



Empowering New Black, Hispanic, and Latinx Investors Earning LMI:

A Case Study with a Self-Directed Investing Platform

Introduction

In today's economic landscape, the United States grapples with significant wealth disparities, particularly across racial demographics. These inequities present critical challenges for individuals with low to moderate incomes (LMI), especially Black, Hispanic, and Latinx investors.

According to a 2024 survey conducted by the Federal Reserve, the significant disparities in wealth across racial lines are starkly evident. The median and mean wealth of Black families are less than 15% of that of white families, amounting to \$24,100 and \$142,500, respectively. Similarly, Hispanic families reported median and mean wealth figures of \$36,100 and \$165,500, respectively.

Access to capital markets is a key avenue for wealth-building. To help address gender, race, and ethnic wealth disparities, it's imperative to delve deeply into the challenges faced by millions of households with LMI as they [navigate capital markets](#). By pinpointing and surmounting these obstacles, we can open pathways to more accessible wealth-building opportunities through investing.



Challenge

Further understand how to improve accessibility and inclusivity with self-directed investing for new investors earning LMI, especially Black, Hispanic, and Latinx individuals.



Approach

Leveraged Commonwealth's [project method](#) and previous [research on addressing barriers to inclusive investing](#) to gain insights into investors' experiences with self-directed investing.



Outcomes

Specific research-backed recommendations on areas that build accessibility, including a free investing platform, cash incentives, enhanced education, streamlined UX, and fractional shares.

About the Case Study

Commonwealth sought to further understand the experiences of Black, Hispanic, and Latinx investors in a six-month study through observational field research with a self-directed investing platform. This project involved 472 participants, focusing particularly on households earning LMI (under \$80,000). Participants were given seed funding, created accounts on the self-directed investing platform, and participated in surveys and interviews about their experiences. They self-reported their experience with investing, with the majority saying they were first-time investors.

These learnings are relevant to all investing platforms seeking to expand their investing communities and improve access for people earning LMI.



The Challenge

Long-term wealth accumulation in the U.S. is supported by sustained access to capital markets. However, many households earning LMI led by [Black, Hispanic, and Latinx individuals face significant financial insecurity](#) for a myriad of reasons, including systemic racism and wage stagnation. Addressing the root causes of racial disparities in investment opportunities and accessibility is vital in narrowing the racial wealth divide. Free investing platforms are instrumental in democratizing access to investing by creating accessible platforms and equipping people earning LMI with the tools to embark on their financial journey.

However, participation in capital markets remains disproportionately low among these households living on LMI. Furthermore, there is a wide disparity in investments by race, with Black investors holding only 1.1% of stocks (\$450 billion) and Hispanic/Latinx investors holding 0.4% of stocks (\$162 billion) compared to 89.5% (\$36 trillion) owned by white households. Bridging these gaps is essential for addressing racial wealth disparities and fostering widespread financial stability and wealth building.

Opportunity for Investors and Providers

The investing industry must evolve to be more inclusive and make it easier for the growing population of Black, Hispanic, and Latinx investors to participate. During the pandemic, a [surge of new investors entered capital](#)

[markets that skewed younger and more racially diverse](#) compared to traditional investors. Investing companies and platforms that continue to attract and retain these new investors stand to create long-lasting customer relationships and expand market share.

Prior findings from [Commonwealth's research](#) show a significant opportunity for investing platforms to tap into the latent interest in investing among Black, Hispanic, and Latinx households, particularly among women. Data insights reveal a strong desire to engage in investment activities, especially among Black and Latinx investors, with interest levels reaching as high as 78% and 72%, respectively. However, there remains a considerable gap between interest and actual participation, with less than 40% of LMI working women actively investing in capital markets. This presents a critical challenge and opportunity for investment platforms to bridge this gap and cater to the investment needs and aspirations of underserved communities, particularly Black and Latinx women.

The financial industry has a pivotal role in examining and improving user experience and utilizing inclusive design to better accommodate new investors earning LMI. Fintechs and investment platforms occupy crucial positions in retaining and attracting new investors, thereby reshaping the broader financial landscape.

