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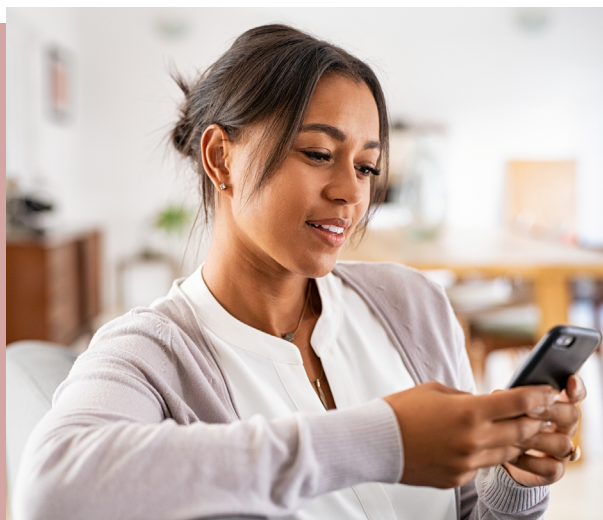
Transforming Investor Identity

Early Research Insights from a National Pilot Project

*Capital markets are a primary wealth-building pathway for individuals in the United States. Today, there is an unprecedented opportunity to fundamentally shift and expand capital market investing by inspiring the professional asset management community to make the experience more inclusive to people who have been historically underserved. This brief provides an initial look at Commonwealth's groundbreaking national pilot project in which more than 800 first-time investors—primarily women of color—received seed funding to begin investing. Through this year-long study, with support from **Nasdaq Foundation's New Investor Initiative**, and in partnership with three leading investing platforms—Ellevest, Public, and Stash—Commonwealth is learning how investor identity develops in new investors. Turning this innovative research into actionable guidance is critical to driving shifts throughout the investing industry.*

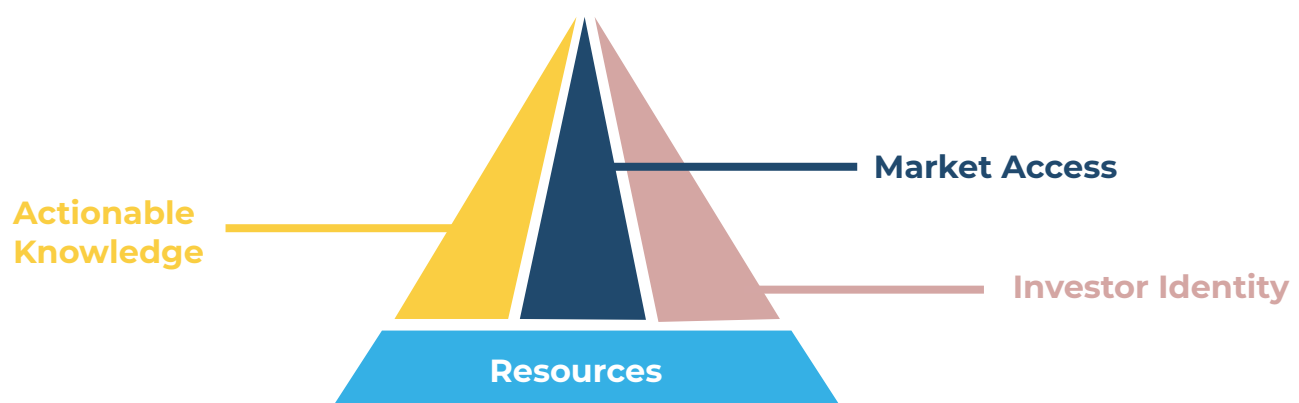
Introduction

Investing is one of the primary wealth-building pathways available to people living in the United States today. Decades of [stagnant wage growth](#) have meant that building long-term financial security requires either the compounding annual growth of investments (including both securities and real estate) or entrepreneurship. Despite the key role investing plays in building wealth, participation in capital markets among households earning low and moderate incomes (LMI), especially Black, Latinx, and women-led households, remains low. Expanding access to and participation in capital markets for these households is, therefore, an important step toward shrinking racial wealth gaps and creating broad-based financial security for everyone in the U.S. Investing fintechs and platforms are the key movers in shaping this system, which means providing them with research to develop more inclusive investing products and experiences is critical.





Commonwealth's [initial research](#) on this subject revealed a large gap between the desire to invest and actual participation in capital markets; nearly 80% of Black and Latinx women earning LMI wanted to invest, but only 40% of the women in this income range surveyed were actually investing. Working with the Nasdaq Foundation and the Aspen Institute Financial Security Program, we developed a [framework for inclusive investing](#) in 2021 that identified four key barriers to investing for this demographic:



Resources

The most fundamental barrier to capital market participation is a lack of money to invest. Basic financial security that allows households to build savings is the essential first step to building wealth.

