FINRA Investor Education Foundation | NORC at the University of Chicago

Consumer Insights: Money & Investing

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What's inside

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African-American and Hispanic/Latino Responses to Pandemic-Related Volatility in the Stock Market

Market involvement and investment knowledge associated with increased interest in investing for African-Americans and Hispanic/Latino Americans.

Summary

While the COVID-19 pandemic and the associated market volatility have far-reaching consequences for many Americans, research indicates that there may be differential effects among African-American and Hispanic/Latino communities. Disproportionately higher rates of COVID-19 infection, a greater proportion of workers employed in the severely impacted service and hospitality industries, and overall lower levels of wealth may have contributed to the negative consequences of the market conditions affecting communities of color in the first half of 2020.

To understand these events, the FINRA Investor Education Foundation and NORC at the University of Chicago surveyed 1,718 African-American, Hispanic/Latino and white households from NORC's probability-based AmeriSpeak Panel©.[1] The survey was fielded between May 29, 2020 and June 16, 2020.

Respondents were grouped into one of three categories:

- Non-investors, who had no investments in the stock market or accounts (30 percent);
- Retirement-only investors, who held investments in retirement accounts but no other types of accounts (28 percent); and
- Taxable account investors, who held investments in non-retirement accounts (and may have also held investments in retirement accounts) (42 percent).

1. This study limits analysis to African-American, Hispanic/Latino and white respondents. African-American and Hispanic/Latino panelists were oversampled to obtain adequate data for analysis. Please also see the companion report, *The Impact of Pandemic-Related Volatility on Stock Market Expectations and Participation*.

Results of this study indicate that both African-American and Hispanic/Latino respondents were less aware of the pandemic-related market volatility, regardless of investor status or investment knowledge. While expectations related to market recovery were generally optimistic among white respondents, Hispanic/Latino and African-American respondents indicated less optimistic recovery timelines and more uncertainty around how the stock market generally, and their personal portfolio values, might recover. Despite this pessimism, African-American and Hispanic/Latino investors with taxable accounts and those with high investment knowledge were twice as likely as white respondents to report increased interest in investing in the wake of pandemic-related market volatility. African-American, Hispanic/Latino and white respondents did not differ in whether they thought U.S. financial markets were fair to the average investor, although perceptions of market fairness were low among all respondents.

Background

Investment behavior differences among African-American, Hispanic/Latino and white consumers are well researched. In general, African-American and Hispanic/Latino individuals own stock less frequently than white individuals (Fontes & Kelly, 2013; Gutter & Fontes, 2006). These differences are likely due to differences in demographic and financial characteristics (Hanna, Wang & Yuh, 2010), but are also potentially related to differences in financial attitudes, such as risk tolerance (Yao, Gutter & Hanna, 2005).

Less understood are potential differences in how African-American, Hispanic/Latino and white consumers may react to market volatility. While the scale and velocity of market disruption resulting from the COVID-19 pandemic in the first half of 2020 were remarkable, extreme market fluctuations are not new. Research on the 2008/09 financial crisis indicates that investor perceptions—including willingness to take risk and expectations for returns—were impacted early in the crisis, but changes in perceptions abated over time (Hoffman, Post & Pennings, 2012). And research on individual investor reactions to Black Monday in 1987 supports the idea that market volatility impacts investors' perceptions, but has less impact on changes in holdings (Shiller, 1987). However, these studies did not look at differences based on race or ethnicity, or seek to understand how non-investors react to market fluctuations.

Given the unique events of early 2020, the current study seeks to understand reaction to pandemic-related stock market volatility among African-American, Hispanic/Latino and white households with and without investment accounts.

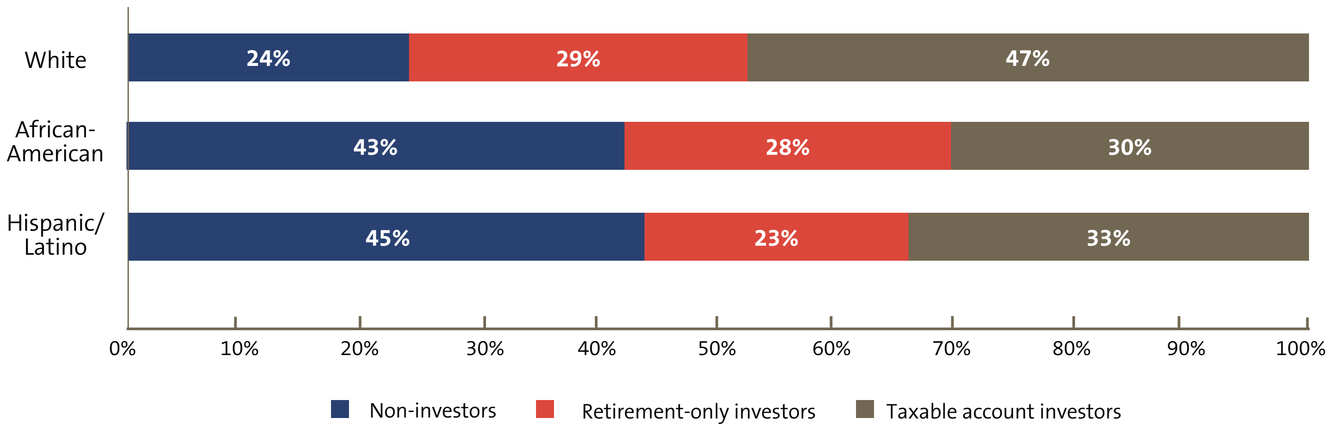
Differences in Investor Status and Investment Knowledge

In examining differences in response to market volatility based on race and ethnicity, it is important to understand how general investment behavior and investment knowledge may differ among these groups.

