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A Framework for Inclusive Investing:

Driving Stock Market Participation to Close the Wealth Gap for Women of Color

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Commonwealth is a national nonprofit building financial security and opportunity for financially vulnerable people through innovation and partnerships. Black, Latinx and female-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 1 million people to accumulate more than $4 billion in savings. 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.

The Aspen Institute Financial Security Program's (Aspen FSP) mission is to illuminate and solve the most critical financial challenges facing American households and to make financial security for all a top national priority. We aim for nothing less than a more inclusive economy with reduced wealth inequality and shared prosperity. We believe that transformational change requires innovation, trust, leadership, and entrepreneurial thinking. Aspen FSP galvanizes a diverse set of leaders across the public, private, and nonprofit sectors to solve the most critical financial challenges. We do this through deep, deliberate private and public dialogues and by elevating evidence-based research and solutions that will strengthen the financial health and security of financially vulnerable Americans.

Relaunched in 2020, the Nasdaq Foundation's mission is to equip under-represented communities with the financial knowledge to build a prosperous future and participate in an ecosystem that supports and sustains their growth. www.nasdaq.com/nasdaq-foundation.

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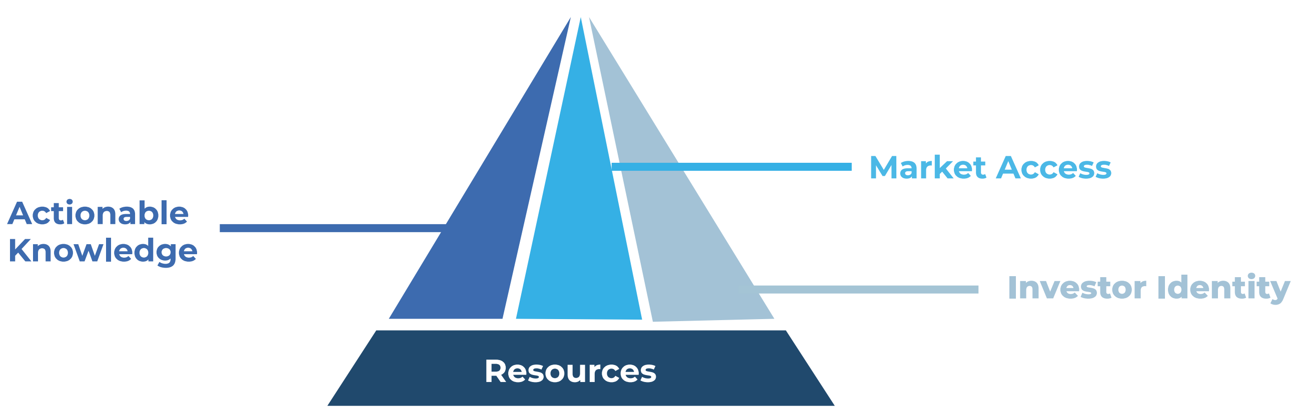
Executive Summary

Wealth matters. It provides material, social, civic and psychological benefits, not just for individuals and families, but also for communities and the nation. Yet, wealth disparities in the United States are dramatic and growing. Staggering gaps in wealth by race, ethnicity, and gender are particularly profound, and these gaps especially disadvantage Black and Latinx women.

The nation has reached an inflection point where the undeniable evidence of these persistent racial and gender wealth gaps can no longer be ignored. The disparate impacts of the COVID-19 pandemic and national outcry about racial disparities in 2020 provide extra impetus to meaningfully address these wealth gaps.

Wealth creation can take many forms, but significant wealth generation often requires participation in capital markets. However, the low participation in capital markets by women of color is largely overlooked in efforts to address economic inequality.

Commonwealth and the Aspen Institute Financial Security Program have taken a hard look at the gaps in wealth and capital market participation among women of color and identified four key barriers:



1. **Resources**—One cannot invest what one does not have. Financial insecurity is a foundational hindrance to market participation.
2. **Actionable Knowledge**—Everyone with financial resources to invest deserves access to insight into what investing means and how it operates, without being overwhelmed by unnecessary information or unattainable expectations.
3. **Market Access**—Individuals who want to invest must also have access to a suitable process for putting their money to work and products that meet their needs and capabilities as new and small investors.
4. **Investor Identity**—Those with resources, knowledge, and market access must also be able to see themselves—and be seen by family, peers, and society—as investors.

In investigating these barriers, we found elements of the story but no unified analytical structure. This has hindered both understanding and action. The innovative framework we propose identifies the fundamental need for sufficient resources. Upon this foundation, three additional needs—actionable knowledge, accessible processes and products, and investor identity—can be effectively addressed.

Ultimately, solutions must address all four elements of the framework. We have identified from the research key guiding principles for taking action in each individual area, and we use these to articulate roles the public, private, and social sectors are well suited to play. Although all sectors must act across the entire framework, the public sector has a particularly important role in addressing resources. The private sector should lead in providing market access, and the social sector should be in front to expand individual and community conceptions of investor identity.

Overcoming racial and gender wealth gaps hundreds of years in the making will take time, resources, and persistent long-term effort. Within this enormous challenge, however, decisive progress in expanding capital markets participation is achievable. No single institution—indeed, no single sector—can get it done acting alone; but a firm grasp of the core barriers, a vision of promising directions for innovation and intervention, and a commitment to sustained cooperation are fertile soil for action and meaningful progress to make this mechanism of wealth creation work for those who need it most.

Introduction

Commonwealth and Aspen FSP see the nation at a critical juncture. The United States has reached an inflection point where the undeniable evidence of persistent racial and gender wealth gaps can no longer be ignored or defended. Wide swaths of the U.S. public, especially younger generations, recognize and refuse to accept persistent and enormous race and gender wealth gaps. These same voices demand solutions that seek to address not just material inequities, but inequities of power and perception. Recent events— most notably the disparate impacts of the COVID-19 pandemic and the broader reassessment of racial disparities, but also the emergence of innovative tools and technologies to increase investor access—provide an opportunity for meaningfully moving forward now.

> “The United States has reached an inflection point where the **undeniable evidence of persistent racial and gender wealth gaps can no longer be ignored or defended.”**

Although there is increasing attention to righting the wrongs of racial and gender inequity, the role of participation in capital markets by women of color is largely overlooked. The potential for broader participation in capital markets to help address economic inequality has not received the attention often given to other wealth creation strategies, especially among the leaders and gatekeepers who shape public conversations about which tools are suitable to address the racial wealth gap. The notion that some corners of our economy, financial system, or society at large are “not suited for everyone” is no longer tenable. New data reveals the clear interest among people of color to engage with markets. This data counteracts and renders any argument—or even vague notion—that those who do not participate in markets today have no real desire to do so as paternalistic and ill-founded.

The explanations for the relative lack of engagement with investing are complex and interrelated. Untangling and understanding the barriers requires a clear framework that has been missing. This report fills that gap and points to how this knowledge can be used to take meaningful steps toward a more just and sustainable capital market system.