The Approach

In this case study, 472 participants received seed funding to begin their investment journey on the self-directed investing platform. Over a six-month period, we conducted three check-in surveys, in-depth interviews, and reviewed platform data to understand investors' experience on the platform.

The participant demographic was primarily Black (53.7%), followed by Hispanic/Latinx (29%), and white (17.7%), with a small number opting not to disclose their

race. The research cohort was predominantly comprised of individuals with a combined household income of less than \$50,000, accounting for over three-fourths (75.1%) of the research population. Women represented a majority with 55.7%, while men made up 42.4%. The group was composed mainly of younger to middle-aged adults, with 36.9% between 18-34 years old and 55.7% falling within the 35-54 age bracket; only a small fraction, 7.2%, were 55 years old or older.



The Outcomes

We found that resource accessibility, education, and simplified platform experiences are crucial for reducing barriers to investing for Black, Hispanic, and Latinx individuals living on LMI. This study also highlighted the significant benefits that new investors gain from robust support and ample learning opportunities at the outset of their investment journey. Moreover, providing seed funding proved to be an effective approach to incentivize

beginner investors to get started. A known barrier to investing is the belief that one needs a lot of money to get started, as found in previous research. Seed funding and cash offers help address that perceived barrier. Additionally, participants expressed a need for fractional shares as an accessible way to purchase equities.

1 Seed Funding Offers Black, Hispanic, and Latinx Investors Earning LMI an Accessible Pathway for Initial Entry Into the Capital Market

Seed funding or cash incentives can provide new investors with the initial capital for investment exploration and activity in the early stages of an investor journey. Our research tested two seed funding levels, \$250 and \$350. Specifically, 239 participants received \$250 in seed funding, while 233 participants received \$350. **When comparing the two groups, we found that while investors valued seed funding, the level of funding did not have a significant impact on their investing interest.** Both groups exhibited similar levels of engagement and attrition, highlighting the necessity for further research to understand what amount of seed funding is optimal. The feedback from participants, coupled with quantitative data, paint a comprehensive picture of the impact of seed funding, highlighting strengths and areas for further enhancement of seed funding as a tool for platforms.

FINDINGS

- A substantial majority, **nearly 70% of participants out of 379 respondents, believed that the seed funding provided was sufficient to kickstart their investing journey.** This finding is consistent with prior Commonwealth research where 80% of survey respondents living on LMI said, “Without the \$250 in seed money, I would not have been able to start investing.” This suggests that early financial support plays a critical role in overcoming the initial barriers to entry for Black, Hispanic, and Latinx

investors, providing them with a crucial foundation to explore investment opportunities.

- **74% of participants utilized the seed funding to either initiate or increase their investments.** This high percentage shows the effectiveness of seed funding in encouraging participants to actively engage in the investment process, demonstrating its role in starting and scaling investment endeavors. This finding is also consistent with [previous Commonwealth research](#) demonstrating that seed funding can lead investors to deposit their own funds and continue their investing journey. In prior research, 90% of participants expressed their interest in continuing to invest independently after that study concluded, with 25% already supplementing the seed funding provided with their own funds. In this case study with the self-directed investing platform, over half of the participants did not withdraw any funds, and 12% added personal funds. This led to balances settling down a few months post-initial seed funding. The total ending balance for all participants was just over \$110,000 as the case study finished. Over half of the participants **(64%) indicated that the seed funding allowed them to select their choice of investments.** This autonomy is vital, as it allows investors to make decisions that align with their investment strategies, risk tolerance, and financial

“I have always been interested in investing. I just don’t have a lot of disposable income to do that right now because I’m raising children, and they’re expensive. So I jumped at the opportunity because it was somebody else’s money. I got to play around with somebody else’s money to learn, educate myself.”

goals, thereby enhancing their engagement and potential for success in the investment landscape.