Investor Status

Consistent with previous literature examining stock market participation and race/ethnicity, white respondents more frequently owned both retirement and taxable accounts compared to African-American and Hispanic/Latino respondents (Fontes & Kelly, 2013; Gutter & Fontes, 2006). White investors indicated they held retirement accounts outside of an employer account far more frequently than African-American or Hispanic/Latino investors, but differences were smaller when comparing non-retirement taxable accounts. Figure 1 presents the proportion of respondents in each of three categories—non-investors, retirement-only investors and investors with taxable accounts—by race/ethnicity. Note that investors with taxable investment accounts frequently also hold retirement accounts.

Figure 1: Investment Status by Race and Ethnicity



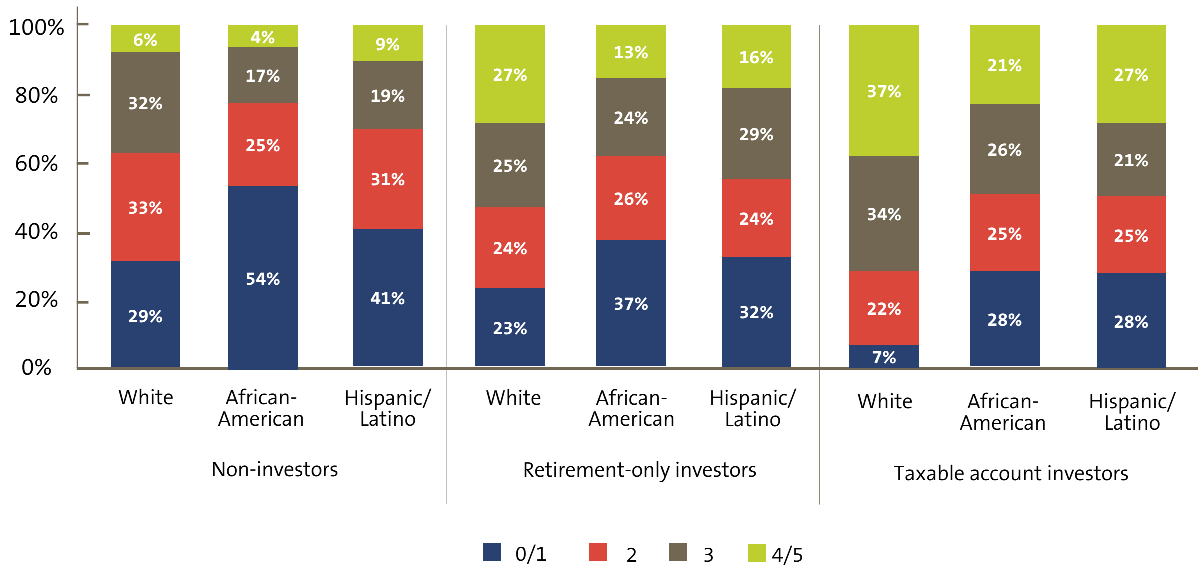
Investment Knowledge

The survey asked five questions related to investment knowledge. These questions addressed basic topics such as portfolio diversification and the relationship between investment risk and return. From these questions, a five-point index was created to measure investment knowledge, with each correct response worth one point.

Consistent with previous research on general financial knowledge (Lusardi & Mitchell, 2011), there were profound differences in investment knowledge scores when accounting for race and ethnicity. African-American and Hispanic/Latino respondents scored dramatically lower on the investment knowledge measure. While 17 percent of white respondents answered zero or one question correctly (scores of 0 and 1), 35 percent of Hispanic/Latino respondents scored 0/1, and 41 percent of African-American respondents scored 0/1. It should be noted that differences in investment knowledge are likely closely tied to contextual factors, such as the lack of wealth to invest, among African-American and Hispanic/Latino households (Hamilton & Darity, 2017).

These differences persisted when investor categories were examined. Hispanic/Latino and African-American non-investors, retirement-only investors and taxable account investors all had lower investment knowledge scores compared to their white counterparts in each category. The largest disparity in investment knowledge was among taxable account investors: Only 7 percent of white investors scored in the 0/1 range, but 28 percent of African-American and Hispanic/Latino investors scored in this range.

Figure 2: Investment Knowledge by Race and Ethnicity, by Investor Status



These results indicate differences in fundamental knowledge that may assist investors in making sound investment decisions. Given that investing is a critical component of long-term financial well-being, this finding is concerning. As described in the following sections, disparities in investment knowledge appear to be a factor in how surveyed individuals responded to the pandemic-related market volatility in early 2020.

