

MINORITY CONSUMPTION, SAVINGS, AND INVESTING ANALYSIS:  
CONSEQUENCES AND IMPLICATIONS

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## **Abstract**

The aim of this paper is to provide an analysis of the consumption, investing, and savings data across racial minority categories within the United States. This paper examines the three biggest minority racial categories within the United States. These three racial categories include Blacks, Asians, and Hispanics.

Consumption patterns across minority groups are examined in Chapter 2. These patterns give insights into the annual purchasing decisions of Blacks, Asians, and Hispanics. Many of the choices in budget allocation to specific categories have consequences and implications that are explained at the end of this chapter. Chapter 3 focuses on savings characteristics of minority populations in the United States. 401k plans, IRAs, and other retirement plans are examined for different savings behaviors and rates across minority groups. This paper examines the savings attitudes and survey responses of participants to get a feel of the overall savings climate across racial groups. Chapter 4 examines the investment behaviors and attitudes of different minorities. The financial risk tolerance and portfolio composition of different minority groups are examined to gain insights into the large wealth gap between Whites and minorities in the United States.

In addition, this paper examines the hypothesized reasons for the differences between racial categories in consumption, investing, and saving choices. In Chapter 5, I explore the different theories and assumptions presented in the literature on these topics in order to give the reader insight into why racial groups might make different consumption, investment, and savings decisions even when controlling for socioeconomic variables. The final chapter explains the consequences of consumption, investment, and savings decisions for the individual, the community, and the United States.

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# 1 Introduction

During the past forty years the United States has experienced a robust and vibrant economic expansion. Although this economic expansion has been marked by recessions in 1973, 1980, 1990, 2000, and the recent Great Recession of 2007, the quality of life for all Americans has improved within this time period. The gains in education and income have led to increased earnings, savings, investing, and consumption for a majority of the U.S. population (Humphreys, 2007).

However, different factors have contributed to an economic gap between the wealthy, the middle class, and the poor. As a consequence of varying levels of socioeconomic factors, some segments of the U.S. population have been economically marginalized while many segments have prospered, although not at the same rate (Fontes and Fan, 2006). In addition cultural attitudes are a determinant in consumption, savings, and investment behavior of many minority groups. Positive socioeconomic strides have been made, most noticeably within the Asian community. For instance, Asians have seen their household net worth outgain Whites from 2005 through 2009. In 2009, Asian household net worth dropped 54 percent, to \$78,066, which is below that of Whites, but much greater than Black and Hispanic household net worth in that year (US Census, 2011). However, there are still gaps between Blacks and Hispanics in socioeconomic status compared to Whites.

Efforts to eliminate the differences in socioeconomic characteristics between Blacks and Hispanics have been tried, tested, and implemented with varying results. Programs to bring more minorities and women into the labor force, as well as efforts to foster upward mobility and

economic progress within these populations have gained some footing. However, many of these inequalities still exist. The effects of these inequalities have led to different consumption, savings, and investing opportunities for minorities relative to the White population across the United States (Yao, Gutter, and Hanna, 2005). As a consequence, the wealth gap between Blacks and Hispanics, and the White population has increased in the last half century and continues to rise.

This report analyzes the different consumption, investment, and savings patterns of Blacks, Asians, and Hispanics, the three largest minority groups in the United States. The analysis of these patterns serves to educate the reader to the consequences and implications of the choices made by these consumers. The report shows that consumption patterns amongst different minority groups vary widely, and have a direct impact on factors such as educational attainment and health related outcomes. The investment and savings section seeks to educate the reader on the different rates and behaviors of savings and investment amongst Blacks, Asians, and Hispanics in the United States, and the intended or unintended consequences of these actions. In conclusion, this report gives the reader insights into the cultural factors that play a role in the patterns and behaviors of consumption, investment, and savings amongst minorities in the United States.

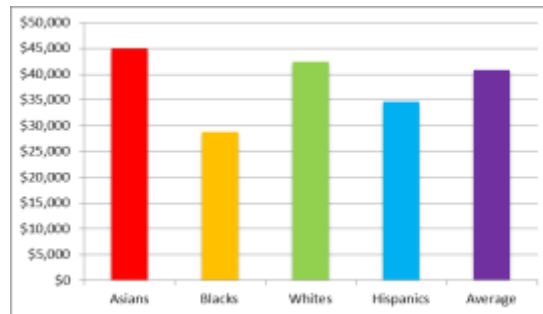
## **2 Minority Consumption Analysis**

According to the 2010 United States Census, Blacks, Hispanics, and Asians make up 12.7 percent, 16 percent, and 4.6 percent of the population respectively. Minority populations across the United States have different consumption patterns with respect to consumer units by product and service category. Every year these consumption patterns are statistically summarized across

different product and service categories by household makeup for comparison. When looking through the data by race, it appears that Asians spend the most overall in terms of consumption per household (Russell, 2006).

The average household spent roughly \$40,817 in 2006. With annual spending at \$44,923 Asians spent around 10 percent more than the average household. In comparison, Blacks spent around \$28,708 (30 percent less) in annual consumption, Hispanics \$34,575 (15.29 percent less), and Whites \$42,360 (3.7 percent more) as shown in Figure 1. These numbers can give insight into several socioeconomic factors that contribute to the variance in annual consumption spending by race (Russell 2006).