Drawing on over three decades of work to enable household financial security and opportunity for lower-income people, Commonwealth and Aspen FSP understand firsthand how important it is to ensure that all people have access to the tools and systems that enable wealth creation. In creating this report, Commonwealth and Aspen FSP conducted a thorough landscape analysis. This encompassed the most recent developments on racial and gender gaps in wealth and capital markets participation; social disruptions that have amplified and clarified these gaps; the barriers women of color experience as barriers to market participation; and the challenges and opportunities observed in addressing those. We augmented our review of published materials with interviews with academic and market experts to ensure we captured emergent trends.[1]

This report emphasizes the importance of opening up participation in capital markets to all Americans and especially women of color. It looks at today's wealth and market participation gaps by race and ethnicity, by gender, and by the intersectionality of these for women of color, and it highlights the significant role of recent social disruptions in shaping the current environment.

The report breaks new ground by identifying four distinct but interrelated barriers to opening up capital markets for women of color: resources, accessible knowledge, accessible market processes and products, and investor identity. The report concludes with a new, unified analytical framework for understanding the barriers holistically and articulating how the nation's public, private, and social sectors can use this framework to pursue promising actions to help narrow the nation's wealth gaps.

Importance of Opening Up Market Participation

As the next section of this report details, women of color are underrepresented as investors in capital markets. Investing is key to building wealth and reducing financial insecurity. Although homeownership and the asset accumulation it can afford is central to most visions of the American dream, capital market investment should be similarly viewed as an invaluable building block for household and societal well-being. Opening up participation as widely as possible is a top priority. As the keen academic observer Annamaria Lusardi, Professor of Economics and Accountancy at The George Washington University School of Business, notes: investing is part of being in a capitalist society, informed engagement is of first-order importance, and we need to get it right.[2]

Few households have "earned their way to wealth" without access to returns on capital. Compared to other forms of capital investments such as home ownership and small business development, markets could provide wider opportunities with low barriers to entry and a range of ways to participate. Moreover, over the past hundred years, the stock market has had true annual growth (adjusted for inflation) of 7.9%;[3] at that rate of return, the value of an investment doubles in just over nine years.[4] Importantly for lower-income households, investments in markets not only provide a historically high rate of return but are also likely to be more liquid than other forms of wealth building.

Capital markets are also integral to the U.S. economy, and investing—even a small amount—has great symbolic significance. This is especially true from the perspective of those who have been excluded from and ignored by what seems like a club for society's "haves" (typically male, white, educated, and connected). People from all walks of life see the respect and power accorded to those who participate in capital markets, and they want and deserve to belong.

Becoming a member of the club can be a daunting task for those on the outside. It requires resources for making investments as well as knowledge, market access, and seeing oneself as belonging where one long has felt unwelcome. But it is what people want. When surveyed on their needs and aspirations, nearly two-thirds of low- and moderate-income women expressed interest in investing, but just 4 in 10 were doing so.[5] Research with consumers new to investing who had previously believed it was not "for them" found they quickly changed their minds as they became engaged in investing just $200 in starter seed money.[6] These are examples of untapped markets among those seeking this path to civic belonging and wealth.

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The Gaps Today for Women of Color

There are wide divergences in wealth holdings by race and ethnicity and by gender. This is in part reflective of gaps in capital markets participation.

America's Wealth Gaps

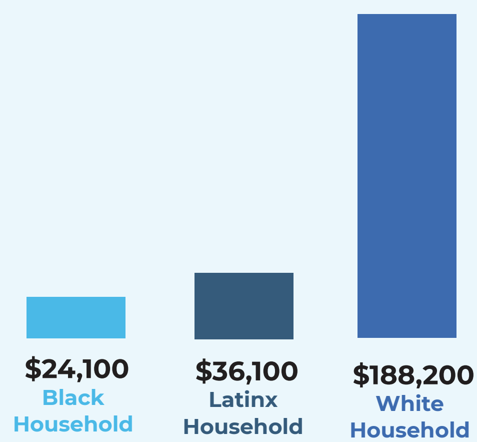
Wide inequalities in household wealth characterize the contemporary American economy. These are especially stark across racial and ethnic groups, especially Black and Latinx populations. Layering on persistent gaps between men and women points to the particular challenges experienced by women of color.

RACE AND ETHNICITY

Wealth in the United States is not distributed evenly across racial and ethnic groups. In fact, the typical Black household has roughly one-eighth the wealth of the typical white family ($24,100 and $188,200, respectively); the median Latinx family has one-fifth ($36,100).[7] Black married households have a median net worth of $66,000, while the median for white married households is $260,000.[8] Among the poorest households (in the bottom fifth of the income distribution), Black Americans have virtually no wealth, but white Americans have nearly $15,000. Just as notably, these median holdings of the poorest white households are greater than the wealth of middle-income Black households.[9]

These gaps in wealth are as high or higher than they were when Congress enacted landmark civil rights legislation in 1963[10] and have changed little in the last few years.[11] Among the millennial generation today, wealth gaps persist: Black millennials have 11% of the net worth of white millennials; Latinx millennials have 49%, which is narrower than the wealth gap for Latinx households generally but still large.[12] As wealth accumulates and grows over the life cycle, racial gaps widen with age.[13]

Typical Household Wealth



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Three-fourths of the gap in median wealth overall can be attributed to gaps in earnings, and that explains almost all the gap for households in the bottom third of the income distribution.[14] However, looking just at the liquid asset portion of wealth, the racial gaps are twice as large as those for take-home earnings.[15] Some of the Black/white wealth gap (12%) can be attributed to disparities in large gifts and inheritances received.[16] Home ownership and educational attainment also play a role.[17] In an Aspen Institute Financial Security Program survey, most reported believing the retirement savings system has contributed to racial wealth gaps.[18]

The Samuel DuBois Cook Center on Social Equity at Duke University recently observed that "[i]t is ultimately racial differences in initial endowments of and access to financial resources that sustain and fuel the racial wealth gap."[19] Discrimination and bias persist. For example, white applicants for jobs have a 36% higher callback rate than Black applicants, and the level of hiring discrimination for Black people has not changed over the past 25 years. Meanwhile, it has modestly declined for Latinx job seekers.[20] White people with a college degree are three times as wealthy as Black college graduates.[21] After controlling for credit scores and other key risk factors, Black homebuyers are 105% and Latinx purchasers 78% more likely than white people to get a high-cost mortgage.[22] This contributes to Black households being generally less able to maintain home ownership during recessions, which is key to building wealth.[23]

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Median Net Worth

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> "Among race and gender groupings, single Black women have the lowest net worth; among those of working age, the median wealth of single Black and Latinx women is 1% or less that of single white women."

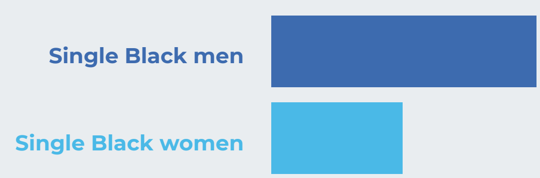
WOMEN AND WOMEN OF COLOR

There is a gender wealth gap for all women. Single women as a whole have less than one-third the median wealth of single men.[24] Among Black singles, women have half the median net worth of men; among white singles, the gap is much narrower ($86,000 for women, $92,000 for men).[25] The gender wealth gap persists at higher levels of income (women have 26% lower median wealth at incomes over $65,000) and education (47% lower among those with graduate degrees).[26]

Women of color have the lowest net worth: among race and gender groupings, single Black women have the lowest net worth;[27] among those of working age, the median wealth of single Black and Latinx women is 1% or less that of single white women.[28] Looking specifically at liquid assets, Black women have about a third and Latinx women about half of that of white women.[29]

Research analyses have identified several complex factors contributing to these wealth gaps, including overrepresentation in lower-paying industries and occupations, hiring and pay discrimination, fewer opportunities for advancement, lower rates of homeownership (35% of Black women and 41% of Latinx women own a home, compared with 57% of white women[30]), less likelihood of inheritance, and less access to resources to support entrepreneurship.[31]

Net Worth of Single People



Among Black singles, **women** have half the median net worth of **men**; among white singles, the gap is much narrower.