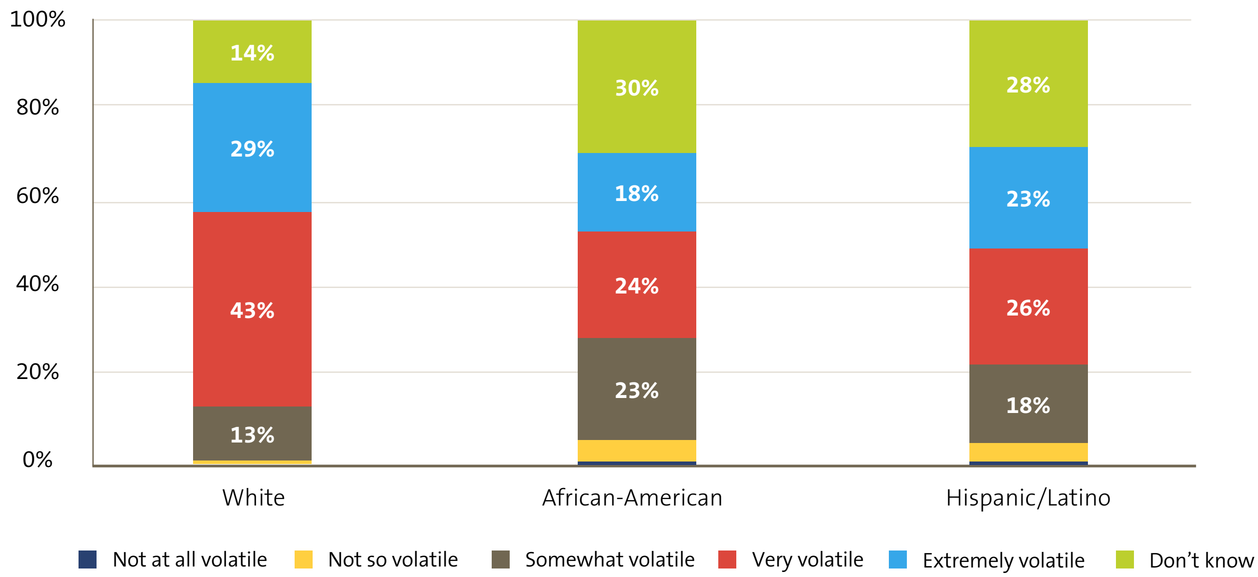
Awareness of the Recent Market Volatility

African-American and Hispanic/Latino respondents followed the stock market less frequently than white respondents. However, these differences appeared to be almost entirely driven by investor status. When African-American, Hispanic/Latino and white respondents in the same investor categories were examined, no significant differences were detected.

Awareness of market volatility varied dramatically among race/ethnicity groups. Almost three-quarters (72 percent) of white respondents indicated the market had been extremely or very volatile during the first part of 2020, but only 42 percent of African-American and 49 percent of Hispanic/Latino households characterized the market during this time as highly volatile. Unlike reports of following the stock market, these differences did not abate when investor types and investment knowledge were examined; significant differences remained when looking at investors and non-investors separately, and when looking at respondents with different levels of investment knowledge.

Figure 3: Awareness of Market Volatility by Race and Ethnicity

How would you characterize the stock market since the beginning of 2020?



White investors more frequently reported decreases to the value of their investments compared to African-American or Hispanic/Latino respondents. Almost 60 percent of white investors reported their portfolios had "somewhat" or "substantially" decreased, while only 49 percent of African-American and 39 percent of Hispanic/Latino investors reported a decrease. This difference appeared to be driven by investors with taxable accounts, as retirement-only investors indicated similar decreases regardless of race/ethnicity. This finding may be related to African-American and particularly Hispanic/Latino taxable investors owning more conservative portfolios, or may reflect less awareness of volatility.

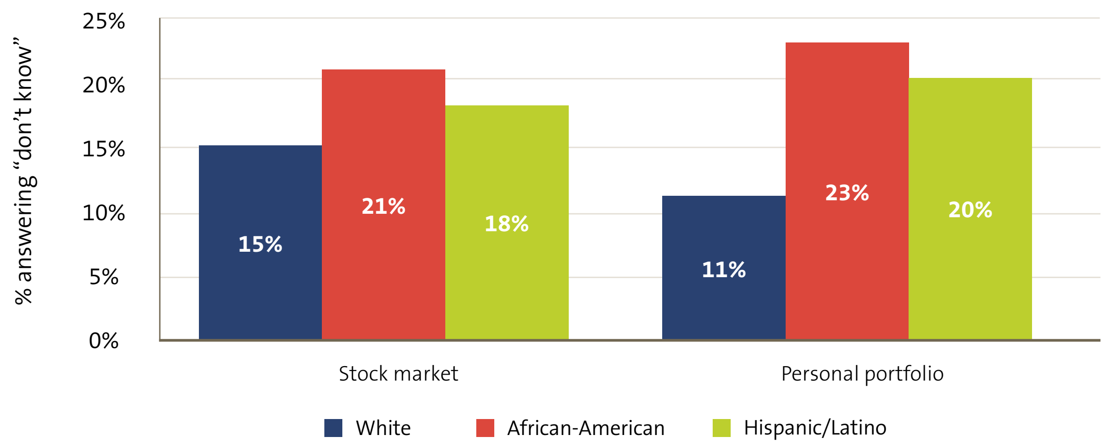
More Pessimistic Market Expectations and Increased Uncertainty