**Figure 1: Average Spending by Race and Hispanic Origin of Household, 2006**



*Data Source: Russell, 2006*

Indexed average annual spending by race gives insight on whether certain minorities are spending below, at, or above the average household in the United States in particular categories. The scale is based off of 100 being the average for all consumer units. If for instance, Blacks have an index score of 122 for utility consumption, then the interpretation is that Blacks spend 22 percent more than the average household.



## **2.1 Asian Consumption Analysis**

Asians made up just 4.6 percent of America's population in 2007, but their buying power, the total amount of personal income available, after taxes, for spending on items for consumption, increased more than any other group excluding Hispanics from 1990 through 2007 with a gain of 294 percent. The increases in consumption by Asian households, measured in constant dollars, as shown in Figure 2, were the result of population growth for Asians of 84 percent from 1990 through 2007. Throughout the same period, the number of Asian businesses increased by 24 percent (Humphreys, 2007).

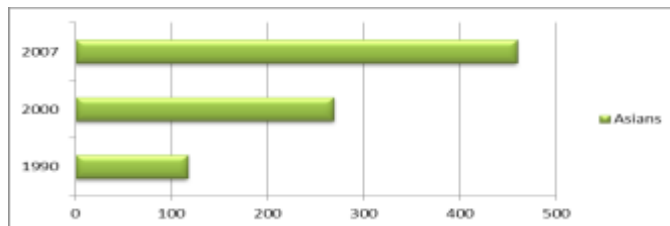
Research shows that 86 percent of Asians 25 and older are high school graduates, and that roughly 49 percent of Asians 25 and older hold a bachelor's degree. The higher annual spending by Asians compared to other households is a direct consequence of having higher earnings because of higher educational achievement compared to average households. The average Asian household spends about 141 percent more on education than the average household (Dymski, 2006).

The average Asian household is larger than the average household (2.6 members versus 2.5 members for the average household), younger (average member age of 38.5 years versus 42.2 years for the average household), and lives in an urban city (47.5 percent versus 29.4 percent for the average household) (Tsai and Tan, 2006). The fact that more than 90 percent of Asians live in a metropolitan statistical area (Tsai and Tan, 2006) accounts for Asians spending around 99 percent more than the average household on public transportation (Russell, 2006). Many Asians also have healthy unique eating habits. A direct consequence of this is that Asians typically spend more on seafood, fresh vegetables, and fresh fruits compared to Blacks, Hispanics, and Whites, as shown in Figure 3 (Tsai and Tan, 2006). Asians also reported spending less on dairy

products (59.9 percent for Asians versus 69.1 percent for the average household) and non-alcoholic beverages (47.1 percent for Asians versus 57.5 percent for the average household) than other households (Tsai and Tan, 2006). In the meat category, Asians allocate around 30 percent of their food at home consumption to this category compared to 26.6 percent for the average household (Tsai and Tan, 2006).

Asians spend less in terms of percentages of income on utilities, fuels, and public services than all minorities except for Blacks (Russell, 2006). Asians consumed less apparel and services than other minorities with an index score of 80 compared to 99 for Blacks and 83 for Hispanics (Russell, 2006). Asians also spend around 19 percent less on healthcare than the average household with an index score of 81 in this category (Russell, 2006).

**Figure 2: Asian Buying Power (Billions of Dollars)**



*Data Source: Humphreys, 2007*

## **2.2 Black Consumption Analysis**

In 2007, Blacks made up 12.7 percent of America's population. Black buying power in the United States increased in constant dollars from \$310 billion in 1990 to \$845 billion in 2007, an increase of 166 percent during this period. Blacks also increased their buying power to 8.4 percent of the nation's total buying power in 2007 from 7.4 percent in 1990. Humphreys argues that the increase in Black buying power was due to a 45 percent increase in business ownership

amongst Blacks, a 10 percent increase in high school graduates, and a 27 percent increase in population growth amongst Blacks from 1990 to 2007 (Humphreys, 2007).

Overall, Blacks spent less than other racial households because of lower average annual income. Black's median family income in 2007 was \$40,143, the lowest of all households amongst minorities (US Census, 2011). Studies show that Blacks had the least number of earners (1.2) compared to other households and Blacks had the largest percentage (30.92%) of single women households (Fontes and Fan, 2006). Blacks spent the least amount of income on food across racial categories with an index score of 70 which amounts to Blacks spending 30 percent less than the average household (Russell, 2006). Within the food category, Blacks spent less than all other households in consuming fresh fruits and vegetables, eggs, and in consuming dairy and cereal products (Russell, 2006).

Blacks have significantly lower index scores of 56 and 54 on education and health care respectively. Both of these numbers indicate that Blacks spend slightly more than half of the average that White households spend in education and roughly half of what Whites spend on healthcare annually. Blacks spend 31 percent less on vehicle purchases than the average household with an index score of 69. When looking at public transportation and vehicle rentals, leases, and licenses Blacks scored the lowest across all racial categories (Russell, 2006).