- **45% of participants expressed that having the option to purchase fractional shares would have further facilitated their ability to place their first trade.** This is consistent with previous Commonwealth research showing that fractional shares increase accessibility. This feedback highlights a growing interest among Black, Hispanic, and Latinx investors in more accessible investment options, suggesting that lowering the entry cost per investment could significantly lower barriers for those with limited capital. (During the observation period of this study, fractional shares weren't a feature on the platform.)



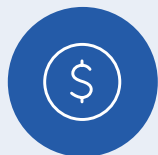
I think [the platform] could have videos about it or webinars where they're pre-recorded. ... I can access them later or some kind of introductory course that I could probably purchase. I wouldn't mind paying for it as long as it's very good at explaining things. So I think those two things could be of great value to me."

Key Recommendations



PROVIDE SEED FUNDING

Through this study and [prior research](#), we found that seed funding plays a pivotal role in facilitating an initial experience with investing for households earning LMI. Therefore, we recommend offering seed funding to support investors in initiating their investing journey and diversifying their portfolios. By offering seed funding, investing platforms can empower investors to embark on their investing journeys with confidence, fostering inclusivity and democratizing wealth-building opportunities while minimizing the initial risks of their exploration period.



PROVIDE FRACTIONAL SHARES

Fractional shares represent a valuable opportunity for democratizing investing, enabling individuals to purchase fractions of popular securities. For many individuals in households earning LMI, the idea of investing in full shares of expensive stocks or ETFs may seem unattainable. Fractional shares can help eliminate this obstacle by enabling investors to acquire stakes in assets with as little as a dollar. Investment platforms can promote inclusivity by prioritizing the availability of fractional shares, ensuring that beginner investors, who have a few dollars to spare, have access to a myriad of investment opportunities.



Because of all the resources that were available through the platform, it makes you feel more comfortable..."

2 New Investors Require Enhanced Support and Ample Learning Opportunities at the Outset of their Investment Journey.

FINDINGS

- Throughout their exploration of the platform, 80% of participants reported a notable increase in their comfort level with making investing decisions. They attributed this newfound confidence to the platform's provision of essential tools for better understanding. A significant majority (73%) specifically acknowledged the platform's role in bolstering their confidence in investment decisions, reflecting the effectiveness of the resources provided by the self-directed investing platform. Additionally, **70% of participants interviewed reported experiencing significant growth in their knowledge compared to when they initially started.**
- Despite the platform's comprehensive content offerings, participants also sought additional information from external sources to enrich their understanding of investing. By leveraging a variety of resources, including videos, podcasts, blogs, articles, news sources, and trending topics, participants demonstrated their dedication to expanding their knowledge base beyond the confines of the platform. This multi-faceted approach emphasizes the participants' determination to make well-informed investment decisions and reinforces their journey toward financial literacy and empowerment. Through active engagement, participants underwent substantial personal growth, as evidenced by their shared sentiments.

Key Recommendations



ENHANCE EDUCATIONAL RESOURCES

Educational resources for investors are crucial for building confidence and understanding in investing. Platforms should clearly explain fundamental concepts such as risk, diversification, and asset allocation. By offering comprehensive educational resources, platforms empower investors to make informed investment decisions and work towards achieving their financial goals.



LEVERAGE EXTERNAL RESOURCES & PARTNERSHIPS

Recognizing that investors often seek education from outside sources like social media for financial education, investment platforms have a unique opportunity to harness the power of these channels. Through strategic partnerships with influential finance personalities and content creators, platforms can exponentially expand the reach of investment education. By aligning with reputable voices in the finance space, platforms can amplify their educational initiatives effectively, ensuring that invaluable knowledge and resources are readily accessible to a broader audience. This collaborative approach enhances access to investing practices and fosters a culture of informed decision-making and financial empowerment on a larger scale.