> "The gender wealth gap persists at **higher levels of income** (women have 26% lower median wealth than men at incomes over $65,00) and **higher levels of education** (women have 47% lower median wealth than men among those with graduate degrees)."

Capital Markets Participation Gaps

Participation gaps in stock and other capital markets by Black and Latinx Americans and by women further underscore the challenges present for women of color.

RACE AND ETHNICITY

Over half (55%) of Americans report owning stock; however, ownership is strongly correlated with not only household income, formal education, and age, but also race. While 65% of white households report owning stock, only 41% of Black and 28% of Latinx households do.[32] The racial and ethnic gaps in stock holdings are starker when looking at holdings in excess of $10,000.[33] Black and Latinx workers disproportionately lack access to workplace retirement savings.[34] When plans are available, Black and Latinx workers participate less and tend to contribute less when they do participate.[35] Looking at investment in taxable accounts, there is lower participation by Black and Latinx households even after adjusting for income and other demographic factors.[36] Black Americans are less likely than whites to own almost every kind of financial asset, other than whole life insurance.[37]

Although Black and Latinx millennials are more likely to be non-investors,[38] there is early evidence of change. Among those under age 40 in 2020, there were equal Black and white rates of investment, and 29% of these Black investors were new to investing, compared to 16% of white investors.[39] The rate of non-retirement investments among Black Americans rose from 20% in 2015 to 26% in 2018.[40] Although just 10% of Black people report discussing the stock market when they were growing up (compared with 23% of white respondents), equal shares (37% and 36%, respectively) report doing so now.[41]

Stock Ownership

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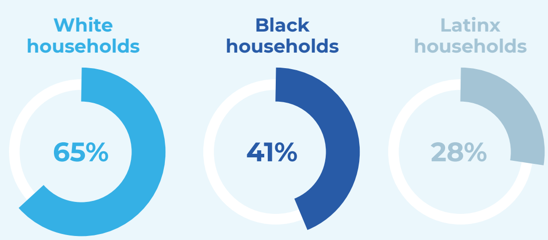

While **65% of white households** report owning stock, only **41% of Black** and **28% of Latinx households do.**

The differences in capital markets participation parallels gaps in other aspects of financial life:

Black women are
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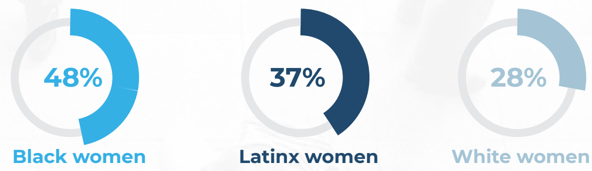
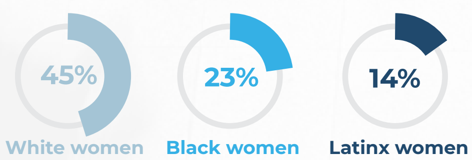
than white women to not have a bank account

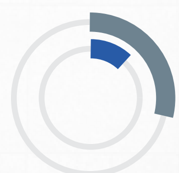


48% of Black women and **37% of Latinx women** report using alternative financial services over a five-year period, compared to just **28% of white women.**



At the peak of stock ownership prior to the Great Recession in 2009, **45% of white women** owned stock, but only **23% of Black women** and **14% of Latinx women** did.

One-quarter of women have non-retirement investments, compared to **39% of men.**



While **28% of men** say they are willing to take risks in making financial investments, just **11% of women** report this view.

WOMEN AND WOMEN OF COLOR

Women generally have lower rates of participation in capital markets than men.[42] One-quarter of women have non-retirement investments, compared with 39% of men.[43] Whereas 28% of men say they are willing to take risks in making financial investments, just 11% of women report this view.[44] The tendency toward risk-free assets and away from stock market participation results in large differences in wealth over time.[45] Participation gaps also reflect a perception among women and women of color that current investment options are not designed for them.[46]

For women of color, the capital markets participation gap is more profound. Black and Latinx women have statistically significant lower rates of retirement account ownership than white women.[47] At the peak of stock ownership prior to the Great Recession, 45% of white women owned stock, but only 23% of Black women and 14% of Latinx women did.[48] The differences in capital markets participation parallels gaps in other aspects of financial life: Black women are five times more likely than white women to not have a bank account[49]; 48% of Black women and 37% of Latinx women report using alternative financial services over a five-year period, compared with just 28% of white women.[50]

Social Disruptions Create a Moment of Opportunity

The racial wealth gaps and lower participation in capital markets are long-term phenomena. However, today's environment—especially for women of color—is also greatly shaped by three monumental social disruptions:

- the Great Recession of 2007-2009, particularly its longer-term lingering effects;
- the social and economic disruption in 2020-2021 from the worldwide COVID-19 pandemic; and
- the reassessment of racial disparities in the United States starting in 2020

Great Recession Hangover

The Great Recession was especially destructive for people of color. From 2005 to 2009, the already relatively low wealth of the typical Black family dropped by over 53% (compared with just a 16% loss for the typical white family).[51] A narrowing of racial net worth gaps before the Great Recession reversed, with wealth disparities rising sharply after 2007.[52]

The Great Recession may have officially ended over a decade ago, but its effects linger. Stock ownership fell and has still not fully rebounded.[53] U.S. households today possess more debt than they had amassed in 2008, and one in five have net debt rather than net worth.[54] Median net worth in 2016 for retirement-aged families was down 9% from 2007, and for younger families the shortfall was 27% to 37%; the wealth for the average millennial born in the 1980s—a particularly racially and ethnically diverse group—was 34% below what would have been predicted from historical patterns.[55] Although the percentage of white households who were able to save stayed steady between 2009 and 2018, the percentage among Black households decreased by 6%, and it was down 3% for Latinx households.[56]

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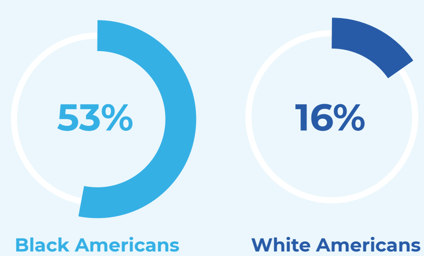
Income Loss for Americans After the 2009 Great Recession



The economic downturn has been dubbed a "she-cession" for its disproportionate impact on women, who held 55% of the jobs lost in the pandemic's wake.