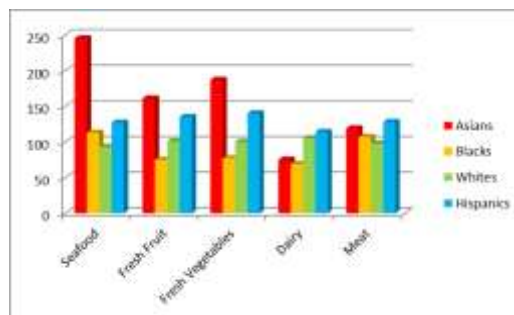
A consequence of lower earnings among Blacks is reflected in an index score of 49 for entertainment, indicating a short fall in disposable income (Russell, 2006). The data shows that Blacks spend less than all other groups in the entertainment categories of fees and admissions, television, radio, sound equipment, pets and toys, and also playground equipment (Russell, 2006). Blacks also tend to allocate more of their budget to apparel (Fontes and Fan, 2006), and only trail Whites with index scores of 101 and 99 for Blacks and Whites respectively.

### 2.3 Hispanic Consumption Analysis

In 1990, Hispanic buying power in constant dollars was \$212 billion and grew to \$962 billion in 2007, a percentage increase of 307 percent which was higher than that of Whites and all other minority groups. Hispanics also made up 16 percent of the United States population in 2007. Hispanic buying power, as a percentage of the total United States buying power, increased from 5 percent in 1990 to 9.7 percent in 2007. Strong immigration and natural increases in the Hispanic population were the main factors in the increase in buying power for Hispanics from 1990 through 2007 (Humphreys, 2007).

Recent data shows that Hispanic families tend to have larger families than all other households (Humphreys, 2007). Hispanic households also have the lowest educational attainment among minorities. The data shows that 44 percent of Hispanics do not have a high school diploma compared with roughly 15 percent and 26 percent for Asians and Blacks respectively (Fontes and Fan, 2006). When comparing Hispanic annual earnings to other minorities, Hispanics have the second lowest income, falling behind Asians, but in front of Blacks (Russell, 2006).

**Figure 3: Indexed Spending by Race and Hispanic Origin of Household, 2006**

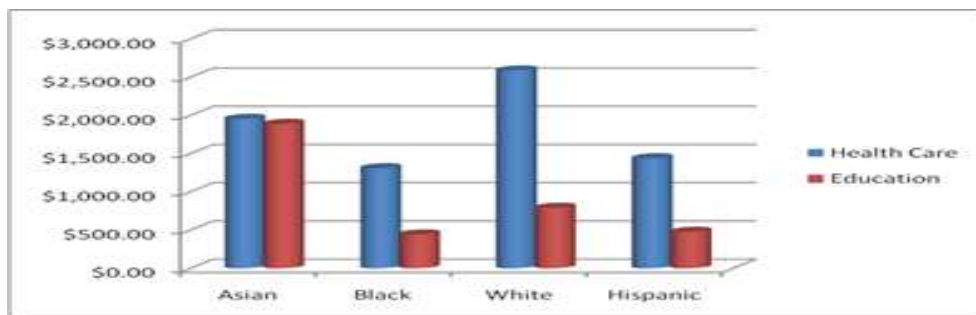


*Data Source: Russell, 2006*

A consequence of having larger families than average is that Hispanics spend around 63 percent more than the average household on rental properties, and around 49 percent more than the average household on infant clothing. Hispanics spend significantly more on men and boys clothing than all other minorities and have an index score of 117 compared with 92 and 78 for Asians and Blacks respectively. More spending on laundry and cleaning supplies is another consequence of Hispanics having larger families on average, and is reflected in Hispanics spending 25 percent more on laundry and cleaning supplies than the average household (Russell, 2006).

Hispanics also spend more than the average household in certain food categories to include eggs, fruit, beef, poultry, vegetables, milk, and pork. In particular, Hispanics spend 59 percent more on eggs than the average household, 35 percent more on fresh fruits, 33 percent more on beef, 31 percent more on chicken, and 26 percent more on milk, to name a few. Hispanics on average spend more on sugars and other sweets as well as more on fats and oils than Blacks or Asians. Figure 4 shows that Hispanic spending on healthcare is the second lowest amongst minorities (Russell, 2006).

**Figure 4: Average Annual Spending on Healthcare and Education by Race and Hispanic Origin of Household, 2006**



*Data Source: Russell, 2006*

## **2.4 Minority Consumption: Consequences and Implications**

After examining minority consumption analysis there are many concerns that stand out. When examining food consumption patterns the data implies that Black and Hispanic dietary habits put Blacks and Hispanics at greater risk of being overweight (Boumtje, Huang, Lee, and Lin, 2005). The consumption of less fruits and vegetables by Blacks than all other racial groups might lead to unhealthy children and adults, as well as higher proportional spending on health consumption in future years (Boumtje, Huang, Lee, and Lin, 2005). Hispanics tend to spend more on fats and oils than all other minority groups and studies show that high fat and oil consumption is a major factor in being overweight (Boumtje, Huang, Lee, and Lin, 2005). In direct contrast, Asians spend more on fruits and vegetables, and less on fats and oils than Blacks and Hispanics which can lead to longer life expectancy and better health in retirement (Bahizi, 2003).