Although African-American and Hispanic/Latino investors reported that their personal portfolios had not been as negatively impacted as white investors during the period under consideration, these groups were less optimistic about the stock market. Thirty-five percent of African-American respondents expected the market to increase in the next year, compared to 41 percent of Hispanic/Latino respondents and 52 percent of white respondents. Similarly, African-American and Hispanic/Latino investors (retirement-only and taxable account) were more pessimistic about how their personal investments would perform over the next 12 months. Almost twice as many African-American and Hispanic/Latino investors (both 10 percent) reported they believed their investments would do worse than the stock market as a whole, compared to white investors (6 percent). Differences based on race and ethnicity persisted when comparing those with similar investment knowledge scores.

There was a striking difference in the expectations respondents had for the overall stock market as well as for their personal portfolios over the next 12 months. When asked how the stock market would perform over the next 12 months, African-American and Hispanic/Latino respondents selected “don’t know” more frequently (21 and 18 percent, respectively) than white respondents (15 percent). However, compared to white investors (11 percent), more than twice as many African-American investors (23 percent) and nearly twice as many Hispanic-Latino investors (20 percent) indicated they “didn’t know” when asked how well they expected their portfolios would perform in the coming year. It may well be that African-American and Hispanic/Latino investors felt a greater sense of uncertainty about the direction of the markets amidst the pandemic.

Figure 4: Percent Indicating “Don’t Know” When Asked About Stock Market and Portfolio Expectations

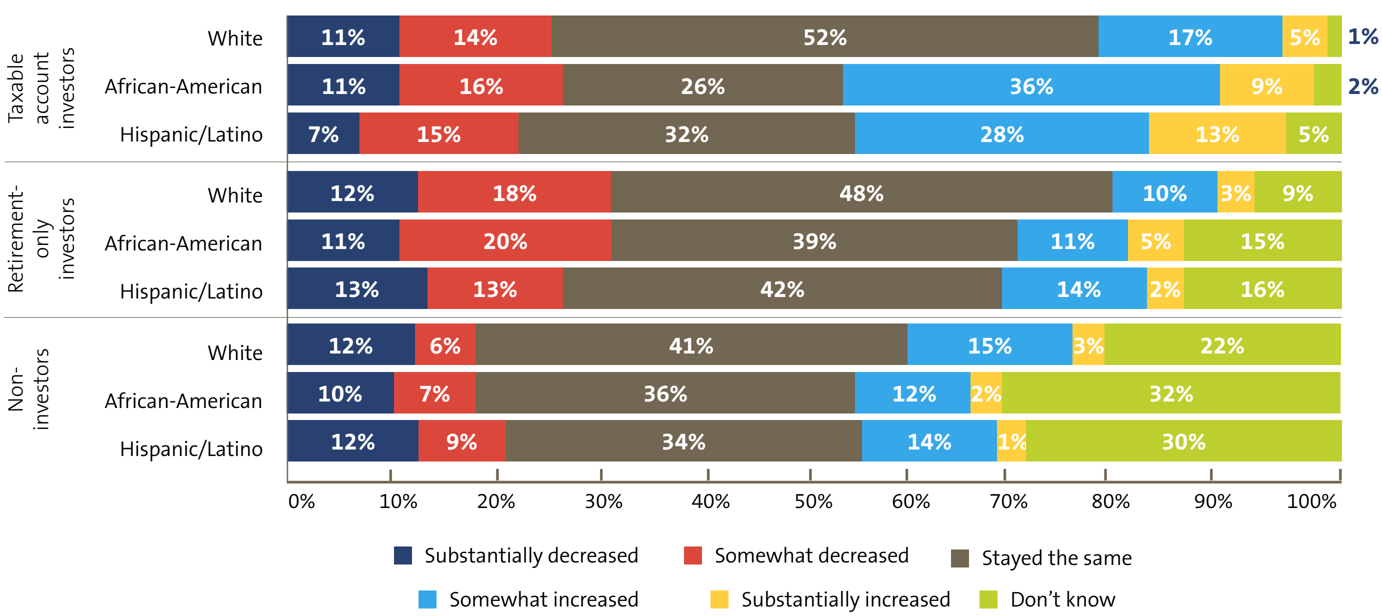
Over the next 12 months, how well do you expect the stock market/your personal portfolio to perform?



Increased Interest in Investing Among Those Already Invested and Those with High Investment Knowledge

While the negative stock market returns in the first quarter of 2020 impacted many investors, interest in investing remained high. Although falling stock prices may lower the value of investments for those already invested in the market, it may provide attractive buying opportunities. When asked whether their interest in investing in the stock market had increased, decreased or remained the same, responses were similar for non-investors and retirement-only investors of all race/ethnicity groups. Taxable account investors, however, expressed the greatest increased interest in investing in general, with dramatic difference between race/ethnicity groups. Among households with taxable accounts, 22 percent of white investors indicated increased interest in investing, compared to 45 percent of African-American and 41 percent of Hispanic/Latino taxable account investors. Looking within investment knowledge categories a similar pattern was evident; while no differences based on race or ethnicity were evident for respondents with lower levels of investment knowledge, African-American (31 percent) and Hispanic/Latino (28 percent) respondents in the highest investment knowledge category reported increased interest at twice the rate of white respondents (14 percent).

