Investing for Communities of Color: 
Build generational wealth

Investing is a crucial step toward long-term financial security. Although the same principles of wise investing apply regardless of race, Black, Indigenous and other people of color (BIPOC) face barriers that have excluded or discouraged them from investing—yet that is one of the key steps toward narrowing the racial wealth gap (the disparity in assets owned by different racial or ethnic groups) (https://www.investopedia.com/the-racial-wealth-gap-5105010).

This publication, which focuses on why communities of color should invest and how to do that, is intended to be a companion to the full-length guide “Investing Basics: Get started putting your money to work for you” (https://consumer-action.org/english/articles/Investing_Basics), which covers the fundamentals of investing—everything from types of investments and how to manage risk, taxes and costs, to how to open an account, choose investments, get investing advice, and avoid scams and fraud. It is also loaded with links to resources where you can continue your investing education.

The racial investing gap
According to one survey (https://www.surveymonkey.com/curiosity/cnbc-invest-in-you-august-2021/), half of Black (51%) and Hispanic (49%) U.S. adults don’t currently own investments—a much higher percentage than Asians (32%) or whites (28%). While the numbers vary from study to study, the findings are the same: People of color invest at lower rates than white people do.

There are several reasons for this. First, because of a persistent racial wage gap, Black Americans (https://www.americanprogress.org/article/eliminating-black-white-wealth-gap-generational-challenge/), Latinos (https://www.nbcnews.com/news/latino/big-wage-gap-factors-hindering-latino-economic-mobility-report-finds-rcna8071) and Native Americans (https://ncrc.org/racial-wealth-snapshot-native-americans/), on the whole, have less disposable income to invest. Many of America’s lowest-paying jobs, which are filled disproportionately by people of color, also lack an employee retirement savings plan, such as a 401(k), which is the way most Americans invest (https://www.denver7.com/news/national/black-americans-not-
A 2021 Morningstar report found that Hispanic households are 17% less likely than non-Hispanic white households to have access to a retirement plan through their employer (https://www.myrecordjournal.com/News/State/Latinos-are-less-likely-to-save-towards-retirement.html). White households also are much more likely to receive an inheritance from their parents and grandparents, and their inheritances are much larger than those of Black or Hispanic households (https://budgetmodel.wharton.upenn.edu/issues/2021/12/17/inheritances-by-race)—a significant source of investable funds.

Debt is yet another contributor to the racial investing gap. Communities of color have less investable income because they are burdened by higher levels of non-income-producing debt. For example, one study found that Indigenous student borrowers owe the highest monthly student loan payments, with Black borrowers being the second most likely to have monthly payments of $350 or more (https://educationdata.org/student-loan-debt-by-race). Another study (https://www.aspeninstitute.org/wp-content/uploads/2022/02/FINAL-ASP-FSW_Disparities-in-Debt_020722-3.pdf) concluded that a disproportionate number of Black (18.9%) and Hispanic/Latino (11.3%) households were in net debt (debt exceeds assets).

In addition to these financial barriers, there is a lack of diversity in the industry that has deterred people of color from investing. Financial advisors tend to be white (76.5%) (https://www.zippia.com/finance-advisor-jobs/demographics/), and among Certified Financial Planners (CFPs), only 1.68% are Black and 2.46% are Latino (https://www.investopedia.com/finance-advisor/fa-profession-accountable-lack-diversity/). A poll of employees in the financial sector revealed that almost 60% of Asian women in the industry say their race has hindered their careers (https://www.reuters.com/markets/us/asian-women-us-financial-sector-see-race-gender-career-hurdles-study-2022-09-27/). This can make it difficult to find advisors who investors of color can identify with or feel they can trust.

Lower rates of financial literacy also result in lower rates of investing. Surveys show that basic financial literacy is generally low across all races in the U.S., but it is even lower among Black, Hispanic and Native American communities (https://www.investopedia.com/the-racial-gap-in-financial-literacy-5119258). While many schools offer some financial education, the quality and quantity is inconsistent (https://www.annuity.org/financial-literacy/black-community/). If adults don't invest and teach their children how, that next generation is less likely to invest.

