USBC BLACK INVESTMENT REPORT

EXECUTIVE SUMMARY

- In 2022, the typical Black family had only $44,900 in wealth compared to the typical White family's $285,000.
- Stock market investments are one of the primary drivers of the nation's racial wealth gap; nearly two-thirds (65.6%) of White families owned stocks directly or indirectly, compared to just 39% of Black families. Furthermore, the median value of these stock holdings is much higher among White families at $67,800 compared to $16,500 for Black families.
- To that end, investment democratization platform utilization has markedly increased – giving way to the rise of the retail investor – just as Black stock market participation has also seen gains.
- Given the realities of accessing capital as a Black entrepreneur, it is more important than ever that Black business owners expand their asset portfolios and unlock different ways to build wealth, such as through the stock market.
- Investment democratization platforms can best play an active role in closing the Black/White investment gap by: increasing Black stock market participation, providing an additional avenue for capital, and building intergenerational assets.
- These platforms will be key to closing the Black/White investment gap, and thereby impacting the Black/white wealth gap, but only if they ensure that issues specific to Black retail investors are adequately addressed and invested into.

INTRODUCTION

One of the first formal commodities exchanged on American soil was Black bodies. In fact, it was enslaved Black people that built the eponymous wall of "Wall Street."[1] Nearly 160 years since the abolishment of slavery in the United States, it is undeniable that progress has been made, however, the pernicious and persistent racial wealth gap makes plain that the ideals of our great nation remain a work in progress.

In 2022, the **typical Black family had only $44,900 in wealth compared to the typical White family's $285,000**; said another way, Black Americans have just 16 cents for every dollar of wealth white Americans have.[2] Beyond the moral implications of such a vast racial economic disparity, there are consequences for the entire economy: according to Citi, if key racial gaps for Black Americans alone were closed 20 years ago, **$16 trillion could have been added to the U.S. economy**.[3]

For Black business owners, the wealth gap represents a double setback as it means that Black entrepreneurs are less likely to have personal funds with which to start, grow, and support their businesses. That is why it is more important than ever that Black business owners expand their asset portfolios and unlock different ways to build wealth, such as through the stock market.

While U.S. stock markets have been on a roll since late October 2023, with shares trading at or near record highs, only a small percentage of Black Americans will reap the rewards. In fact, stock market investments are one of the primary drivers of the nation's racial wealth gap;[4] **nearly two-thirds (65.6%) of white families owned stocks directly or indirectly, compared to just 39% of Black families**.[5] Furthermore, the median value of these stock holdings is much higher among white families at $67,800 compared to $16,500 for Black families.

In democratizing the investment space, progress can be made on the Black/white wealth gap by **increasing Black participation in the stock market, providing access to capital through investment returns, and building intergenerational assets**.[6]