Figure 5: Changes in Interest in Investing by Race and Ethnicity, by Investor Status



There were also differences among race/ethnicity groups when asked whether now is a good or a bad time to invest, but these appear to be driven by investor status. African-American and Hispanic/Latino retirement-only investors more frequently indicated now is a bad time to invest (both 33 percent) compared to white retirement-only investors (20 percent), but there were no differences based on race or ethnicity among non-investors or taxable account investors.

Limited Pandemic-Related Trading Activity

Race/ethnicity groups were remarkably consistent in the proportion of investors (retirement-only and taxable account) who bought investments during the first half of 2020, but there was variation in the proportion of investors who sold. More Hispanic/Latino investors sold investments (24 percent) compared with either white investors (19 percent) or African-American investors (15 percent). Additionally, among investors (retirement-only and taxable account) who merely considered either buying or selling investments, fewer Hispanic/Latino investors indicated they had considered buying investments in the first half of 2020 (29 percent) compared to either African-American or white investors (both 34 percent). To some extent, this may reflect the disproportionate impact of the COVID-19 pandemic on employment, specifically for Hispanic/Latino respondents; while only 4 percent of white respondents indicated they had experienced a COVID-19-related employment disruption, 10 percent of African-American and 18 percent of Hispanic/Latino respondents indicated they had been either permanently or temporarily laid-off as a result of the pandemic.

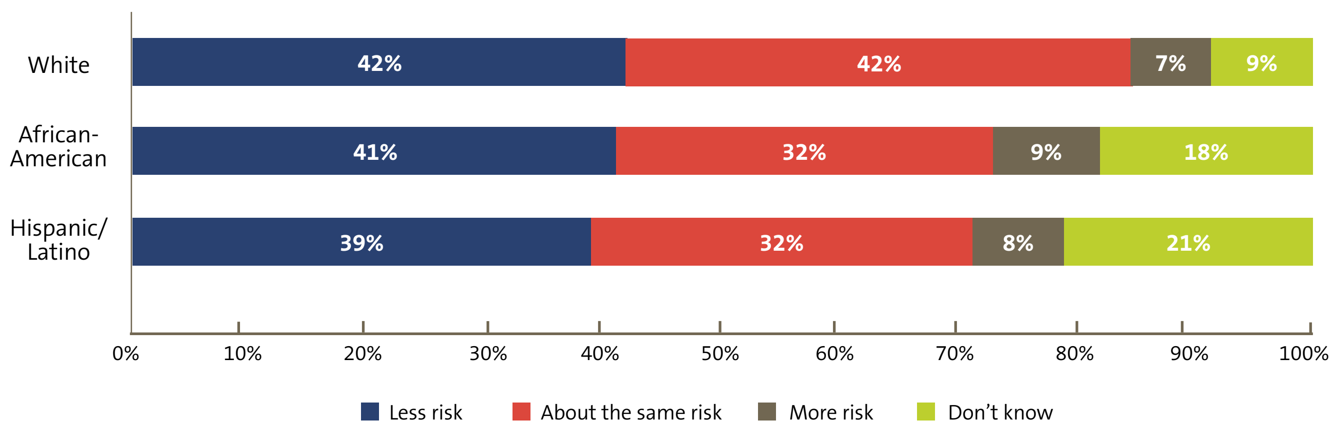
Other Responses to Market Volatility

Risk Tolerance

When asked if they were willing to take more, less or about the same financial risks as before the market volatility in early 2020, roughly equal proportions of respondents in each race/ethnicity group indicated they were willing to take either more or less risk. This subjective measure indicated the extent to which respondents believed their willingness to take risk had changed.

Figure 6: Subjective Change in Willingness to Take Risk, by Race and Ethnicity

Willingness to take risk given the stock market volatility since the beginning of 2020