A consequence of Blacks and Hispanics having less education than their Asian counterparts is that on average Blacks and Hispanics have lower income earnings and lower wealth accumulation compared to Asian and White households (Yao, 2008). In particular, the observation that almost half of the Hispanic population in the United States does not have a high school education may lead to lower labor force participation which might lead to higher crime rates in Hispanic communities (Paulin, 2003). Blacks have the second highest percentage of their population without a high school education, and Black males have 72 percent fewer years of education than White males, which lead to the same problems in earnings and wealth accumulation as Hispanics (Levin, Belfield, Muennig, and Rouse, 2007).

Studies show that shortfalls in education are not just social issues but economic issues as well. Poor education results in lower tax revenues and higher costs for public services such as

public aid, criminal justice, and health related services (Levin, Belfield, Muennig, and Rouse, 2007). The increase in tax funded services can lead to larger state and national deficits.

### **3 Minority Savings Analysis**

Individuals across the United States engage in numerous ways of saving. Some of these instruments include savings accounts, money market funds, certificates of deposit, bonds, treasury notes, IRAs, 401ks, and other investments that pay interest (Belton and Oyelere, 2008). For the average investor, a savings account or a company sponsored IRA or 401k provides the main vehicle to saving. More risk prone investors save in the form of certificates of deposit, bonds, treasury notes, and other higher interest bearing accounts.

Many U.S citizens utilize company sponsored 401k and IRA plans. These plans are less complicated than individual investments in that employees are able to diversify their investments into assets based on their risk preference and their individual retirement goals. In 2007, The Employee Benefit Research Institute found that a large portion of employees have insufficient funds for retirement and fail to make up for the shortfall by investing and saving prudently (Ariel and Hewitt, 2009). As a consequence, the safety net of social security combined with 401ks and IRAs might not bring the particular comfort level that an individual is content with (Ariel and Hewitt, 2009). The switch by many companies and states from defined benefit plans to defined contribution plans is taking pressure off of companies and states, and placing more pressure on individuals for their retirement.

When analyzing the savings behavior of the minority population within the United States it is clear that Blacks, Asians, and Hispanics save at different rates, different amounts, and with different risk tolerances. For example, studies show that even when controlling for age, Blacks

and Hispanics are less likely to contribute to their company 401k plan and save at lower rates than Whites (Ariel and Hewitt, 2009). Other studies show that Whites tend to earn more income from interest, capital gains, and dividends than Blacks within the United States (Belton and Oyelere, 2008). A significant cause of the disparity between Blacks and Hispanics, and their Whites counterparts in savings behavior is attributed to the earnings gap between these races. Asians tend to save in total slightly below or at the same rate as Whites because of higher earnings amongst Asians compared to Whites (Russell, 2006).

### **3.1 Asian Savings Analysis**

The Asian population in the United States has tended to have higher than average median annual income (US Census 2011), and higher than average annual spending than all other races. This might be explained by the higher attainment of education, and the higher amount of spending on education by the Asian population compared to other households. Asians spend around 141 percent more on education than the average household. The higher earnings for Asians has led the way for more savings opportunities for this group as Asians tend to save at higher rates than other groups. Asians spend on average 19 percent more on pensions and social security than the typical household. Asians also spend the highest amount on private pension deductions with an index score of 125 in this category. In addition, Asians have on average more taxes taken out of their income than all other races indicating a higher earnings figure which facilitates higher savings (Russell 2006).



**Table 1: Retirement Preparations**

	<b>All Americans</b>	<b>Black</b>	<b>Hispanic</b>	<b>Asian</b>
<b>Household has saved for retirement</b>	<b>69%</b>	<b>54%</b>	<b>50%</b>	<b>78%</b>
<b>Could save \$20 more per week</b>	<b>59%</b>	<b>66%</b>	<b>61%</b>	<b>75%</b>
<b>Expect to work in retirement</b>	<b>61%</b>	<b>60%</b>	<b>62%</b>	<b>60%</b>

*Data Source: EBRI, 2001*

The data shows that Asian employees are the highest participants in 401k plans at many companies. Asians also have the highest 401k participation rate by salary as well as having the highest savings rates among 401k plan participants. Asians have the lowest percentage of employees taking out hardship withdrawals from their 401k plan, and also have the lowest percentage of hardship loans outstanding compared to other racial groups (Ariel and Hewitt, 2009).

Around 62 percent of Asians have personal savings for retirement compared to 66 percent for Whites, and Asians also are the most confident in believing that they have saved enough for retirement. The 2001 Minority Retirement Confidence Survey shows that 78 percent of Asians say that they have saved for retirement while only 69 percent of all workers say they have saved for retirement, as shown in Table 2. Asians are also confident that they can save an extra twenty dollars more per week when saving for retirement which was the highest percentage amongst all minorities. Overall, Asians tend to do better in accumulating retirement savings than Whites, and all other minority groups studied (EBRI, 2001).

Additionally, Asians spend more than any other minority group on life and personal insurance, as shown in Table 2 (Russell, 2006). Asians had more annuities than all other racial households as well, which might be a factor in higher savings rates than all other minorities.