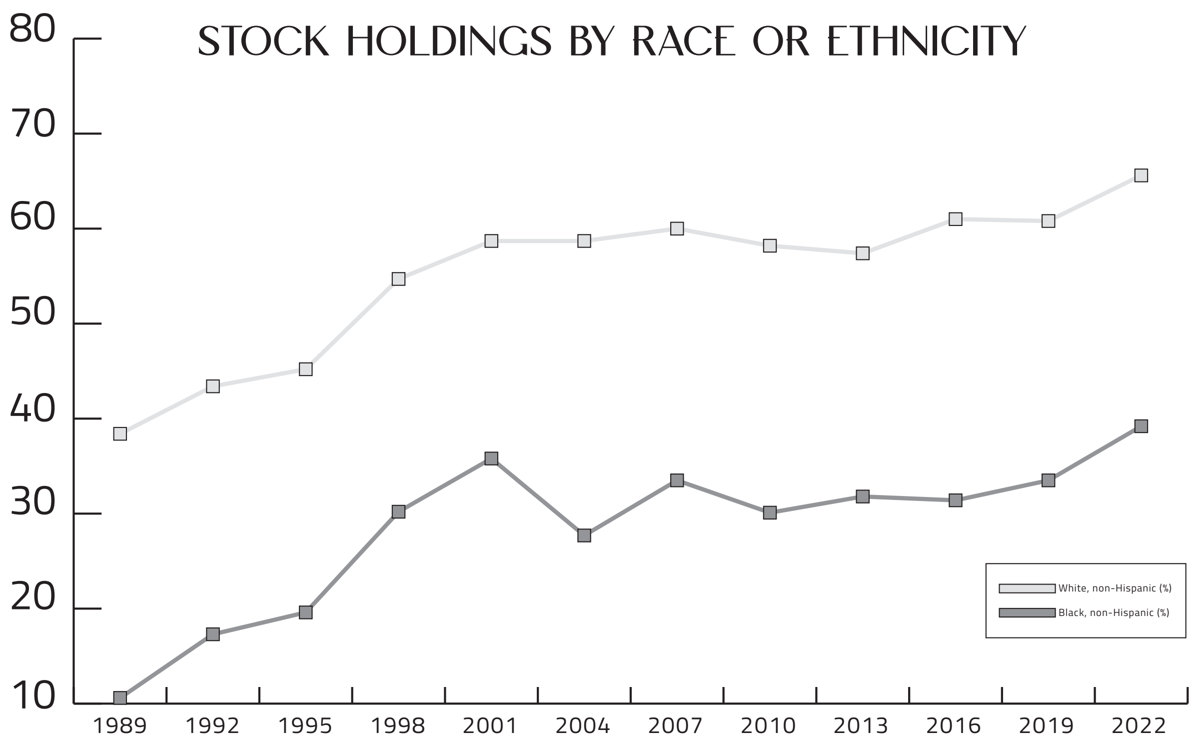
FROM TULSA TO TODAY: A BRIEF HISTORY OF BLACK INVESTING

In the early 20th century, Black wealth flourished in the Greenwood District in Tulsa, Oklahoma, also referred to as "Black Wall Street." At its height, it was one of the most prosperous Black communities in the United States, acting as a powerful seat of commerce for Black Oklahomans. On May 31, 1921, it all came to an abrupt end at the hands of a white mob that burned 35 city blocks, killed 300 people, and injured 800. The families whose property was intentionally destroyed were never duly compensated and the area was redeveloped with industry in mind, never to attain the same economic prominence in the Black community again.

Though Black Wall Street was not the site of an actual stock exchange, its destruction by a white mob in 1921 stands as a powerful metaphor for the barriers to entry that Black Americans have faced in their pursuit of economic prosperity – including through the stock market.

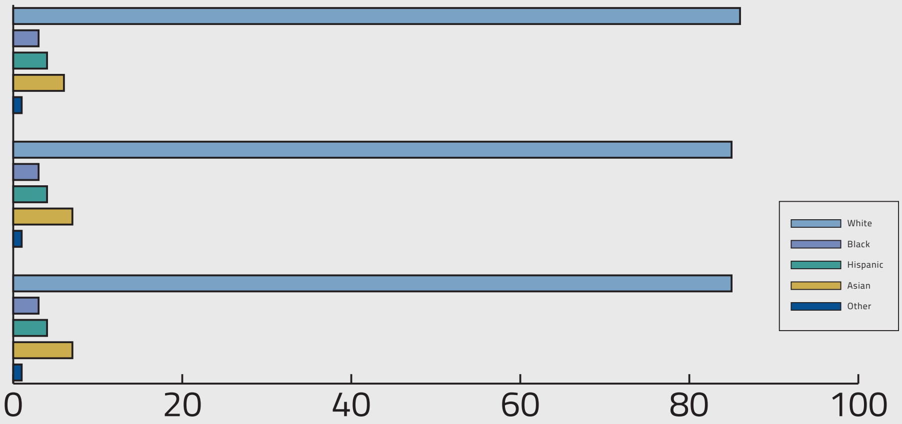
As the graph demonstrates, Black Americans' participation in stocks has consistently trailed that of white Americans by nearly 30 percentage points. While the gap has narrowed slightly, it is still robust. This is due to several factors. First and foremost, investing in the capital markets – until more recently – required a substantial sum of disposable income and extensive background knowledge. In effect, the system has largely been set up to benefit the already wealthy, which we know based on wealth gap data is a predominantly white group of Americans. For example, it was not until 1971 that the first Black-owned and operated firms were able to purchase seats on the New York Stock Exchange (NYSE) floor. Even then, at the time, big financial players like Merrill Lynch owned nearly 20 seats, blunting the economic impact of this historic moment.