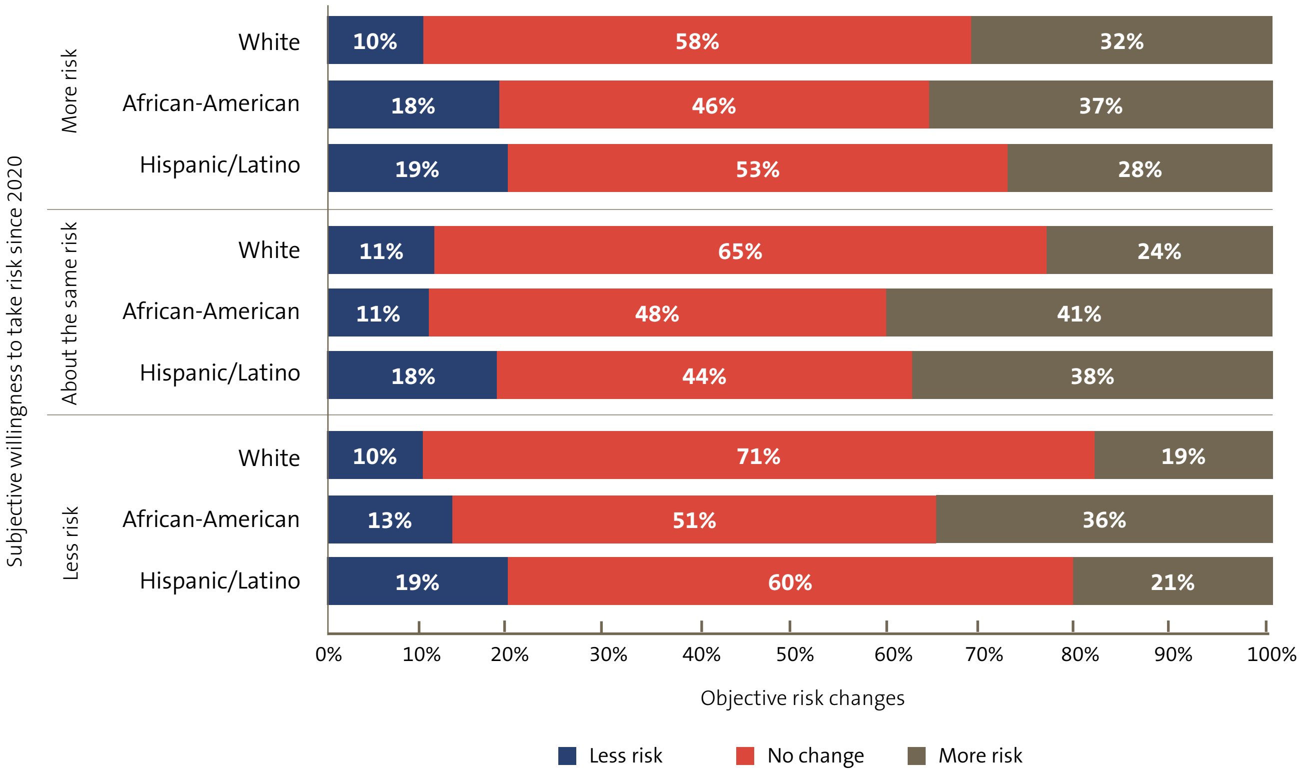
Similar to the findings on market expectations, there were striking differences in the proportion of respondents who indicated they "didn't know" if they were more or less willing to take risk as a result of the recent volatility. While only 9 percent of white households selected "don't know," 18 percent of African-American and 21 percent of Hispanic/Latino households provided a "don't know" response.

To determine objective changes in risk tolerance, we compared responses to a four-item risk-tolerance assessment from the Survey of Consumer Finances collected from study participants in 2018 and 2019 with responses collected in the current survey. Negative scores indicate a decreased willingness to take risk, and positive numbers indicate an increased willingness to take risk, with larger numbers representing a greater difference between 2018/2019 and 2020. For example, a respondent who indicated willingness to take average risk (3) in 2018/2019 and no financial risk (4) in 2020 would receive a score of -1.

In a subjective assessment of risk tolerance (Figure 6 above), a small and roughly equal proportion of respondents in each race/ethnicity group indicated they were willing to take more financial risk than before the pandemic (between 7 percent and 9 percent). However, a more objective assessment of risk tolerance indicates that between 22 and 37 percent of all respondents reported a greater level of willingness to take financial risk in 2020 compared to prior years. This difference between subjective, or self-reported, change in willingness to take risk and objective change in the risk tolerance measure was most profound among African-American respondents. Although only 9 percent of African-American respondents self-reported increased willingness to take financial risk, 37 percent exhibited increased willingness to take risk according to our more objective assessment.

Figure 7: Subjective and Objective Changes in Willingness to Take Risk, by Race and Ethnicity

Perceived (subjective) vs. real (objective) changes in willingness to take risk since the beginning of 2020



Perceptions of Fairness

Respondents were asked how confident they were that U.S. financial markets were fair to the average investor. Overall, only 11 percent of respondents were either very or somewhat confident. Only non-significant differences were apparent when African-American, Hispanic/Latino and white respondents were compared. Differences by race and ethnicity were surprisingly minimal, even when comparing within investor and investment knowledge categories, and among respondents who had been substantially impacted by pandemic-related market volatility and those who had not.