PERSONALIZE EXPERIENCES

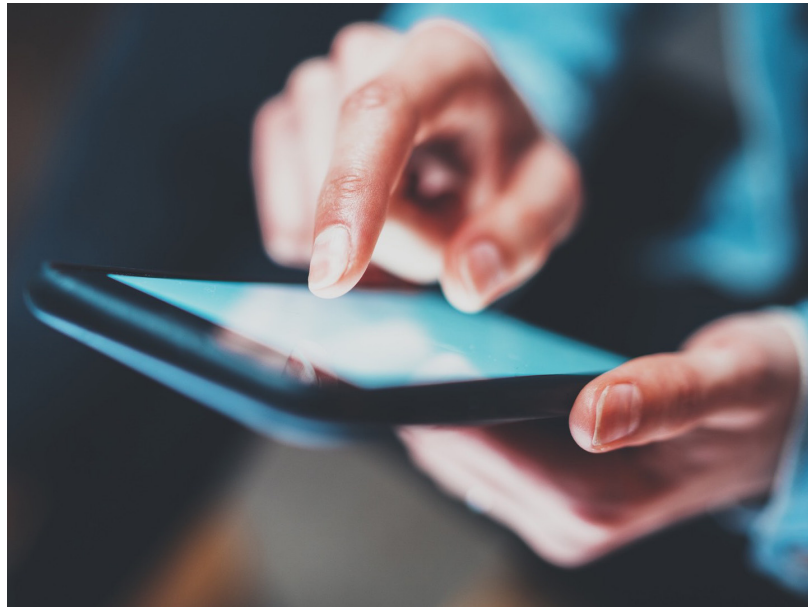
Tailored initiatives aimed at enhancing accessibility, education, and platform experience within the investing ecosystem hold the potential to foster equitable opportunities and sustainable growth within communities, particularly for Black, Hispanic, and Latinx investors living on LMI. Furthermore, investing in comprehensive educational resources and leveraging external partnerships expand access to invaluable knowledge, enabling investors to make informed decisions and achieve financial goals.

3 Seamless Platform Experiences Are Key

Ensuring a smooth user experience (UX) with minimal clicks is essential for enhancing investor satisfaction and engagement. Platforms can achieve this by optimizing their interfaces to minimize the number of steps required to perform tasks, thus streamlining the investing process.

FINDINGS

- 15% of participants said video tutorials explaining the process step by step would have made the account opening process easier.
- 13.5% of participants had to provide additional documentation as an additional step to opening their self-directed investing account.
- 12.4% of participants suggested integrating with existing banking accounts for a quicker verification process.



Key Recommendations



LIVE CHAT SUPPORT

Live chat support allows platforms to offer real-time assistance to investors. Implementing conversational AI and chatbots can further enhance support capabilities, providing instant responses to queries and guiding users through the platform's features and functionalities.



SEAMLESS ACCOUNT OPENING

Seamless account opening is paramount for encouraging user adoption and retention. Platforms should strive to make the account-opening process as frictionless as possible, minimizing the required steps and simplifying account setup procedures. Incorporating informative videos can further enhance the onboarding experience, providing users with visual guidance and simplifying complex concepts. By streamlining account opening, platforms can expedite the transition from registration to investing, allowing users to start investing more quickly and with greater ease.

4 Understanding the Individual Investing Experience

Platforms seeking to expand investing opportunities to a wider audience, particularly for Black, Hispanic, and Latinx investors earning LMI, must prioritize understanding the diverse range of individual investor experiences. By incorporating these learnings into their platform design, they play a key role in shaping a more inclusive financial landscape, possibly fostering greater accessibility and equity in wealth-building endeavors.

While participants had long-term aspirations for financial security and wealth accumulation, their short-term goals centered around experiential learning and gaining insights into the world of investing. Through the opportunity to engage in investment activities, participants discovered that investing is not as intimidating as perceived and that substantial capital is not a prerequisite for initiating investment endeavors.

According to [Commonwealth's prior research](#), "Those with resources, knowledge, and market access must also be able to see themselves—and be seen by others—as investors in order to reinforce the idea of investing as a long-term wealth-building opportunity."