Beyond the systemic barrier of lack of funds, the financial services industry overall has a larger diversity problem. Like any institution, it thrives on social capital, the kind of capital that gets you into the rooms where decisions are being made.



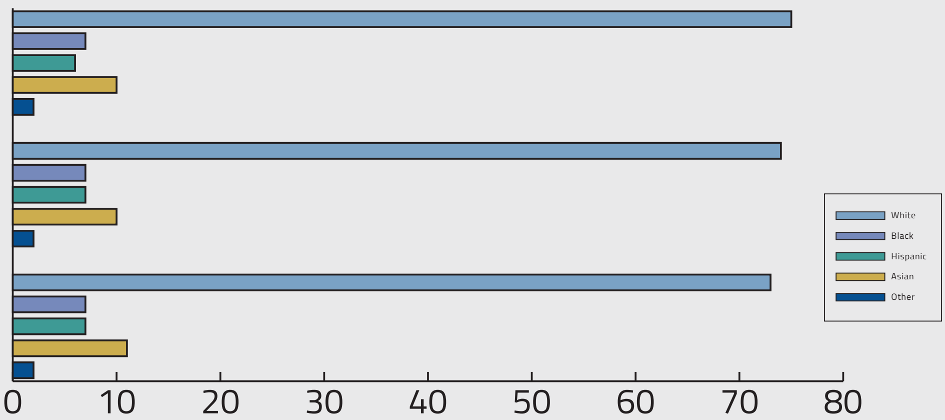
SOURCE: FEDERAL RESERVE

FIGURE 1: PERCENTAGE OF MINORITIES AND WOMEN IN SENIOR-LEVEL MANAGEMENT POSITIONS IN FINANCIAL SERVICES INDUSTRY, FISCAL YEARS 2018-2020



SOURCE: GAO ANALYSIS OF EQUAL EMPLOYMENT OPPORTUNITY COMMISSION DATA | GAO-23-106427

FIGURE 2: PERCENTAGE OF MINORITIES AND WOMEN IN MID-LEVEL MANAGEMENT POSITIONS IN FINANCIAL SERVICES INDUSTRY, FISCAL YEARS 2018-2020



SOURCE: GAO ANALYSIS OF EQUAL EMPLOYMENT OPPORTUNITY COMMISSION DATA | GAO-23-106427

As the figures above show, the financial services industry is overwhelmingly White, providing fewer avenues for Black employees' talent to be seen, nurtured, and lifted up. Minority asset managers, in particular, have stated that they "face challenges when competing for investment management opportunities with institutional investors, including investor and consultant brand bias (for larger asset managers with brand recognition) and the perception that minority- and women-owned firms do not perform as well as other firms."[7] They face these challenges despite data that consistently show that firms with racial and ethnic diversity far outperform more homogenous ones.[8]

Recent attacks on diversity initiatives will likely compound this problem. For example, in 2021, the U.S. Securities and Exchange Commission (SEC) put out a rule to require companies listed on the exchange to have one director who identifies as female, a member of an underrepresented racial or ethnic minority, or LGBTQ+, or explain why they do not. The goal was that, by 2026, companies would generally need two diverse board members to satisfy the rule. Now, this rule is being challenged by anti-Diversity, Equity, and Inclusion activists and is to be reconsidered by the courts.