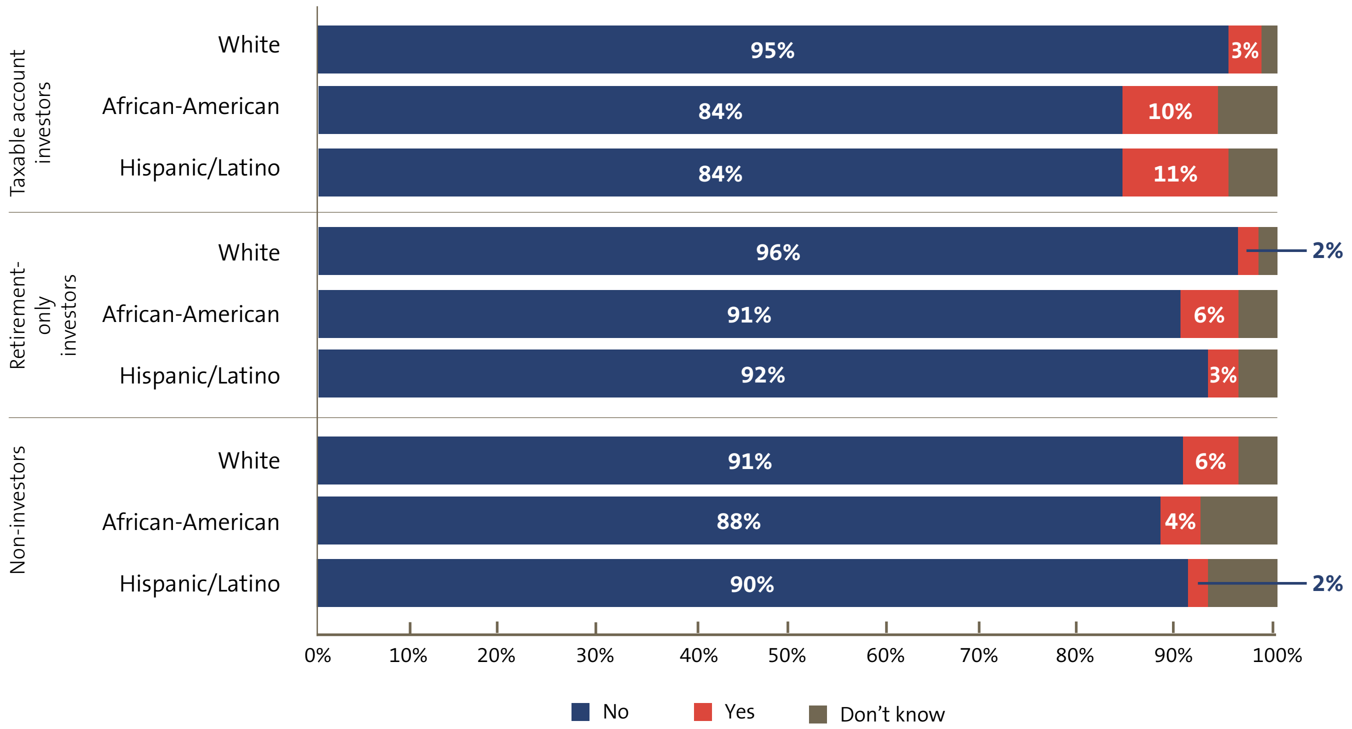
Prevalence of Fraud

While fraudulent investment pitches have been reported in the media[2] only a small proportion (4 percent) of our study respondents indicated they had received an unsolicited offer to participate in an investment "guaranteed" to perform well as a result of the COVID-19 pandemic. Fraudulent investments were pitched more often to Hispanic/Latino (5 percent) and African-American (6 percent) respondents compared to white respondents (3 percent). These differences were primarily among taxable account investors; while 3 percent of white taxable account investors reported such offers, 10 percent of African-American and 11 percent of Hispanic/Latino taxable account investors reported these offers.

2. *https://www.justice.gov/coronavirus/combattingfraud*

Figure 8: Prevalence of Suspected Fraud by Race and Ethnicity, by Investment Status

Have you received an unsolicited offer to participate in an investment that is guaranteed to perform well as a result of COVID-19?



Conclusion

The COVID-19 pandemic and associated market volatility have had far-reaching effects on the financial well-being of many households. To investigate recent events, the FINRA Foundation and NORC at the University of Chicago conducted a study with a nationally representative sample of U.S. households, including oversamples of African-American and Hispanic/Latino respondents.

Consistent with previous research into investment behavior, African-American and Hispanic/Latino respondents less frequently reported holding retirement and non-retirement investments compared to white respondents. Given the smaller proportion of African-American and Hispanic/Latino investors, the lower levels of market volatility awareness are not surprising. However, that these differences in awareness among race/ethnicity groups persist when looking at investors and non-investors independently suggests the differences are not based solely on perceived impact or salience among investors. Additional research is needed to understand what other factors may be impacting investment behavior among African-American and Hispanic/Latino Americans.

The substantially lower levels of investment knowledge among African-American and Hispanic/Latino respondents are also consistent with previous research, and may have considerable implications for how African-Americans and Hispanics/Latinos respond to market volatility. These differences in investment knowledge are likely related to longstanding, systemic inequities in access to investment education and financial services, as well as more limited participation in the markets due to differences in household income and overall financial well-being. That said, one finding stands out among African-American and Hispanic/Latino individuals with very high investment knowledge: In the wake of market volatility precipitated by the pandemic, there is a dramatic increase in interest in investing.

Finally, although African-American and Hispanic/Latino investors reported less negative impact to the value of their investments, these groups indicated less optimistic recovery timelines and more uncertainty around how the stock market generally, and their personal portfolio values in particular, might recover. This relative pessimism does not appear to be related to perceived unfairness in financial markets, as African-American, Hispanic/Latino and white respondents did not differ in whether they thought U.S. financial markets were fair to the average investor.

While this report provides a specific discussion of differences by race and ethnicity in reactions to market volatility associated with the COVID-19 pandemic, a companion report, *The Impact of Pandemic-Related Volatility on Stock Market Expectations and Participation*, provides a broad overview of this topic.