COVID-19 Pandemic

The worldwide pandemic that erupted in early 2020 had three waves of impact: an initial precipitous drop in stock markets, a devastating severe illness and death toll particularly affecting communities of color, and a new economic recession marked by highly uneven patterns of job loss. In the early months, low-income households' faith in capital markets fell to its lowest level ever, with just 12% seeing stocks as the best long-term investment.[57] Black investors were much more likely than white investors (12% vs. 5%) to resort to borrowing against retirement plans.[58] The subsequent actions by the Federal Reserve to support and revive capital markets succeeded, but due to the unequal distribution of stock ownership, these exacerbated patterns of economic inequality.[59]

The pandemic hit communities of color hard. One Economic Policy Institute report is headlined "Black workers face two of the most lethal preexisting conditions for coronavirus—racial and economic inequality"[60] and another "Latinx workers—especially women—face devastating job losses in the COVID-19 recession."[61] The economic downturn has been dubbed a "she-cession" for its disproportionate impact on women, who held 55% of the jobs lost in the pandemic's wake.[62] This is likely to worsen gender inequality well into the future.[63] Among women, it was those of color who bore the brunt of pandemic-related jobs losses.[64]

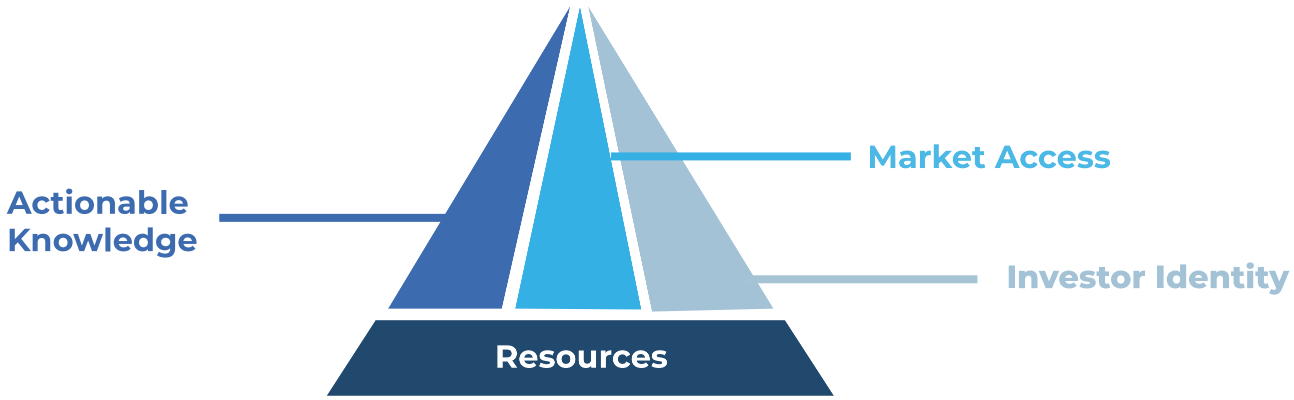
Reassessment of Racial Disparities

The sharply focused attention and community uproar in response to racial injustice in the wake of George Floyd's murder has forced greater recognition of structural racism as a major problem for the financial security of American households (being characterized as such by 91% of experts surveyed in June 2020).[65] This included growing awareness of the longstanding root causes of racial wealth inequality,[66] greater attention from institutions (for instance, the Business Roundtable[67]), and a more pronounced focus on racial equity among some political leaders.[68] The nation stands at a moment of great promise possessing also a deeper understanding of the challenge ahead. This presents a unique opportunity to harness the power and influence of those positioned to make meaningful progress toward a more equitable nation.

> Focusing specifically on challenges faced by women of color in capital markets participation represents an opportunity to achieve the highest impact and to begin redress past inequity and inattention; at the same time, solutions designed to address the multiple needs of women of color will also open doors for other financially vulnerable Americans facing some of the same difficulties."

A Framework to Open Capital Markets to More Women of Color

Women of color face many barriers to becoming investors. From a thorough review of the household finance literature, interviews with experts across a range of fields, and over three decades of combined experience in our own work, Commonwealth and The Aspen Institute Financial Security Program view four categories of obstacles as especially salient:



Focusing specifically on challenges faced by women of color in capital markets participation represents an opportunity to achieve the highest impact and begin to redress past inequity and inattention;[69] at the same time, solutions designed to address the multiple needs of women of color will also open doors for other financially vulnerable Americans facing some of the same difficulties.

Resources

One cannot invest what one does not have. Resources for investing come from both income (which must be both adequate and stable) and net worth (which may be hindered by debt). Financial fragility is a foundational hindrance to market participation.

The Samuel DuBois Cook Center on Social Equity at Duke University notes "There is no magical way to transform no wealth into great wealth simply by learning more about how to manage one's monetary resources."[70] The main driver of disparities in savings—investing's raw material—is income.[71] Whereas the average white man has $2.7 million in lifetime earnings, the average Black woman has $1.3 million, and the average Latinx woman has just $1.1 million.[72] Among millennials, those with taxable investment accounts (where income is the strongest determining factor generally[73]) have a median income of $73,000, those investing in retirement accounts alone have $54,000, and those with no investments have $35,000.[74]

Not only is the amount of income important, but so is its stability. Although 32% of white people report income that varies occasionally or often, this is the case for 41% of Black and 46% of Latinx households.[75] Financially vulnerable households looking to invest experience both income and expense volatility, so liquidity is very important, and shorter time horizons are preferred.[76] Black and Latinx households have significantly shorter time horizons for investing, controlling for education, age, and income.[77]

> **There is no magical way to transform no wealth into great wealth simply by learning more about how to manage one's monetary resources."**
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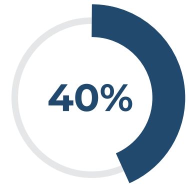
> *- The Samuel DuBois Cook Center on Social Equity at Duke University*

While the average white man has **$2.7 million** in lifetime earnings, the average Black woman has **$1.3 million**, and the average Latinx woman has just **$1.1 million**.

> Millennials who do not invest tend to be **surviving month-to-month financially** with high costs of living and unexpected expenses."

Financial Insecurity



Among women, **more than 40%** say they probably or definitely could not come up with $2,000 within a month, which provides a measure of their financial fragility

The racial gap in liquid asset holdings increases the vulnerability of Black and Latinx families to income fluctuations.[78] Liquidity is a prerequisite for making the riskier investments associated with greater returns over time.[79] As incomes rise, debt also tends to increase, and middle-income households who are struggling financially are more likely than lower-income ones to threaten their accumulation of wealth by borrowing from their often nonexistent retirement accounts.[80]

Millennials who do not invest tend to be surviving month-to-month financially with high costs of living and unexpected expenses.[81] Among women, more than 40% say they probably or definitely could not come up with $2,000 within a month, which provides a measure of their financial fragility (the share of men saying this is under 30%).[82] Financial fragility is associated with debt, and Black women are disproportionately likely to carry student loan debt.[83] In general, Black households are much more likely to face financial precarity, even after controlling for other differences.[84]

The research points to five key principles to guide work to address resources as a barrier:

- Persistent deficits of income and assets constrain the ability of women of color to use capital markets to generate wealth,
- Systematic income disparities are the main driver of lower savings and investment,
- Income volatility results in greater financial fragility,
- Debt, equivalent to negative assets, burdens household balance sheets, and
- Generations of exclusion from asset ownership due to historical and systematic structural discrimination and unconscious bias compound in widening inequality

Actionable Knowledge

Those with resources to invest crave—and have a right to—knowledge of what investment means and how it operates. However, the types and extent of requisite knowledge can be easily overstated, leading to exclusion based on unattainable expectations.