Actionable Knowledge

Even people with enough funds to invest may be unable to take advantage of opportunities without access to the kind of knowledge that allows them to feel comfortable making investing decisions.

Market Access

Individuals who want to invest need access to products that meet their needs and capabilities as new and low-capital investors.

Investor Identity

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.

Commonwealth is continuing to address the barriers identified with this groundbreaking national research pilot, the Transforming Investor Identity Project, as part of the Nasdaq Foundation's New Investor Initiative and in partnership with several digital investing platforms (Ellevest, Public, and Stash). This first-of-its-kind research focuses on investor identity and the factors that influence its development. Investor identity can be understood as a feeling of belonging in the investing space, in contrast to the feelings of being an outsider or that investing is not designed "for me" which many women reported in earlier research. Understanding how to cultivate investor identity is a key part of building a more inclusive investing system.

Investing fintechs and platforms are key movers in shaping this system which means providing them with research and practical tools is critical to developing more inclusive investing products and experiences.



Further, developing such an identity is especially important for groups that have historically been excluded from investing and other wealth-building opportunities, and who often start with a sense that these opportunities are not designed for them. As identity and related individual factors are more difficult to understand than barriers like resources and knowledge, this demonstration is a major opportunity to provide groundbreaking new insights into this understudied but critical topic.

The insights and actionable guidance that emerge from the completed project will provide the information and tools that platforms need to begin to transform the investing system and make it a more inclusive opportunity for those who have been traditionally excluded from this space. This inclusivity will also give providers access to new markets and tools to improve customer retention and loyalty among new investors.

We expect that development of investor identity includes factors such as learning, having space to experiment, and building social connections with other investors both on and off of investing platforms. This project will help us understand what role each of these plays in investor identity, and how each of these channels can most effectively allow women living on LMI to feel like investing is for them too.

For this project, 864 participants—mostly Black and Latinx women—started investing on one of the three partner platforms using \$150 in seed funding provided by Commonwealth. Recruitment for this project started in January 2023 and participants will be observed and surveyed through mid-2024. The first cohort of participants completed their midline surveys in July 2023, providing some initial information on how their feelings of belonging and attitudes toward investing are developing.

In this brief, we discuss three very early insights that have emerged so far from the first cohort of research participants in the context of understanding the nature of investor identity and its relationship to learning, experimenting, connecting with others, and building wealth. These findings should be taken as preliminary insights that will be better understood in the context of the completion of the full observation period in 2024.

Early Research Findings

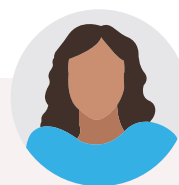
Preconceptions about the difficulty of investing change rapidly with hands-on experience.

An important part of developing an investor identity is overcoming initial preconceptions about what investing is or what it takes by gaining concrete experience with investing tools. Helping people overcome psychological barriers rooted in the idea that investing is difficult or that there is a huge amount one needs to know before one can get started is an important component of a more inclusive investing system. After just a few months of experience, 63% of participants in our first cohort agreed with the statement that “before I started investing, I thought it would be more difficult than it actually is.”

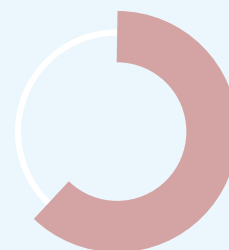
This shift in mindset highlights the importance of hands-on experience not just as a means of learning, but as a means of overcoming preconceptions that can prevent people from building wealth through investing. Although there can be value in learning about investing before getting started, our research here and in the previous pilot supports the idea that for many prospective investors, feeling like they have to learn a large amount of material before they can even get started prevents them from ever trying to invest. Lowering barriers to entry through features such as seed funding and learning tools embedded into the onboarding process can help people take the first step and see that it is not as overwhelming or difficult as they may have thought. As the research continues, we aim to learn more about how the opportunity to learn by experimenting, especially in a low-risk, seed funding environment, contributes to the development of an investor identity.

There is a strong relationship between the use of on-platform educational tools and feeling a sense of belonging in the investing space.

One of the clearest insights emerging from participant survey responses so far is that learning about investing does more than just make people more capable of investing effectively; it is also a key channel through which a sense of belonging in the investing community develops. This sense of belonging may be key to early development not just of comfort with investing, but also loyalty to platforms that cultivate those feelings.



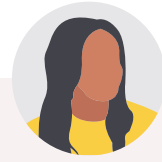
“It’s not as difficult as I thought it was once you start to do your research, and you start to take your time... it got way easier for me.”



After just a few months of experience,

63% of participants in our first cohort

agreed with the statement that “before I started investing, I thought it would be more difficult than it actually is”



Midway through their participation in the program, about 42% of this cohort reports that they feel like they belong in the investing community. Within this group that feels a sense of belonging, 67% cited “learning more about how to invest” as having a significant impact on this sense of belonging, followed by seeing investment values increase (44%) and depositing their own money (32%).