Appendices

Demographic Characteristics of the Sample by Race and Ethnicity

Characteristic	Total	White	African-American	Hispanic/Latino
Gender (%)				
Male	51%	53%	45%	46%
Female	49%	48%	55%	54%
Age (mean; SD)	**50 (16.75)**	**52 (22.40)**	**47 (10.34)**	**44 (11.28)**
Investor (%)				
Non-investor	64%	24%	43%	45%
Retirement-only	16%	29%	28%	23%
Taxable account	12%	47%	30%	33%
Education (%)				
No HS diploma	7%	4%	8%	22%
HS grad/GED	23%	21%	32%	32%
Some college	30%	31%	32%	26%
BA or above	40%	44%	29%	20%
Income (%)				
Less than $35,000	26%	20%	47%	40%
$35,000–$59,999	22%	24%	21%	20%
$60,000–$99,999	29%	31%	20%	27%
$100,000 or more	23%	25%	12%	13%
Region (%)				
Northeast	18%	19%	15%	14%
Midwest	20%	25%	14%	9%
South	37%	33%	63%	37%
West	25%	23%	8%	39%
Metro (%)				
Non-metro area	17%	21%	9%	8%
Metro area	84%	79%	91%	92%
Housing (%)				
Homeowner	70%	78%	44%	59%
Renter	28%	20%	52%	39%
Other	2%	2%	4%	3%

About the Data

This study uses data collected between May 29, 2020 and June 16, 2020 using the AmeriSpeak® Panel. Funded and operated by NORC at the University of Chicago, AmeriSpeak is a probability-based panel designed to be representative of the U.S. household population. Randomly selected U.S. households are sampled using area probability and address-based sampling, with a known, non-zero probability of selection from the NORC National Sample Frame. These sampled households are then contacted by U.S. mail, telephone and field interviewers (face to face). The panel provides sample coverage of approximately 97 percent of the U.S. household population. Those excluded from the sample include people with P.O. Box only addresses, some addresses not listed in the USPS Delivery Sequence File and some newly constructed dwellings. While most AmeriSpeak households participate in surveys by web, non-internet households can participate in AmeriSpeak surveys by telephone. Households without conventional internet access but having web access via smartphones are allowed to participate in AmeriSpeak surveys by web. AmeriSpeak panelists participate in NORC studies or studies conducted by NORC on behalf of governmental agencies, academic researchers, and media and commercial organizations.

1,795 U.S. adults ages 18 and older participated in the study, including oversamples of African-American and Hispanic/Latino households. The study was fielded in English only, and was administered online. Individuals were considered eligible for the study if they were either the primary decision-maker or shared in the decision-making related to finances in the household, and completed a set of screening questions that classified them as investors (retirement-only or taxable account) or non-investors. The screener completion rate was 47.5 percent. 80.5 percent of screened respondents were eligible for the study, and 98.9 percent of eligible respondents completed the survey. The final AAPOR response rate (RR3) for the study was 9.4 percent, and the margin of error was 3.37 percentage points.

Weighting

Statistical weights for the study-eligible respondents were calculated using panel-base sampling weights to start. The base sampling weights are further adjusted to account for unknown eligibility and nonresponse among eligible housing units. The household-level nonresponse adjusted weights are then post-stratified to external counts for number of households obtained from the Current Population Survey. Then, these household-level post-stratified weights are assigned to each eligible adult in every recruited household. Furthermore, a person-level nonresponse adjustment accounts for nonresponding adults within a recruited household. Finally, panel weights are raked to external population totals associated with age, sex, education, race/Hispanic ethnicity, housing tenure, telephone status and Census Division. The external population totals are obtained from the Current Population Survey. Study-specific base sampling weights are derived using a combination of the final panel weight and the probability of selection associated with the sampled panel member. The screener nonresponse adjusted weights for the study are adjusted via a raking ratio method to general population age 18 and older population totals associated with the following socio-demographic characteristics: age, sex, education, race/Hispanic ethnicity and Census Division.

About FINRA and the FINRA Foundation

The Financial Industry Regulatory Authority (FINRA) is a not-for-profit organization dedicated to investor protection and market integrity. It regulates one critical part of the securities industry—brokerage firms doing business with the public in the United States. FINRA, overseen by the Securities and Exchange Commission, writes rules, examines for and enforces compliance with FINRA rules and federal securities laws, registers broker-dealer personnel and offers them education and training, and informs the investing public. In addition, FINRA provides surveillance and other regulatory services for equities and options markets, as well as trade reporting and other industry utilities. FINRA also administers a dispute resolution forum for investors and brokerage firms and their registered employees. For more information, visit *www.finra.org*.

The FINRA Investor Education Foundation supports innovative research and educational projects that give underserved Americans the knowledge, skills and tools to make sound financial decisions throughout life. For more information about FINRA Foundation initiatives, visit *www.finrafoundation.org*.

About NORC at the University of Chicago

NORC at the University of Chicago is an independent research institution that delivers reliable data and rigorous analysis to guide critical programmatic, business and policy decisions. Since 1941, NORC has conducted groundbreaking studies, created and applied innovative methods and tools, and advanced principles of scientific integrity and collaboration. Today, government, corporate and nonprofit clients around the world partner with NORC to transform increasingly complex information into useful knowledge.

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