The rise of retail investing, spurred on by the expansion of platforms dedicated to the democratization of stock market participation, is one route that Black Americans – especially business owners – can take to work around these barriers to entry.

CLOSING THE RACIAL WEALTH GAP: THE ROLE OF INVESTMENT DEMOCRATIZATION

Retail investors are defined as those who are not professional investors and who use their own money to buy and sell securities. As pandemic lockdowns kept Americans at home, and government stimulus checks provided necessary economic security, retail investing exploded in 2020. Indeed, an estimated 15% of U.S. Stock Market investors got their start during the first year of the COVID pandemic.[9] Furthermore, in January 2021 alone, roughly six million Americans downloaded a retail brokerage trading app, joining the well over 10 million Americans who had opened a new brokerage account the previous year.[10]

While we cannot prove causation, this timeline also aligns with the increase in Black stock market participation as demonstrated by the Federal Reserve's Survey of Consumer Finance.

With this explosion in use comes an economic imperative that we investigate how the platforms leading the way on democratization of investment can best play an active role in closing the Black/white wealth gap.

Three critical ways that investment democratization platforms have the potential to help include by:

1. **Increasing Black stock market participation**
2. **Providing an additional avenue for capital**
3. **Building intergenerational assets**

INCREASING BLACK STOCK MARKET PARTICIPATION

The potential benefits of Black stock market participation are vast. The stock market, as measured by the benchmark S&P 500 index, is up by more than 2,800 percent since the beginning of 1983, around the time index funds took off. The stock market grows about 10% per year on average and, when combined with the powers of compound interest, these increases can be incredibly valuable. Current securities disparities, as described earlier, hinder progress on the racial wealth gap as those deeply invested in the stock market enjoy major returns, leaving others behind.

Luckily, we have seen a spike in interest in and participation among, particularly, young Black Americans, fueled partially by democratization of access to investing and financial information.[11]

PROVIDING AN ADDITIONAL AVENUE FOR CAPITAL

The stock market, and the platforms that increase accessibility to it, can especially be beneficial to Black business owners who face a financing gap created by traditional lenders and venture capital. For example, 43% of low credit risk white-owned businesses receive all financing requested compared to only 27% of Black-owned businesses.[12] And, despite typically having much less wealth compared to white Americans, Black Americans who own businesses were most likely to rely on personal funds to overcome financial challenges – 73% of Black business owners used their own savings versus 60% of white business owners.[13] If portfolios are managed well, returns on investments can be converted into business capital..

BUILDING INTERGENERATIONAL ASSETS

The Silent Generation and Baby Boomers are poised to leave $84 trillion to their children and grandchildren, with the bulk of this inheritance estimated to be concentrated among Americans who are already wealthy, thereby increasing racial inequality.[14] The evidence confirms the need to be concerned; white families are nearly three times as likely to report having received an inheritance compared to Black families.[15]

The stock market (and the tax code that supports it) plays an outsized role in this wealth transfer and its potential impacts.[16] By getting more stocks into the hands of Black Americans, we can help mitigate the potential negative impacts of the Great Wealth, providing assets that can assist Black families their golden years and be passed down to future generations.

Data suggests that building intergenerational wealth transfers to younger Black Americans will also have net positive impacts socially and economically. Younger investors generally prioritize climate and social progress in their investments and are more open to new financial models and ways of investing that work to reach beyond the traditional markets.[17]

FUTURE CONSIDERATIONS:

WAYS TO MAKE THE DEMOCRATIZATION REVOLUTION WORK FOR BLACK AMERICANS AND BUSINESS OWNERS

While the data tell us it is important to keep pressing for better inclusion of Black Americans in the investment ecosystem, it is equally important to note that progress is possible. Year-over-year, the number of Black families with direct and indirect stock holdings has gone up,[18] and we have an increasingly better picture of who they are.