ASSESSMENTS OF KNOWLEDGE

Measures of financial literacy—defined in the National Standards in K-12 Personal Finance Education as "the ability to use knowledge and skills to manage one's financial resources effectively for lifetime financial security"[85]—is sharply lower among people who are financially fragile. The "Big Three" is an established indicator of financial literacy being used worldwide; these three questions assess knowledge of interest rates, inflation, and risk diversification.[86] The findings are stark: 22% of those who are financially fragile demonstrate comprehension of these concepts, compared with 76% among the non-fragile.[87] Women of color are particularly less likely to answer the Big Three correctly: 9% of Black women and 13% of Latinx women answer these questions correctly, compared with 21% of white women. However, greater financial literacy is not associated with less financial fragility among Black women or with less financial anxiety among both Black and Latinx women.[88] Complicating the measured gap in knowledge between men and women is what is referred to as a confidence gap:[89] women are more likely to answer "do not know" to financial literacy questions, even when they know the correct answer.[90]

Comparing financial education and investor education, GFLEC's Annamaria Lusardi notes that the two are related, but with investment topics being inescapably more specialized.[91] Measures of the more complex understanding specific to investing show low levels of familiarity generally. Only one-third of Americans can correctly answer at least five of 10 investing quiz questions correctly.[92] A gender gap may be seen in comprehension measures comparing single men and women among investors with taxable accounts (who are much likely to have participated in financial education and/or consult financial professionals).[93] A large number of these taxable account investors report not knowing whether they are paying commissions, and investment knowledge is particularly low for new investors.[94]

> **"Greater financial literacy is not associated with less financial fragility among Black women or with less financial anxiety among both Black and Latinx women."**

A study published in *Management Science* found that financial education interventions explained only about 0.1% of variance in financial behaviors, with even weaker effects among low-income populations. Intervention effects quickly decay over time."

GENERAL INEFFECTIVENESS OF FINANCIAL EDUCATION

General financial education does not have a good track record. Many studies appearing to find effectiveness have serious methodological flaws, including poor research design, unreliable data, and measurement difficulties.[95] A respected study found that financial education interventions explained only about 0.1% of variance in financial behaviors, with even weaker effects among low-income populations. Intervention effects quickly decay over time.[96] Of course, the timing challenge for educators is the inability to anticipate when an individual will be facing a specific financial milestone requiring particular knowledge.[97] Moreover, an interviewed academic researcher engaged with lower-income communities refers to the frequent emphasis on financial literacy as patronizing in its assumption that lack of information or incomplete information is a more important determinant of financial behavior than the availability of resources.[98]

DAUNTING COMPLEXITY OF ORIENTING NEW INVESTORS

Investing is a subject of seemingly infinite depth. What for the seasoned market participant seems like "the basics" becomes a daunting topic list. The expected scope of investor education offered at the recent GFLEC conference evidences this:

> "Investment vehicles, 'suitability' of investments, setting up and executing an investment plan, appropriateness for life cycle state, time horizon, time value of money, diversification, risk, return, research of investments, research of broker/dealers, stock brokers, and investment advisors, the capital markets, protection of assets, fraud and scams, arbitration, and wealth accumulation"[99]

A how-to guide for how to start investing in stocks includes this seemingly daunting challenge:

> "It is possible to invest if you are just starting out with a small amount of money. It's more complicated than just selecting the right investment (a feat that is difficult enough in itself) and you have to be aware of the restrictions that you face as a new investor."[100]

An inquiring investor-to-be who clicks "Education" on the popular and respected website Investopedia confronts this array:

General	
Dictionary	Stocks
Economics	Mutual Funds
Corporate Finance	ETFs
Roth IRA	401(k)
Investing/Trading	
Investing Essentials	Technical Analysis
Fundamental Analysis	Risk Management
Portfolio Management	

They will also find an "Investing for Beginners" class priced at $199, a significant sum for prospective investors who may lack resources.[101] Women generally and women of color in particular can find numerous websites offering a mix of general financial education and investor education—often with links to books, podcasts, classes, and apps—specifically voiced from their perspectives.

Unsurprisingly, new investors are often overwhelmed and confused by the vast number of information sources.[102] One assessment is that some of what is offered as education is a thinly veiled sales pitch taught by people who are not well-versed in adult learning theory.[103] Despite good intentions, the investment industry often impedes investors with complex language, products, and options—partly driven by regulatory requirements.[104] Prospective investors who are financially vulnerable become dissatisfied when even the simplest apps present large amounts of industry jargon.[105]

> **Programs specifically designed for women** may be an effective way to address both knowledge and confidence gaps.”

PROMISING INVESTOR EDUCATION PRACTICES

Researchers and observers have identified several approaches that offer promise for addressing the shortcomings commonly present in investor education.

Different investor groups may have quite distinct needs.[106] New investors need sources of financial information designed for their needs and relevant to their unique circumstances.[107]

> “Millennial financial education may benefit from being tailored to the different mindsets of non-investors, retirement-only investors, and taxable account investors. Each segment has an appetite to learn more but is at a different place in their education, resources, and experience.”[108]

Programs specifically designed for women may be an effective way to address both knowledge and confidence gaps.[109]

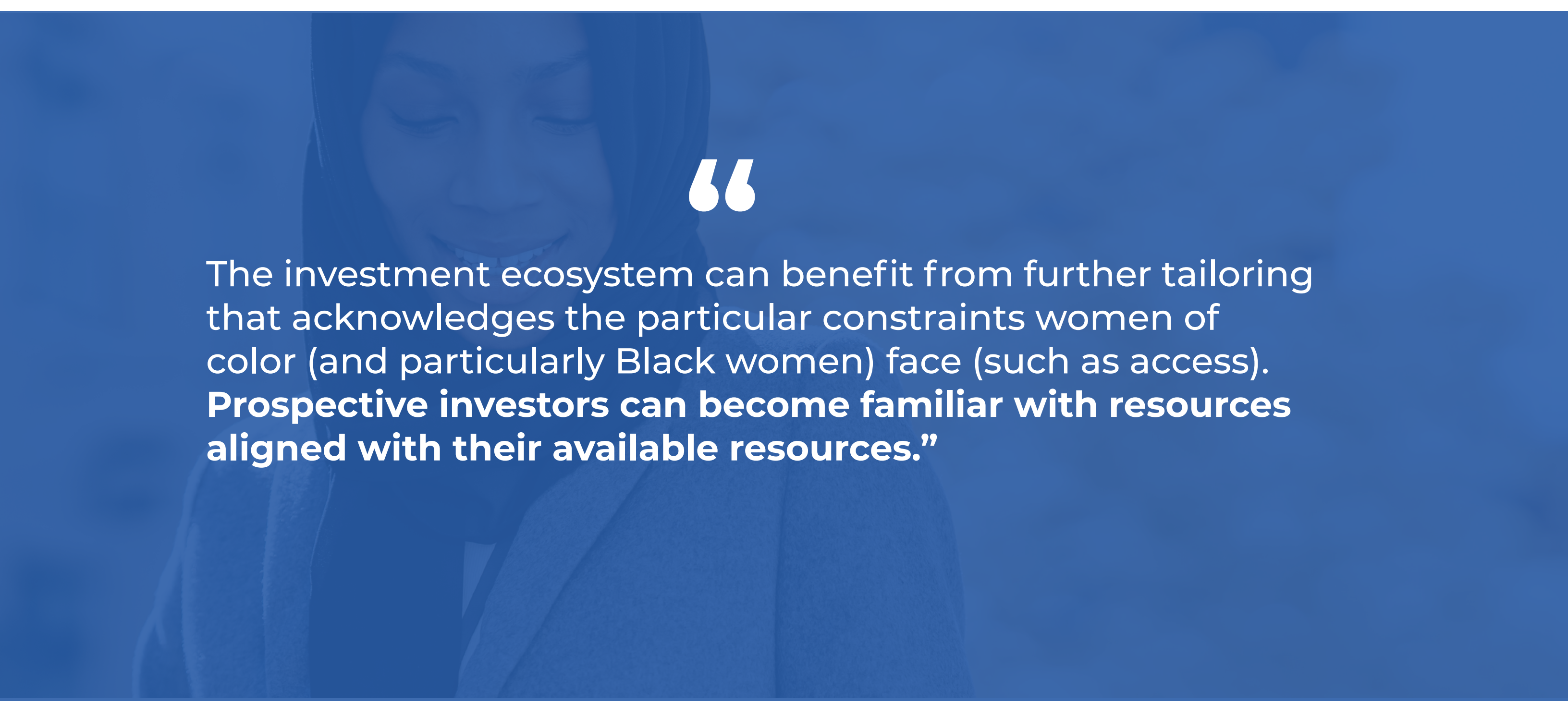
The investment ecosystem can benefit from further tailoring that acknowledges the particular constraints women of color (and particularly Black women) face (such as access).[110] Prospective investors can become familiar with resources aligned with their available resources.[111]