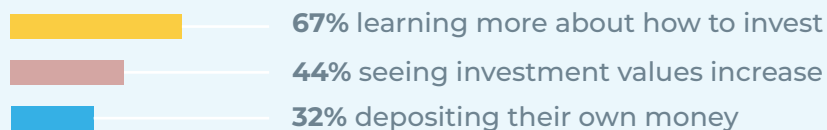
Conversely, among the 58% that did not feel a sense of belonging, the most cited reasons were not feeling like they were investing enough to matter (52%), not understanding how to make good investing decisions (47%) and confusion about how to use the platform (33%).

The relationship between learning and feeling a sense of belonging is further supported by comparing the different usage rates of on-platform educational tools by participants that feel a sense of belonging compared with those that do not. For those that reported feeling like they belong, 70% had used on-platform education tools. For those that did not feel a sense of belonging, the usage rate of these tools was just 38%. As the program continues, we plan to focus more on how these educational tools are being used by participants and how they can best support the development of investor identity.

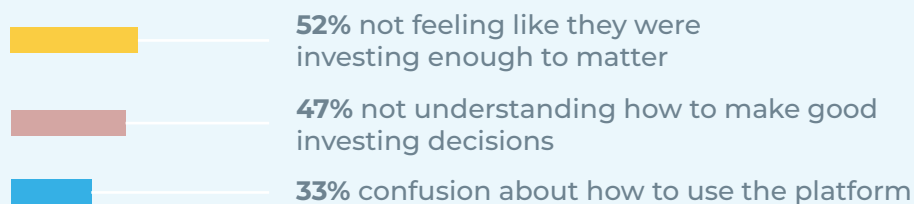
The strong relationship between learning about investing through on-platform tools and feeling a sense of belonging is consistent with our hypothesis that investor identity and the confidence that accompanies it is supported by three key elements: learning, experimenting, and socialization. We expect to learn more about the role of socialization and experimentation using seed funds as the research program continues.

“I feel like I belong a bit more now compared to the beginning, just because I did my research. So now I’m like, at least I know something...I know where to begin, and that just makes me feel so much better.”

Midway through their participation in the program, about **42% of this cohort reports that they feel like they belong in the investing community.** Their most cited reasons for having a sense of belonging were:



58% did not feel a sense of belonging. The most cited reasons were:



For those that reported feeling like they belong,

70% had used on-platform education tools.

For those that did not feel a sense of belonging, the **usage rate of these tools was just 38%.**



There is a significant opportunity to increase engagement with on-platform learning to cultivate investor identity.

On-platform learning tools have clear benefits for new investors. However, there is still significant opportunity to address barriers with the on-platform tools. For this first cohort of participants, 51% had used on-platform educational tools. For the group that used these tools, 81% found them useful. For the half of participants that did not use them, the most cited reasons were not having time to use them (38%), not knowing they exist (31%), or not knowing where to find them (26%).

This suggests that a clear opportunity for understanding how those that are engaged find and use the tools. As this research continues, we aim to learn more about the specific tools participants have been using and the pathways through which they discovered them—as well as exploring the reasons other participants are not engaging with these tools. The findings will help to develop detailed design guidance for platforms looking to make sure new investors have the tools they need to invest effectively and feel a sense of belonging in the investor community.



“I think the platform is giving me an entry into the investing world, [but] I don’t necessarily know that I feel comfortable that I have enough knowledge to navigate it as well as I want to.”



51% had used on-platform educational tools.

For the 49% of participants that did not use them, the most cited reasons were:

81% of those who used the tools found them useful.



not having time to use them (38%)



not knowing they exist (31%)



not knowing where to find them (26%)

Conclusion

As the project continues, we will dig more deeply into how investor identity can be cultivated and how it impacts investing habits and behaviors. With this knowledge, we will develop a toolkit with practical recommendations that fintechs and providers can apply to broaden their customer base and build a more inclusive investing environment.

These insights provide a preliminary look at ongoing research, but they indicate that investor identity—understood as a sense of belonging in the investing community—is something that can be cultivated through inclusive design focused on giving new investors living on LMI the opportunity to learn, experiment, and socialize early on in their investing journey. Using observational data from our partner platforms, we will investigate relationships between the development of investor identity and behaviors like deposits, transactions, and social engagement. We will also continue our qualitative research through multiple rounds of interviews with participants as the program unfolds.

Together, these research activities will shed new light on an understudied aspect of inclusive investing—investor identity—and pave the way for a more inclusive investing system that truly serves everyone.

If you are interested in learning more about this work or would like to work with Commonwealth to build a more inclusive investing system, reach out to us at info@buildcommonwealth.org.



Acknowledgements

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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 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 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.



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