UNDERSTANDING BLACK RETAIL INVESTORS

Today's Black retail investors are unique from investors of other races, which allows us to better tailor products and services to their needs. For example, nearly half of Black investors are between the ages of 18-34 while only 21% of white investors are in that age category.[19]

These investors exhibit behaviors typical of their age group, such as a reliance on social media for information and a propensity for trading in risky investments like cryptocurrencies and meme stocks.[20] Many of these investors reported that investing is not a common practice in their communities due to socio-economic or generational factors.

Consequently, they often had to self-educate on investment strategies or seek assistance from more experienced colleagues.[21]

Interestingly, Black retail investors were just as likely to report being driven to invest by an interest in long-term gains as their white counterparts, however they were much more likely to report additional motivations for participating, such as:

- making money in the short-term (91% of Black respondents compared to 69% of white respondents);
- learning about investing (87% compared to 61%, respectively);

- being socially responsible (66% compared to 39%, respectively);
- as entertainment or excitement (60% compared to 32%, respectively); and
- as a social activity to connect with others (56% compared to 24%, respectively).[22]

MORE FINANCIAL EDUCATION FOR BETTER RETURNS

Based on the findings from its study, the FINRA Foundation found that platforms that support retail investors must meet newer investors, including Black investors, where they are with financial and investment literacy, "using channels they rely on and leveraging a wide range of voices that different segments of the investing public find relatable and trustworthy." Within this conclusion is an explicit call for investment democratization platforms to investigate their current financial literacy options, expand where necessary, but also, importantly, factor Black investor needs and the community into the decision-making process.

One potential additional avenue would be in leveraging the communal aspect, which many Black retail investors already report as a motivation, as a tool for education. Research shows that diversity of community is a key driver in participation in the stock market – for both Black and white Americans. People who live in more diverse communities are more likely to own equity investments and benefit from increased access to investment information.[23] While investment democratization platforms cannot rectify the fact that many neighborhoods in America are segregated, they can consider recreating virtual diverse communities in which information sharing can happen organically.

EXPAND OFFERINGS TO INCLUDE RETIREMENT ACCOUNTS

By far, the most common way to own stock is through a retirement plan, such as an employer-sponsored 401(k) or 403(b) program or an individual retirement account (IRA). A record 54% of American families had such a retirement plan in 2022. (Note that these sorts of accounts can include assets other than stocks.) However, there are wide gaps between racial and ethnic groups when it comes to retirement accounts. While more than six-in-ten White families (62%) have at least one such account, only 35% of Black families and 28% of Hispanic families do.

Investment democratization platforms can help close these gaps, assisting their expanding user base to prioritize financial longevity through retirement accounts. Retirement accounts would act as a complement to current offerings.

FACILITATE RETURNS INTO BLACK BUSINESSES

In order to create a self-sustaining ecosystem, investment democratization platforms might also consider ways that their core business – the exchanges – could invest in Black-owned businesses. For example, there might be innovations in how investment returns get reinvested, allowing investors to support more local projects, perhaps through crowdfunding, with a portion of their profits.

Even more directly, it is important that these platforms invest in democratization across the investment ecosystem – including the businesses listed on the exchanges that undergird the platforms and receive benefits from doing so. Granted, there are a number of obstacles Black-owned businesses face in getting listed on the exchanges, not least of all being few affordable resources to help businesses through the listing requirements. However, the fact remains that, per one expert's estimation, "it is nearly impossible for an average American to buy a small equity stake in a local business and virtually no market for them to do so."[24] With that impossibility comes an opportunity for innovation.

Finally, democratization investment platforms might consider partnering with The Dream Exchange, the first minority-controlled company to operate a stock exchange, to begin diversifying the businesses in which consumers can invest.

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