“Just in time” and “jargon free” are desirable goals for effective investor education.[112] Information needs to be tied to the specific behaviors it intends to help.[113] This lends itself to experiential education that helps students discover their own investor personality.[114] First-time investing can be a daunting and scary process, but a facilitated investment experience can positively shift the ability to see oneself as an investor.[115] Targeted skills sets need not be the array of investment-specific content knowledge that are often the focus of investor education; of particular importance appear to be the basic concepts embodied in the “Big Three” questions and attitudinal orientations such as a propensity to plan, confidence to be proactive, and willingness to take investment risks.[116]

The GameStop stock craze of 2021 may not be a model for capital markets engagement; Annamaria Lusardi notes that it encouraged the worst investment action (concentration in individual company stocks) and reduced equity ownership to a game.[117] Nonetheless, the dramatic, widespread and fast- spreading focuson GameStop does point toward the potential of interactive components, social competition, and rewards as strategies to advance education goals.[118] At the same time, peer-to-peer learning has downsides, such as people surrounding themselves with those who share their views, the loudest (and most personally motivated) voices being most heard, and a tendency to reinforce opinions.[119] An academic expert suggests that the use of truly disposable income (money that one can comfortably throw away) to test out investing can be an alternative form of entertainment consumption, yielding benefits in experiential knowledge beyond any financial returns.[120]

GUIDING CONCEPTS

- Research established four key principles to guide efforts to address knowledge as a barrier:
- Information overload, untranslated jargon, and embedded sales pitches thwart both knowledge acquisition and confidence,
- Contextualized and experiential learning over time builds knowledge acquisition and confidence,
- Access to trusted sources of information is an invaluable resource that is missing, and
- Simulated or mock investing for fun can be an engaging and constructive tool for learning investing basics.



“The investment ecosystem can benefit from further tailoring that acknowledges the particular constraints women of color (and particularly Black women) face (such as access). **Prospective investors can become familiar with resources aligned with their available resources.”**

Market Access

Individuals able and willing to invest must also have access to a suitable process for putting their money to work and products that meet their needs and capabilities as new and small investors.

REPRESENTATION AND ACCESS

Fewer than 1.3% of global financial assets under management are managed by women and people of color.[121] Nearly two-thirds of Black investors surveyed cited the importance of racial diversity among employees of investment firms (just over a quarter of white respondents cited this). Just 35% of Black investors feel they are treated with respect when dealing with a financial advisor.[122] Beyond investing, there are reports of differential and less favorable treatment of Black people by financial institutions.[123] Nonetheless, at least among investors, the share who believe that financial services institutions are not trustworthy is similarly small among Black people (23%) and white people (20%).[124]

PRODUCT LIMITATIONS

Lack of products (and connections to them) is a barrier, and not just for those with the fewest resources. Middle-income households that are financially vulnerable tend to have very high rates of reliance on alternative financial services and mismanagement of credit cards.[125] Access to formal financial services can be especially important for persons of color, in part because it can prevent recourse to drawing down retirement savings in times of financial stress.[126]

Fewer than 1.3% of global financial assets under management are managed by women and people of color.

> **Structured experimentation with fintech tools by financially vulnerable participants found none of the tools were designed to meet that population's unique needs."**

Traditionally, those with limited means to invest have had severely limited options. The ability to use payroll deduction to put aside small amounts in workplace retirement plans is unavailable to the large number of people working for employers that do not offer plans. Opening an account often requires a large minimum investment. The transaction costs incurred in maintaining an account can be uneconomical for financial institutions. To protect those whose limited experience and resources put them at risk of being unable to sustain losses,[127] the widest range of investment options is generally available only to those who qualify as "accredited investors," broadly meaning incomes over $200,000 or more than $1 million in net worth (under 11% of American households).[128]

The emerging fintech field is motivated to create disruption and innovation in processes and products. Nonetheless, structured experimentation with fintech tools by financially vulnerable participants found none of the tools were designed to meet that population's unique needs. Problematic features included app complexity, jargon, banking requirements, high account minimums, and fees.[129]

DEMOCRATIZED PARTICIPATION

Recent innovations have broken down some of the barriers that have characterized prior limitations to capital market access and participation. In many ways, it has never been cheaper and easier to start investing.[130] Gary Mottola, Research Director for the FINRA Investor Education Foundation, sees this as a significant qualitative change in market engagement.[131] A FINRA Foundation report observes that this is in part due to the rise of "no-minimum and low-minimum investment accounts."[132] A particular innovation has been fractional investing: setting a dollar amount of investment that purchases a fraction of an individual stock or stock fund share. This enables market participation with sums as small as $5. In 2020, fractional investing moved from the start-up world into the mainstream, with Fidelity launching it in January and Charles Schwab in June.[133]

A 2018 study found low familiarity with and limited interest in emerging products and services among millennials.[134] Then in 2020, the COVID-19 pandemic saw a surge in retail investing in taxable, non-retirement accounts through online brokers using a combination of savings and current earnings. This represented a democratization of market participation. New retail investors were younger (almost two-thirds under age 45), had lower incomes (nearly a quarter making less than $35,000), and were more racially and ethnically diverse (17% Black, 15% Latinx). A third had account balances of less than $500, and this was more true of Black and Latinx investors, who were more than 200% and 70% more likely (respectively) than white investors to carry these small holdings. The greatest commonality across all races and ethnicities of new retail entrants was the ability to invest a small amount of money, and retirement was the most commonly cited goal.[135]

Another democratizing trend is crowdfunding. The Jumpstart Our Business Startups (JOBS) Act of 2012 effectively created a new hybrid market segment, where businesses can avoid the high costs of meeting the standard requirements of public capital markets and non-wealthy investors have an alternative to publicly traded companies. Somewhat analogous to fractional investing, small-dollar investors can access the market through crowdfunding portals.[136] Individuals with annual income or net worth under $107,000 can make a maximum investment of either $2,200 or 5% of the lesser of their annual income or net worth, whichever is greater, in crowdfunding investments over 12 months.[137]

BROADER INNOVATIONS

An Aspen FSP report on financial security issued a call:

> "A new wealth agenda requires re-examining with fresh eyes the ways to expand access to the existing mechanisms through which working Americans accumulate wealth."[138]

Retirement savings programs address a universal need, but improvements could be made to make the current ecosystem more widespread, robust, inclusive, and practical.[139] Reaching new investors who need to start small and build slowly requires creative approaches to address the challenge of sustainably and profitably managing small-balance accounts.[140] Employee stock ownership and profit sharing plans could also expand market participation.

