account ownership, and this number rises to 99 percent across respondents who have attended or completed graduate school. At higher levels of educational attainment, Black households' commercial banking relationships closely resemble their White counterparts. At lower levels of educational attainment, particularly in the case of individuals who fail to complete a secondary school education, Black consumers' banking relationships are far different than those observed within White households, indicating that a disproportionate number of unbanked consumers are concentrated within the African-American community.

4. Investment portfolio preferences within African-American households

It is clear from the statistical information presented here and from a review of the recent academic literature that differences between African-American and Caucasian households in terms of financial services ownership patterns and wealth-accumulating asset portfolios are broad and substantive. In particular, Black households control smaller asset portfolios than their White counterparts. This conclusion persists when controlling for income, age, and education attainment differences between the two racial groups. In addition, Black financial portfolios reflect a clear preference for near-term savings, such as savings for a planned consumer purchase or savings for a college education, at the expense of distant-term savings, such as retirement saving. Given this preference, African-American retirement account balances are significantly smaller than the average retirement savings balance observed across Caucasian households.

Consistent with a preference for near-term savings, Black households value liquidity more than their White counterparts, showing a greater relative inclination to hold cash and cash-equivalent assets while foregoing less liquid assets offering higher rates of return. This

liquidity preference occurs across all but the lowest income strata. As income levels increase, commercial bank patronage patterns across Black and White consumer groups become quite similar, while divergent patronage patterns characterize the lowest income category. Within low-income households, Caucasians are far more likely than African-Americans to maintain conventional demand and time deposit account relationships with commercial banks.

At all income, education, and age levels, however, African-American households invest a smaller percentage of their portfolios in the form of mutual funds, brokerage accounts, and outright equity purchases than Caucasian households. In addition, Black households demonstrate a distinct preference for safety and security in their investment preferences, favoring life insurance and real estate assets over corporate debt and equity securities across all levels of household income and educational attainment.

In most African-American households, life insurance represents the single-most important financial investment. Life insurance participation rates for Black families exceed those of White families across all income categories. Moreover, for middle- and upper middle-class households, the reported value of life insurance holdings across Black families exceeds the corresponding value of White households' holdings. This result is particularly noteworthy in light of the large body of academic literature that reports the absolute value of household wealth across African-American households to be significantly below the corresponding value in Caucasian households. In relation to total household wealth, it is clear that life insurance holdings represent a far more dominant financial asset in Black households than in White households.

Turning to non-financial investment assets, the market value of real property owned by Black families—including owner-occupied residential real estate, vacation property, and other nonvacation property—lies substantially below the corresponding property valuation levels reported by White households. Similar to the pattern observed for financial asset holdings across the two racial groups, this real estate valuation gap persists when controlling for income, age, and educational attainment differences between the two groups. In addition, Black households report greater mortgage indebtedness than their White counterparts, particularly with respect to owner-occupied residential property. African-American families also wait until later in life, typically between the ages of 45 and 54, to acquire residential real estate. In contrast, Caucasian households display a major surge in residential property ownership rates after age 35.

In combination, these findings suggest a troubling investment pattern in which African-American households underinvest in financial asset categories offering relatively high returns, such as common stock, mutual funds, corporate bonds, and municipal bonds, because they perceive that these securities carry unacceptable investment risks and offer diminished liquidity. At the same time, African-American households overinvest, in relative terms, in highly liquid financial assets offering heightened liquidity only in exchange for relatively lower rates of return over shorter investment periods. As a consequence, these households forego the benefits of financial compounding over a lengthy investment horizon at the higher annualized rates of return associated with debt and equity investments. Finally, African-American households emphasize the notion of intergenerational wealth transfer over the lifetime accumulation of wealth as the dominant goal of investment strategy. This is reflected in a preference across Black households for insurance-based contractual financial arrange-

ments that monetize upon the death of the investor, at the expense of investment-based financial asset purchases that build value over the investor's life span. Collectively, these investment strategies result in a diminished rate of wealth accumulation over time, and a smaller stock of total accumulated wealth at any given point in time, within African-American households.

5. Summary and recommendations

This paper has shown that the African-American market for financial services has grown rapidly in size and importance. This growth represents a major opportunity for the marketers of financial services, because statistical evidence indicates that the financial asset profiles of Black households trail those of their White counterparts in terms of breadth and depth of holdings, particularly in the area of relatively risky, high yield financial assets. Moreover, the paper has shown that the African-American segment of the market demonstrates some unique attitudes and preferences that impact purchase decision patterns. To respond to the opportunity to serve the needs of this emerging segment of the market, this paper shows that it is important for financial service providers to be aware that investment preferences and asset accumulation patterns differ across different racial groups. Examined from this perspective, the paper provides financial planners seeking to serve the African-American community with information to understand the community, tailor investment information to the unique needs of this community, and interact with this community to render effective service to the families and individuals who comprise this attractive and growing segment of the financial services marketplace.

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