Life insurance policies tend to pass an inheritance down to children which would contribute a large amount of money for their children's financial needs.

**Table 2: Financial Indexed Spending by Race and Hispanic Origin, 2006**

	Asian	Black	White	Hispanic
<b>PERSONAL INSURANCE AND PENSIONS</b>	<b>117</b>	<b>62</b>	<b>105</b>	<b>70</b>
<b>Life and other personal insurance</b>	<b>104</b>	<b>74</b>	<b>103</b>	<b>40</b>
Life, endowment, annuity, other personal insurance	106	76	103	41
other nonhealth insurance	61	44	109	18
<b>Pensions and Social Security</b>	<b>119</b>	<b>60</b>	<b>105</b>	<b>73</b>
Deductions for government retirement	62	97	102	36
Deductions for railroad retirement	#	#	118	#
Deductions for private pensions	125	48	106	43
Nonpayroll deposit to retirement plans	94	26	111	32
Deductions for Social Security	123	67	104	85
<b>PERSONAL TAXES</b>	<b>114</b>	<b>38</b>	<b>108</b>	<b>27</b>
Federal Income Taxes	108	32	109	22
State and local income taxes	130	63	104	39
Other taxes	128	30	108	38

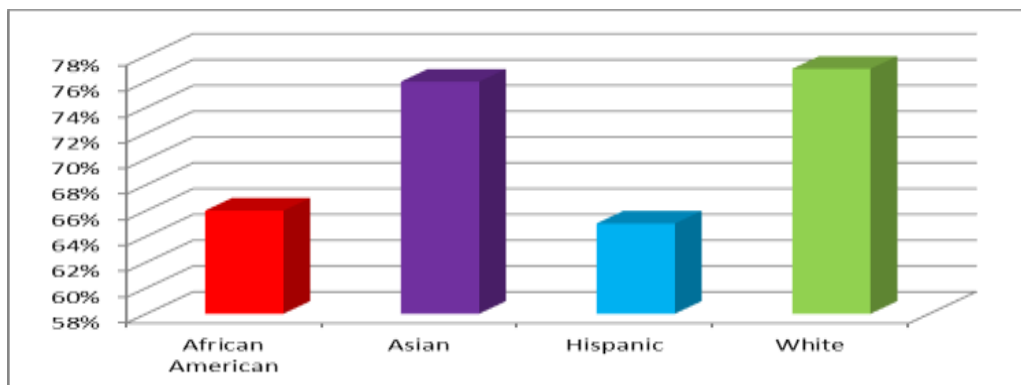
*Data Source: Russell, 2006*

### 3.2 Black Savings Analysis

Blacks in the United States typically save less than all other races. Studies have found that Blacks save at lower rates than all other races even when controlling for income, education, and other socioeconomic variables (Belton and Oyelere, 2008). One theory is that Blacks have saved at a lower rate than other races because of institutional discrimination erected many years earlier (Belton and Oyelere). Some authors suggest that household income is found to have a positive relationship with savings (Hurd and Zissimopoulos, 2003), and the data has shown that Blacks have had lower median annual income than other races (US Census, 2011).

When evaluating employee participation in 401ks, Blacks tend to participate less than all other races, as shown in Figure 5 (Ariel and Hewitt, 2009). Blacks have been shown to contribute less of their salaries to their retirement plans even when their salaries increase. This suggests that some Blacks will not have enough income to retire comfortably. Increased savings typically leads to investment in homeownership, increased spending on education, and increased spending on healthcare, which all improve the quality of life for Blacks in the United States (Belton and Oyelere, 2008).

**Figure 5: 401k Plan Participation by Race**



*Data Source: Ariel and Hewitt, 2009*

The Minority Confidence Retirement Survey found that only 54 percent of Black participants said that their household had saved enough for retirement (EBRI, 2001). Only 3 percent of Blacks said that they were ahead of schedule in evaluating their savings, while 48 percent of Blacks said they were behind schedule significantly when evaluating their savings (EBRI, 2001). When looking at the index scores of Blacks in regards to pensions and social security, Blacks had an index score of 60 compared to 119 for Asians, 105 for Whites, and 73 for Hispanics (Russell, 2006).

In addition Blacks are more likely than other racial groups to take out hardship loans from their 401k accounts. These hardship loans often impose a penalty for the borrower and eliminate any compound interest that may have accrued over their careers. Studies have shown that in a 12 month period 7.8 percent of Blacks have taken out a hardship loan compared to 2 percent for Asians and 3.4 percent for Hispanics. These same studies have shown that 39 percent of Blacks have outstanding loans compared with 16 percent of Asians, 29 percent of Hispanics, and 21 percent of Whites (Ariel and Hewitt, 2009).

### **3.3 Hispanic Savings Analysis**

The Hispanic population within the United States had the second lowest median annual income of all the races (US Census, 2011). Studies have shown that income is positively correlated to saving (Hurd and Zissimopoulos, 2003), and that income becomes larger with higher educational attainment (Russell, 2006). The 2001 Minority Retirement Confidence Survey found that only 50 percent of Hispanic workers said that they had saved for retirement compared to 69 percent for all workers (EBRI, 2001). 16 percent of Hispanics said that they did not contribute to their company's 401k plan because they couldn't afford it (EBRI, 2001).