Capital ownership can be more completely democratized by creating lifetime savings accounts for all newborns,[141] sometimes known as Baby Bonds. A variation is endowing students entering school with Children's Savings Accounts tied to 529 state-sponsored higher education savings plans.[142] More far-reaching would be, for example: 1) universal public investment accounts (sized inversely to family net worth) with earnings available at age 18 but no principal withdrawals until retirement; and 2) publicly owned crowdfunding portals.[143]

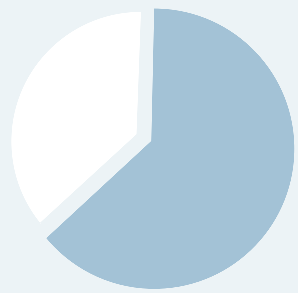
GUIDING CONCEPTS

- The research unearths four key principles for work to guide efforts to address access as a barrier:
- Market engagement requires partners with shared identities,
- Products and tools should enable simultaneous pursuit of multiple objectives and time horizons,
- Product availability should be encouraged by, but not predicated upon, workplace availability, and
- Products need to support starting small and progressing slowly.

Investor Identity

Those with resources, knowledge, and market access must also be able to see themselves—and be seen by family, peers, and society— as investors. The last barrier is a vital, if easily overlooked, ingredient to unlock broader market participation. Resources, knowledge, and access tools are all necessary, but they are insufficient to enable investing. Persistent patterns of both actual and perceived exclusion, as well as a historical dearth of opportunities and lack of access to successful role models, leave a psychological void that is both real and amenable to remedy. The “final mile” is creative, thoughtful, far-ranging work to decisively broaden the definition and perception of “who an investor is.”

Investor identity has both personal (self-perception) and community (social support) qualities. The so-called “confidence gap”—women consistently (across cultures and demographics) tend to indicate they do not know financial and investment information that in fact they are knowledgeable about[144]—factors into the likelihood of seeing oneself as an investor. Financial vulnerability adds an additional burden, even as nearly two-thirds of working women say they are interested in investing.[145] Many wish they knew more, linking this to feeling more in control.[146] Many people who do not invest are waiting to feel sufficiently financially “stable” to undertake it.[147]



Nearly **two-thirds** of working women say they are interested in investing.

> “The ‘final mile’ is creative, thoughtful, far ranging work to decisively broaden the definition and perception of ‘who an investor is.’”

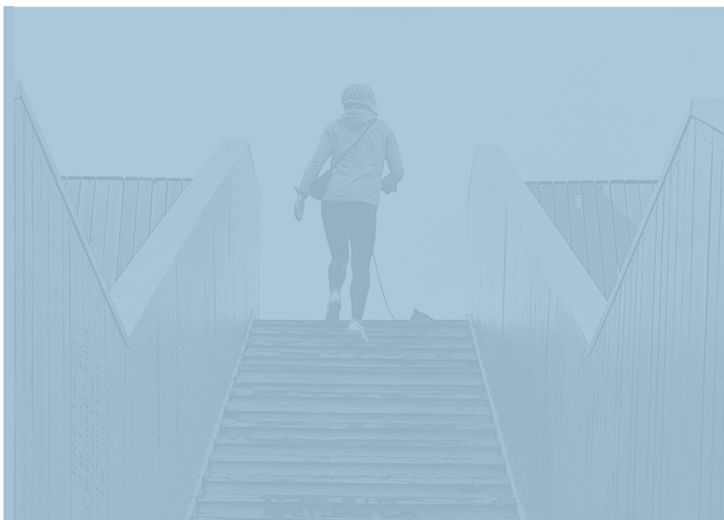
"The power of informal social networks in shaping identity may be seen in the much greater likelihood of new Black investors in 2020 indicating suggestions from friends or family members as the reason they opened an account."

Although the media's attention to stock and other financial markets implies social support for thinking of oneself as an investor, adults in the United States are as likely to say that investing $1,000 in the stock market is a bad idea as say it is good.[148] Many financially vulnerable people face the further burden of not having investor role models in their families or communities, leaving them to consider it something that "other people" do.[149] Leaders at Ariel Investments, a firm focused on the racial wealth gap, note that the lack of knowledge sharing at the dinner table (on top of low levels of intergenerational wealth transfer) is a significant barrier.[150]

The power of informal social networks in shaping identity may be seen in the much greater likelihood of new Black investors in 2020 indicating suggestions from friends or family members as the reason they opened an account.[151] As noted above, a lack of representation of people of color among investment professionals also challenges the identity of prospective investors, both for how people of color see themselves and for how society perceives them.

The research yields three key principles to guide efforts to address investor identity as a barrier:

- Broad racial/ethnic and gender representation bolster positive self-perceptions,
- Social support and engagement are integral to identity and building expertise, and
- Leaders across institutions and sectors have a pivotal role in signaling that all Americans can invest.



"Many financially vulnerable people face the further burden of not having investor role models in their families or communities, leaving them to consider it something that 'other people' do."

> **There has been no shortage of policy and market innovation aiding wealthy people to grow and manage their assets. We need the same level of creativity, resources, and investment in solutions aimed at helping everyone else.”**
>
> *- Aspen FSP, The State of Financial Security 2020*

A Guide for Cross-Sector Action

In investigating barriers to capital markets participation, we found elements of the story, but no unified analytical framework. This lack of intellectual framework hinders both understanding and action. To make real and measurable progress building the wealth of women of color and other financially vulnerable populations through capital markets participation, solutions must address all four barriers.

Commonwealth and Aspen FSP’s framework views resources as the foundational first step that the other three barriers then build on. Together all four elements can be fully recognized as a whole:

Next Steps

> “There has been no shortage of policy and market innovation aiding wealthy people to grow and manage their assets. We need the same level of creativity, resources, and investment in solutions aimed at helping everyone else.”[152]
>
> *- Aspen FSP, The State of Financial Security 2020*

There are roles for the public, private, and social sectors to play in addressing each of the four barriers.

> **The public sector should play the lead role in addressing resources, and has a supporting role in addressing knowledge, access, and investor identity.”**

Public Sector

(ELECTED AND PUBLIC OFFICIALS)

The public sector should play the lead role in addressing resources, and has a supporting role in addressing knowledge, access, and investor identity.

RESOURCES

The scope and complexity of the barrier of inadequate resources requires public leadership. Tax policy has enormous influence, as does wage and labor policy. How public policy is implemented—such as the timing and frequency of disbursement of income support tax credits—can directly influence wealth accumulation and even market participation.