Why communities of color must invest

While investing is an essential part of any long-term wealth-building strategy, there are reasons why it’s particularly important for people of color to invest.

To counterbalance systemic racism in employment and financial services. Institutionalized discrimination continues to harm communities of color, resulting in lower wages, lower rates of homeownership, higher costs of credit, higher student loan balances, and other negative outcomes. Investing, however, is one of the few places where race is unlikely to impact access or results. Today, anyone can open an online investment account, regardless of income, homeownership status, employment, credit score, education—or color (https://www.investors.com/news/investing-in-stocks-racial-wealth-gap-connection/). And two investors—one white and one of color—who purchase a share of the same stock or fund will have the same gain or loss. While investing in stocks doesn’t guarantee wealth, over the past 30 years, the S&P 500 index has delivered a compound average annual growth rate of 10.7% per year (with some years delivering large losses and other years delivering large gains—the reason it’s so important to invest for the long term) (https://www.fool.com/investing/how-to-invest/index-funds/average-return/).

To build generational wealth. Generational wealth—financial assets passed from one generation to the next—is key to shifting the trajectory of BIPOC communities (https://www.businessinsider.com/personal-finance/bipoc-generational-wealth-building-strategies-2021-2). To build generational wealth, it’s not enough to work and save; you must invest your money to make it grow. This can be done through business ownership and real estate as well as by investing in stocks, which can be a
more accessible path to building wealth because of the low amount of money needed to start.

**To raise future investors.** Children in families where parents or grandparents don’t invest do not get exposure to investing as a regular part of personal money management, and they don’t learn how to do it themselves through observation and discussion as they grow up (https://www.businessinsider.com/personal-finance/father-son-financial-advisors-habits-create-generational-wealth-2020-10). That lack of exposure helps to perpetuate the racial wealth gap (https://www.investors.com/news/investing-in-stocks-racial-wealth-gap-connection/).

**Tips for investors of color**

Here are some tips that can help you start investing.

**Boost your investing education.** Even if you have never been exposed to investing, it’s possible—crucial—to start learning so that you can put your money to work for you and start building wealth. You can do this on your own, by taking free online courses, reading personal finance websites, blogs, articles and brokerage firm educational offerings (see the many resources in the Investing Basics guide: https://consumer-action.org/english/articles/Investing_Basics), and listening to podcasts (see the “Learn more” section below). Or you can learn from an experienced investor or a professional advisor. Once you’ve got the basics, you can continue your learning by opening an account with a small amount of real money or by practicing with a virtual portfolio, offered by several mobile apps, such as E*Trade and TD Ameritrade.

**Use a retirement account.** A retirement account is a good place to invest. Depending on the type of retirement account (https://www.nerdwallet.com/article/investing/best-retirement-plans-for-you), you’ll be able to either delay or entirely avoid taxes on your investment gains (https://www.schwab.com/learn/story/tax-efficient-investing-why-is-it-important). Not having taxes take a bite out of your investment earnings has a major impact on the growth of your balance over time (https://www.americancentury.com/plan/calculators/taxable-vs-tax-deferred-vs-tax-free-calculator/). If you have access to a workplace retirement plan and your employer offers a matching contribution, you should take advantage of that first, and contribute at least as much as required to get the full match. If your employer doesn’t offer a retirement plan, you can open a traditional or Roth IRA (individual retirement account) on your own. Because you are limited as to when you can withdraw money from a retirement account (https://www.thebalancemoney.com/how-to-withdraw-money-from-a-401-k-or-ira-2894212), it’s ideal to also have a separate, non-retirement investment account, if you can afford to fund that too.