However, 13 percent of Hispanics said that they were very confident in having enough money to live comfortably throughout retirement (EBRI, 2001). The survey also concluded that confidence about the financial aspects of retirement was lower among Hispanic workers than among all other workers in the United States (EBRI, 2001). The Ariel and Hewitt 401k study found that if four employees worked at the same rate and the same wage, and also contributed to their 401k plans, the chances were very high that the Hispanic and Black employees were saving less than the Asian and White employee, as shown in Table 3 (Ariel and Hewitt, 2009).

**Table 3: Average Savings Account Balance by Salary**

	\$0-\$29,999	\$30,000-\$59,999	\$60,000-\$89,999	\$90,000-\$119,999	\$120,000+
African American	\$3,956	\$21,224	\$51,594	\$98,432	\$154,902
Asian	\$6,707	\$32,590	\$70,393	\$104,233	\$161,259
Hispanic	\$4,036	\$22,017	\$60,782	\$104,549	\$150,456
White	\$8,134	\$35,551	\$79,018	\$139,724	\$223,408

*Data Source: Ariel and Hewitt, 2009*

Hispanics came in second to Blacks in having the lowest savings rate among 401k plan participants. The study also found that the plan participation rate was only 65 percent for Hispanic employees. When controlling for factors such as salary, job tenure, and age, Hispanics contributed 6 percent less as a portion of pay than their White counterparts. Hispanics were also the second most likely group to take out a hardship withdrawal from their 401k plan. When evaluating the percentage of employees with outstanding 401k hardship loans, Hispanics ranked second highest with 29% of employees with an outstanding hardship loan (Ariel and Hewitt, 2009).

### **3.4 Minority Savings: Consequences and Implications**

The effect of low savings rates amongst Blacks and Hispanics manifests itself in several different ways. Low savings for Blacks and Hispanics has the consequence of individuals and households

not being prepared for shocks such as emergency medical care procedures, car expenses, or the loss of a job. Low savings also has long term effects in the form of lower retirement income for Blacks and Hispanics which can lead to a lower quality of life in retirement years compared to Whites and Asians (Bahizi, 2003).

From a national perspective the increase in the percentage of the population that is Black and Hispanic, and the lack of savings amongst these two groups can lead to macroeconomic issues in the long term for the United States (Humphreys, 2007). Low savings amongst the United States population can propel the country into not having enough savings to invest in long term economic growth (Gale and Sabelhaus, 1999). The impact of shortfalls in savings lead to a larger savings gap between Blacks and Hispanics compared with Whites and Asians (Bahizi, 2003). The lower savings amongst Blacks and Hispanics tends to exclude them from having enough capital to put a down payment towards owning a home (Kochhar, 2004). The lack of savings in the Black and Hispanic communities also has the impact of discouraging investment in more risky financial assets which also leads to a significant wealth gap between Blacks and Hispanics compared to Asian and White households (Gittleman and Wolf, 2004).

#### **4 Minority Investment Analysis**

In the United States, minority investment behavior and asset allocation differ significantly from Whites households. The holding of equities and other riskier assets contributes to the wealth gap between minorities and Whites (Gittleman and Wolf, 2004). Research shows that Asians are more likely to invest in riskier assets such as equities, equity funds, and business assets compared to Whites (Yao, 2008). Blacks and Hispanics tend to be more conservative in asset allocation and hold more low- yield investments than Whites (Chong, Dow, and Phillips, 2008). Another

source of investment for many families is their homes (Kochhar, 2004). Blacks and Hispanics, and some subgroups of Asians typically do not own their homes at the same rates as Whites (Choudhury, 2001).

Studies show that the probability of owning riskier financial assets increases as the level of education of an individual increases (Chong, Dow and Phillips, 2008). Other studies show that being married is positively correlated with owning riskier financial assets (Hurd and Zissimopoulos, 2003). Financial risk tolerance is defined by the degree of uncertainty that an investor can handle in regard to a negative change in the value of his or her portfolio. Research shows that Whites and Asians have higher financial risk tolerance than Hispanics, Blacks, and other minorities (Yao, Gutter, and Hanna, 2005). The lower financial risk tolerance of Blacks and Hispanics compared to Whites can be a factor in why these households grow financially at a slower rate than White households (Yao, Gutter, and Hanna, 2005).

Disparities in annual income are a key factor in the investment behavior of Blacks and Hispanics compared to Whites and Asians (Gulter and Fontes, 2006). Past studies show that income is positively and significantly related to having riskier investments in an individual's portfolio (Yao, 2008). In 2008, the median income of White, Black, Asian, and Hispanic families was \$65,000, \$39,879, \$73,578, and \$40,466 respectively. Asians usually have more disposable income and thus more opportunity to invest than all the other minorities in the United States (Yao, 2008). Blacks and Hispanic are usually at the lower end of income earnings and usually seek to protect and guard the assets they do possess (Gulter and Fontes, 2006).