Examples of potential public sector actions for strengthening household income flows include:

- Minimum and living wage policies,
- Tax policy (including periodic payments of tax-based income supports),
- Setting standards for predictable work hours/scheduling and paid leave, and
- Minimum income guarantees (ex: Universal Basic Income)
- To enable asset accumulation, public policy can:
- Provide a base level of capital ownership from birth or early childhood,
- Eliminate rules that penalize asset ownership if receiving income support assistance,
- Forgive student loans, and
- Institute innovations for reparative equality

ACTIONABLE KNOWLEDGE

The federal government makes large investments in financial education across more than 20 agencies,[153] and the U.S. Securities and Exchange Commission maintains a focus on investor education. Some state governments mandate financial education, usually delivered by local school districts.

All of these educational initiatives can and should stress core financial concepts most relevant to engagement with capital markets and more generally acknowledge the role of investing in financial stability and wealth building.

MARKET ACCESS

Improving access requires innovation, and the public sector plays a large role in shaping innovation through regulation (the parameters of what is permissible), institutional chartering (especially important to fintechs), and enabling experimentation (for example, through the Consumer Financial Protection Bureau's Office of Innovation).

Government should simultaneously pursue the fundamental goals of protecting vulnerable investors while ensuring maximum breadth of access. Government can also supplement private market products through publicly-sponsored or sanctioned programs (for example, Individual Retirement Accounts and 529 education savings accounts).

INVESTOR IDENTITY

The public sector should be cognizant of how it indirectly shapes personal and social investor identities by signaling what is important and providing norms of behavior through policy and practice. For example, the U.S. Savings Bonds program explicitly makes thrift a virtue and buying government debt a patriotic act. Tax policy indicates the importance of homeownership, education, and retirement savings through subsidies provided through deductions and credits.

Private Sector

(FINANCIAL SERVICES, FINTECH, EMPLOYERS)

The private sector should play a lead role in addressing market access, and a supporting role with respect to the other barriers.

MARKET ACCESS

The private sector is effectively the gatekeeper to market participation. Financial services firms create the environment for investment engagement through managing systems (such as workplace retirement and 529 education savings plans), offering products (such as mutual funds), and providing tools (such as investing apps). Private employers—through retirement investment options, profit sharing plans, and employee stock ownership and stock purchase plans—constitute a vital channel of investing opportunities for workers.

RETIREMENT INVESTMENT OPTIONS

PROFIT SHARING PLANS

EMPLOYEE STOCK OWNERSHIP AND STOCK PURCHASE PLANS

Financial services firms can capitalize on significant business opportunities by taking the lead in expanding capital markets access by making high-quality, affordable investing options available to everyone through innovations in products, services, distribution channels, and marketing strategies. Firms should study and implement in product design the needs and preferences of women of color and financially vulnerable populations as intentionally and carefully as any other market segment.

Employers should recognize and affirm the vital role they can play in introducing investing opportunities to their workforces. Brian Scholl, a chief economist at the U.S Securities and Exchange Commission, points to employer-sponsored retirement accounts as the best gateway for market engagement,[154] and the Ariel Investments leaders note the need to focus on increasing participation.[155]Firms should emphasize their in-house tools (such as 401(k)s and profit sharing) as market access points and measure carefully not just participation rates but finer-grained indicators of access and engagement (with particular attention to race and gender). Providing and promoting payroll deduction options can influence market participation.

RESOURCES

To help provide a stable base of resources available for investing, employers can:

- Support equal pay and living wage initiatives,
- Provide predictable work hours and scheduling
- Offer paid leave, and
- Maintain hardship funds to cushion effects of disasters and other emergencies
- Financial services firms and fintechs can provide institutional support for collective savings initiatives that build resources communally.

ACTIONABLE KNOWLEDGE

The private sector can play a key role in distributing accurate and trustworthy information about investing. Investment platforms can support knowledge acquisition through interactive affirmation over time.

INVESTOR IDENTITY

Through product design, distribution channels, and marketing approaches, financial services firms should actively address perceptions that investing is for only certain kinds of people. These same firms can help expand customers' perception of who can be an investor by intentionally building workforces that more closely resemble the U.S. population in terms of race and gender.

Social Sector

(PHILANTHROPY, RESEARCHERS, THINK TANKS, MISSION-ORIENTED NONPROFITS)

The diverse social sector must play a lead role in expanding the definition of investor identity, and has a supporting role in addressing knowledge and access.

INVESTOR IDENTITY

From researchers to think tanks, philanthropy to social service providers, the social sector shapes public conversations about priorities (especially with respect to underserved communities) and social norms. This shaping power should be used to change expectations about who can invest, signaling that everyone can and should have access to the asset accumulation opportunities provided by capital markets. The sector can also work to ensure that this vital pathway to wealth building is specifically available to communities of color in ways that are responsible, productive, and rewarding to those communities.

Researchers should examine the full range of questions related to opening up market participation. This can include longitudinal studies of first-time investors' experiences, challenges, and successes. Think tanks should highlight and contextualize research findings about the role that returns to capital play in addressing wealth inequities. This can seed high-level conversations that will ultimately shape how institutions and communities conceive of who can and should be an investor.

Direct service providers should encourage their clients (and their own employees) to consider the power of capital markets, their role in wealth creation, and the perils of assuming investing is only for someone else (especially when race or gender is involved).Mission-oriented nonprofits should facilitate investment circles (using both simulation and experiential methodologies, seed money, matches, incentives, and guardrails) and develop networks of women of color who can provide pro bono professional personal investment advice.

Philanthropy should fund this important work. It can also use its respected position to signal across all sectors that enabling market participation is important and worthy of investment, and to gradually shift minds about who is and can be an investor. There can be a special role to play with social sector leaders whose well-intentioned skepticism of private markets can encourage distrust among the communities they serve.

ACTIONABLE KNOWLEDGE

Philanthropy can support the development of guides for stakeholders on best practices for investment education. Mission-oriented nonprofits can create clear-language information resources tied to specific decision points for first-time investors. Media outlets can focus information content and recommendations on the target populations for new investors.

MARKET ACCESS

Researchers and think tanks can examine the benefits of and institutional opportunities for fostering broad participation in capital markets. Mission-related nonprofits and supportive philanthropies can develop and pilot innovative products for first-time, small-dollar investors and (with the assistance of researchers and think tanks) pioneer pooled ownership options.

Philanthropy can serve as convenors of publicly owned companies to examine their current, desired, and optimal shareholder bases, and grant dollars can support pooled ownership options through stop-loss protections.

Conclusion

Compared with more economically and socially advantaged groups, Black and Latinx households and women in the United States confront great gaps in the wealth they hold—gaps that have persisted even as other societal advances have promoted equity and opportunity. This is reflected in lower rates of participation in the stock and other capital markets. Underlying these are multiple and interrelated systematic barriers for this population: a lack of resources to invest; an unmet appetite for basic knowledge to understand investing; products and processes that fail to facilitate investment; and the challenge of seeing themselves—or being seen by family, peers, and society—as investors. These are challenges beyond the scope of any single institution, but a firm grasp of the issues involved and a vision of promising directions for innovation and intervention are fertile soil for those looking to act. All sectors coming together, focused on a common goal, will secure equitable opportunity for women of color to build wealth.

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