FINDINGS

- A significant majority (72.5%) acknowledged the platform's role in bolstering their confidence in investment decisions, reflecting the effectiveness of the resources provided by the self-directed investing platform.
- Just over half of those interviewed (59%) reported engaging in investing discussions within their social circles, acknowledging that these conversations influenced their investment activities to some extent.



If there were examples of individuals like myself who basically would tell their story about how they came into this because a lot of people like me tend to shy away when they get overwhelmed with information. And if they don't know anyone who has had this experience, they normally won't reach out to somebody who has experience because they don't want to feel dumb."

Key Recommendations



PERSONALIZED SUPPORT

New investors earning LMI may need personalized support and guidance, such as one-on-one consultations or interactive webinars to address their specific needs and concerns and enhance their confidence in investment decisions.



INVESTOR COMMUNITY ENGAGEMENT

Facilitate discussions and interactions within the platform to foster a sense of belonging and community among investors. Encourage participants to engage in investing discussions within their social circles to reinforce the idea of investing as a long-term wealth-building opportunity.



MONITOR AND EVALUATE IMPACT

Regularly monitoring and evaluating the impact of implemented initiatives on investor confidence, knowledge, and satisfaction will enable iterative improvements and enhancements to the platform, ensuring it continues to meet the evolving needs of investors.

These recommendations aim to create better investing experiences for Black, Hispanic, and Latinx investors by addressing their unique needs and concerns. By implementing them, platforms can create a supportive environment that empowers investors to start the journey to achieve their financial goals and build long-term wealth.

Conclusion

The comprehensive data collected throughout this research has yielded valuable insights into investing behavior, user experiences, and platform usability within the ecosystem of the self-directed investing platform. Areas of opportunities have emerged after analyzing participant feedback, engagement patterns, and challenges, guiding recommendations for enhancing platforms and creating lower barriers to access for Black, Hispanic, and Latinx investors.

Our research emphasizes the critical importance of enhancing accessibility and inclusivity for Black, Hispanic, and Latinx investors within investment platforms. This involves prioritizing access through initiatives like seed funding and fractional investing, empowering investors with essential financial knowledge for informed decision-making, and optimizing platform experiences for seamless user interaction. Moreover, understanding the investor journey at various stages enables the design of tailored products that meet the

specific needs of Black, Hispanic, and Latinx investors, thereby addressing existing gaps in accessibility and tapping into significant market opportunities.

The growing interest among new investors from underrepresented communities underscores a clear business case for inclusivity. By catering to the needs of these investors, platforms can expand their user base and increase engagement. Moreover, enhancing accessibility aligns with broader societal goals of promoting economic equity and empowerment. Platforms can positively impact financial security and prosperity by democratizing access to wealth-building opportunities.

Making investment platforms more accessible for Black, Hispanic, and Latinx investors represents a significant market opportunity and contributes to greater inclusivity within the financial industry. Addressing the specific needs of these communities fosters a more equitable and thriving financial ecosystem for all.



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This study builds on [earlier research](#) from Commonwealth which highlights that smaller-balance investors are an untapped market with a strong desire for more investment knowledge. Building on previous findings that revealed a significant gap between the number of working women living on LMI interested in investing and those who actually invest—particularly among Black and Latinx women—this study seeks to illuminate how platforms can most effectively remove the barriers hindering their participation in capital markets.



Commonwealth is a national nonprofit building financial security and opportunity for financially vulnerable people through innovation and partnerships. Black, Latinx, and women-led households disproportionately experience financial insecurity due in large part to longstanding, systemic racism and gender discrimination. Addressing these issues is critical to Commonwealth's work of making wealth possible for all. For nearly two decades, Commonwealth has designed effective innovations, products, and policies enabling over 2 million people to save nearly \$8 billion. Commonwealth understands that broad changes require market players to act. That's why we collaborate with consumers, the financial services industry, employers, policymakers, and mission-driven organizations. The solutions we build are grounded in real life, based on our deep understanding of people who are financially vulnerable and how businesses can best serve them. To learn more, visit us at www.buildcommonwealth.org.



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