#### **4.1 Asian Investment Analysis**

Asians have a higher financial risk tolerance than all other racial groups (Yao Sharpe and Ghany, 2006). In particular, Asians are more likely to own financial assets such as stocks than all other

racial categories (Gutter and Fontes, 2006). The homeownership rate of Asians in the United States is only 53% compared to 65% of the total United States population (Yao, 2008). Asians also have a very low index score of 41 in the category of bonds and mutual funds (Russell, 2006).

Research shows that the median earnings of Asian workers exceed that of all other workers in America, male or female (Reeves and Bennett, 2004). The earnings differential of Asians in America translates into a higher risk tolerance (Yao, 2008), and higher net worth than their Black and Hispanic counterparts (Yao, Gutter, and Hanna, 2005). Studies find that the higher earnings of Asians are attributed to higher educational status (Sharpe and Abdel-Ghany, 2006). Asians also tend to work in management and professional occupations (Yao, 2008). The life-cycle savings hypothesis notes that there is a significant increase in the likelihood of owning riskier assets as education and income increases, which in turn increases the net worth of Asians relative to their Black and Hispanic counterparts (Stewart, 2010).

## **4.2 Black Investment Analysis**

Prior research indicates that Blacks are more conservative investors and typically hold a smaller portion of their assets in investments such as stocks (Dow, 2008). Blacks are also less likely to invest in bonds (Plath and Stevenson, 2000), and are more likely to hold their wealth in low-yield financial assets such as checking and savings accounts (Yao, Gutter, and Hanna, 2005). Blacks have an index score of 5 in the category of bonds and mutual funds, and have an index score of 82 in the category of checking accounts and other banking service fees (Russell, 2006).

Blacks had the lowest median income of all races in 2007 with a median income in current dollars of \$39,879 compared to \$65,000 for Whites, and \$73,578 for Asians (US Census, 2011). Studies have shown that education is positively correlated with income and that higher



income leads to investing in more risky assets such as stocks and businesses (Gutter and Fontes, 2006). Blacks had the lowest index score in education (51) of all the racial groups (Russell, 2006).

Studies also show that only 37.8 percent of Blacks own their homes compared with 65.8 percent for Whites and 53 percent with Asians (Yao, 2008). In addition, only 2.1 percent of Blacks own a business compared to 13.1 percent of Whites (Yuh and Hanna, 2010). The overall research shows that Blacks tend to take on less risk in their investments and on average have less education and income than all other racial groups (Yao, 2008).

### **4.3 Hispanic Investment Analysis**

As previously mentioned Hispanics have a lower proportion of their net worth invested in investments such as equities, equity funds, and business assets (Yao, Gutter, and Hanna, 2005). Studies also show that Hispanics are less likely to be willing to take high financial risks, and Hispanics are usually more likely to choose to take no financial risks (Hurd and Zissimopoulos, 2003). Although research shows that higher net worth usually translates into investment in riskier assets (Dow, 2008), when controlling for net worth, Hispanics are more likely to be in the no risk category than their White counterparts (Yao, Gutter, and Hanna, 2005).

Clark and Hildebrand (2006), note that Hispanics have on average \$70,000 less net worth than their White counterparts. They conclude that most of the net worth disparity between Hispanics and Whites is caused by the income gap. Hispanics tend to have between one-half and one-third of their wealth in real estate and businesses as Whites, but this only amounts to one-ninth of the amount held by Whites in real estate and businesses. Hispanic couples have significantly less real estate (\$18,035) and business assets (\$2,664) than their White counterparts (Clark and Hildebrand, 2006).

In addition, Hispanics tend to use an additional dollar of wealth to increase vehicle equity (\$.57) and real estate holdings (\$.26) and only \$.18 to financial wealth, while Whites use an additional dollar of wealth to add \$.51 to their financial wealth and \$.41 to their real estate holdings (Clark and Hildebrand, 2006). Hispanics also have a very low index score of 9 in the category of bonds and mutual funds (Russell, 2006). The overall conclusion is that Hispanics are more likely to hold investments in assets such as real estate and vehicles, and tend to not seek financial gain from more risky assets such as equities and bonds.

#### **4.4 Minority Investment: Consequences and Implications**

The implications from Blacks and Hispanics not investing in higher yielding assets such as stocks, bonds, and businesses are that their retirement will not outpace inflation in the long run (Gutter and Fontes, 2006). The fact that the length of retirement living is increasing every decade reinforces the idea that Blacks and Hispanics need alternative investment strategies in order to live comfortably in their later years (Bahizi, 2003). The record low interest rates starting in 2001 further enhances the need for Blacks and Hispanics to steer away from checking and savings accounts into higher yielding assets in order to accumulate wealth to enjoy a better standard of living.

The shortfalls in education, market expectation, and earnings, contribute to the lack of risk taking by Blacks and Hispanics in financial investments such as stocks, and businesses. This may have caused one of the largest wealth gaps between Whites and minorities in the United States in a quarter century (Belton and Oyelere, 2008). The median net worth of Whites in 2009 was \$113,149, compared with \$6,325 for Hispanics and \$5,677 for Blacks (Yuh and Hanna, 2010). The 1990's stock market boom contributed to the wealth gap between Whites compared to Hispanics and Blacks (Yao, Gutter, and Hanna, 2005). During that particular period

only 10.4 percent of Blacks and 8.7 percent of Hispanics households held stock compared to 37.5 percent of Whites households.