**Use FinTech (apps) to make investing easier.** There are a number of apps that are good for beginning investors (https://money.usnews.com/investing/articles/investment-apps-for-beginners), including ones that offer retirement account options—particularly helpful if you don’t have access to one through work (though you can open an IRA without using an app). The number of Black-owned FinTech firms focused on making financial services more accessible to communities of color increased during the pandemic (https://www.blackenterprise.com/black-
Start small with micro-investing. The misconception that a large amount of money is needed to begin investing keeps many people from starting. Micro-investing (https://www.bankrate.com/investing/micro-investing/) is a way to get into the stock market with as little as a few dollars a week, by investing in exchange-traded funds (ETFs) (https://www.investopedia.com/terms/e/etf.asp) or fractional shares of stock (https://www.nerdwallet.com/article/investing/fractional-shares). Many apps enable micro-investing, so you’ll need to look at other features, fees, etc. to find the best one for you. For example, the Acorns app rounds up the total on purchases you make with a linked credit or debit card and invests the difference in an ETF. Most online brokers allow consumers to open an account with no minimum deposit (https://www.bankrate.com/investing/best-online-brokers-for-beginners/) and buy fractional shares of public companies for as little as $5 (https://www.schwab.com/fractional-shares-stock-slices) or build up the balance until you have enough to buy full shares. Learn more about fractional shares in the U.S. Securities and Exchange Commission’s (SEC) bulletin (https://www.sec.gov/oiea/investor-alerts-and-bulletins/fractional-share-investing-buying-slice-instead-whole-share). Learn more about the pros and cons of micro-investing from The Penny Hoarder (https://www.thepennyhoarder.com/investing/how-to-start-micro-investing/).

Automate your investing. One of the benefits of a workplace retirement plan is that your contributions are automated—taken out of your paycheck and invested each pay period, without you having to take any additional steps. If you don’t have a workplace retirement account, try to automate (https://www.thebalancemoney.com/what-is-an-automatic-investment-plan-5207461) by either asking your employer if depositing part of your paycheck into your brokerage account is an option or asking your bank about making a recurring transfer from your checking account to your brokerage account on payday (or on any other particular date, like the 1st of the month). Once the money is in the account, you can make investments manually, or you may be able to set up automatic investments in funds you already own. Contact the brokerage where you have an account for options and instructions. Also, you can choose to have any interest, dividends or capital gains distributions from your investments automatically reinvested.

Find an advisor you can connect with. Not all investors (even beginners) need a financial advisor (https://www.nerdwallet.com/article/investing/how-to-choose-a-financial-advisor), but if you feel you would benefit from hiring one, it’s easier today to find one who can relate to your experiences and challenges. A shared culture can help build trust between a client and financial advisor (https://www.investopedia.com/how-to-find-bipoc-financial-advisor-5271050). Online tools, such as the advisor search feature offered by the Association of African American Financial Advisors (https://aaafa.memberclicks.net/index.php), the XY Planning Network (https://www.xyplanningnetwork.com) and the Azzendo Group (https://www.azzendogroup.com), can help you find someone who is a good fit. After narrowing down candidates, vet your options thoroughly (https://www.nerdwallet.com/article/investing/background-check-financial-pro). Online tools enable you to verify a financial advisor or broker’s credentials (https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins/updated-0), find out if they have been the subject of an SEC action (https://www.sec.gov/litigations/sec-action-look-up), and understand the broker’s “client relationship summary” (CRS) (https://www.investor.gov/CRS).

Don’t be overly conservative. Some investors are more risk-averse than others, meaning they are more inclined to keep money in accounts where they receive a guaranteed—albeit low—amount of interest, with no real risk of losing their principal (the amount they invest), rather than putting it into investments such as stocks, which tend to fluctuate in value. But putting all your money in savings accounts comes with its own risk: loss of buying power due to inflation. While the thought of losing money is scary, it’s important to know that the longer you invest (buy and hold), the more likely it is your money...
will grow (https://www.investopedia.com/articles/investing/052216/4-benefits-holding-stocks-long-term.asp). That’s because, while the stock market has ups and downs in the short term (known as volatility), it has, historically, gone up over the long term (https://www.fool.com/investing/how-to-invest/stocks/average-stock-market-return/). The key is not to avoid risk, but to manage it (https://www.schwab.com/learn/story/ways-to-help-reduce-risk-your-portfolio).