The consequences of different investing strategies between Blacks and Hispanics compared to Whites and Asians could have long term effects on many socioeconomic factors for Blacks and Hispanics. The property tax revenue from lower valued homes of Blacks and Hispanics leads to inferior school supplies, classrooms, and teachers compared to White and Asian communities. As mentioned before, the lack of wealth created in Black and Hispanic communities can lead to an increase in crime and incarceration which can destroy families and communities in the short and long term (Stewart, 2010).

## **5 Cultural Factors and Theories**

There are several theories as to why minority groups invest, save, and consume in different ways. These theories look at several cultural factors that might play a role in the decision processes that drive Blacks, Hispanics, and Asians into certain patterns of investing, saving, and consumption. Some authors argue that past injustices have a psychological impact on the way certain minority investors save. Other authors argue that the need to “keep up with the Joneses”, creates an atmosphere where irrational decisions are made in pursuit of raising one’s social status. It is, however, important to look at the theories and assumptions as to why minorities make decisions that sometimes go against their own best interest (Belton and Oyelere, 2008).

The first topic revolves around the theory of compensatory consumption. It is described as occurring when socially prescribed avenues for fulfilling needs for social status are blocked. The authors say that a result of this is that individuals attempt to shift measures of social status and prestige from non-consumption to consumption characteristics. They argue that minorities’

means to achieve social status are dismal resulting in compensatory consumption as a coping mechanism (Fontes and Fan, 2006).

For instance, in the Black community hierarchies are created in order to identify and be more similar to White socioeconomic influence (Fontes and Fan, 2006). Blacks have always been among the lower earners in annual median income and annual average income, even when controlling for education and other socioeconomic variables (Belton and Oyelere, 2008). The process of indoctrinating individuals into believing that they cannot achieve higher social status and the perception that upward mobility is unattainable lead to many irrational purchasing decisions (Fan and Fonte, 2006).

Studies show that poor Black men are more likely to purchase a luxury automobile than poor White men (Chong, Dow and Phillips, 2008). Studies also show that poor Black men tend to purchase more brand name food and brand name clothing than their White counterparts (Chong, Dow and Phillips, 2008). In addition, Blacks are more likely to purchase high end personal care products than White households (Humphreys, 2007).

Hispanics spend large amounts more of their income on high-end apparel, electronics, and televisions than White households (Fontes and Fan, 2006). Hispanics also allocate a higher budget share to household items than other White households (Humphreys, 2007). Asians tend to allocate more of their budget share to household items and education than any other minority group within the United States (Bahizi 2003). The specific purchasing behaviors of Blacks, Hispanics, and Asians can lead to the conclusion that these minorities are participating in compensatory consumption (Fontes and Fan, 2006).

Some cultural features have an effect on the consumption and investing behaviors of minority populations. For instance, research shows that within some Hispanic communities one

does not show signs of weakness (Casa, Wagenheim, Banchemo, and Mendoza-Romero, 1994). This can lead to Hispanics engaging in substantially risky financial behavior such as investing in Ponzi schemes or other investments that promise a higher than normal return. However, Hispanics are less likely to own more standard risky investments such as stocks and bonds (Yao, Gutter, and Hanna, 2005).

Within the Hispanic population there is a large proportion of the community with less exposure to financial markets and savings techniques because of recent immigration to the United States (Hurd and Zissimopoulos, 2003). In the United States, the combination of lower labor force stability and lower levels of wealth accumulation for Blacks and Hispanics may lead Blacks and Hispanics to be less willing to take on investment risk (Yao, Gutter, and Hanna, 2005). Some theories suggest that Blacks tend to save less than other minority groups because of institutional discrimination from many decades ago (Belton and Oyelere, 2008).

## **6 Conclusion**

In conclusion, the analysis of minority consumption, saving, and investment behaviors are topics that individuals and governments should be concerned about. The savings behavior of certain minority groups are of concern because of the implications of more government spending on programs such as Medicaid, Medicare, and Social Security. The loss of tax revenues from lower earnings from Black and Hispanic minority groups should concern policy makers in regards to closing the current national account deficit.

The lack of upward mobility for certain minority segments of the population can be a catalyst for crime and general decay, and should be followed closely by mayors, police forces, and governors within states. All of these issues cannot be solved immediately. However, with a

change of attitude and behavior from outside and within Black, Hispanic, and Asian communities there is much progress being made, but there is still more room for improvement in minority consumption, saving, and investment decisions.

This paper presents the analysis of different minority consumption, savings, and investment behaviors. My goal is to educate the reader on the consequences and implications of the different decisions minority groups make in these categories every day. The market for increased investment and savings opportunities for minorities is increasingly growing. Many of the barriers to investment and savings for minorities are being eliminated. Initiatives such as the automatic enrollment of employees in 401k plans by companies are getting more minorities involved in making investment and savings decisions. In general, patterns and behaviors in consumption decisions of minorities usually give way to tradition. However, informing and educating minorities of the consequences of certain consumption, savings, and investing decisions may lead to more improved outcomes in the future.

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