Avoid overly risky investments. Given the history of discrimination and exclusion in the financial services industry, it’s understandable that communities of color are drawn to options that allow them to gain independence from mainstream financial institutions (https://abcnews.go.com/Business/cryptocurrency-attracting-black-latino-investors-fans/story?id=82684748). However, these new types of investments are largely, if not totally, unregulated and carry the real risk of losing all your money (or even more!). The crypto market crash at the end of January 2022 wiped out more than $1 trillion (https://www.npr.org/2022/12/29/1145297807/cryptocurrency-crash-ftx-cryptocurrency-bitcoin). (Don’t invest based on a big-name testimonial—companies pay star athletes and celebrities to endorse their products.) Forex (foreign exchange) trading is risky and complex, and most traders lose money (https://www.investopedia.com/articles/forex/073115/can-forex-trading-make-you-rich.asp). The NFT (non-fungible token) market is highly volatile, and it is easy to be scammed (https://www.forbes.com/sites/naveenjoshi/2022/04/24/7-risks-investors-need-to-know-before-jumping-headfirst-into-the-nft-bandwagon/?sh=15cd8db0489a). For most investors—particularly those who are new to investing or who can’t afford to lose their principal—it’s best to stick to investments with a long performance history, a way to manage the level of risk you take, and consumer protections in place.

Beware of scams. Every year, thousands of people lose money to investment scams. That doesn’t mean you should avoid investing—only that you need to be careful. Among other ways to protect yourself, don’t believe promises of guaranteed high returns, assurances that you can’t lose money, or claims that it is an “exclusive” or “once-in-a-lifetime” investment opportunity. Don’t invest under pressure. And don’t follow investment trends or invest in anything you don’t understand (https://www.techtarget.com/whatis/feature/Common-cryptocurrency-scams). There are many scammers on social media who prey on communities of color. Learn about specific types of investment fraud here: https://www.investor.gov/protect-your-investments/fraud/types-fraud.

Learn more

10 money moves to consider in 2023 (pros suggest steps to increase savings and investments, stay on track and manage your spending) (https://www.marketwatch.com/picks/amid-high-inflation-and-recession-fears-these-are-10-money-moves-you-should-make-in-2023-01671226365)

How to Start Investing in 2023 (offers six
things you can do to get started investing anytime—not just in 2023) (https://www.bankrate.com/investing/how-to-start-investing/)

Stock Market Investing Is—and Isn’t—Black & White (findings from a Schwab survey indicate a narrowing investment gap while also revealing lingering issues) (https://workplace.schwab.com/content/stock-market-investing-is-and-isnt-black-white)

Investing Strategies for the Latino community (guidance to help anyone—regardless of race—get started investing, along with some Hispanic/Latino-specific statistics and factoids) (https://www.bankrate.com/investing/latino-investing-guide-strategies/)


Here’s how Black Americans can begin building wealth right now (steps include investing in the market and finding ways to pass money down to your heirs) (https://www.cnbc.com/2021/07/16/heres-how-black-americans-can-begin-building-wealth-right-now.html)

‘Change Agents’: Black and Hispanic Investors

Want Their Portfolios to Match Their Values (research finds that Black and Hispanic investors are more likely than white investors to want to take an active role in choosing their investments) (https://money.com/black-hispanic-investors-social-impact/)


Personal finance podcasts to enhance your knowledge

• 5 personal finance podcasts by BIPOC creators (https://www.chegg.com/life/money/5-personal-finance-podcasts-by-bipoc-creators)


• 15 Black Personal Finance Podcasts Improving Financial Literacy (https://plutusfoundation.org/2022/black-podcasts/)

About Consumer Action

www.consumer-action.org

Through education and advocacy, Consumer Action fights for strong consumer rights and policies that promote fairness and financial prosperity for underrepresented consumers nationwide.

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