

Morgan Stanley

July 2020

Six Financial Empowerment Nuggets for the African-American Middle Class Community

By Jesse Walton Jr., CFP® CIMA® CPWA®

*Executive Director, Financial Advisor, Portfolio Manager
The Melior Group at Morgan Stanley*



“It has been on my heart to take responsibility and share wisdom as to what we can control in our own financial situations, within our own community.”

Morgan Stanley

This past month has been a long, emotional road for my family and me. The recent tragedies and national protests have created unrest and sparked a much-needed national conversation around systemic racism, social injustice, and economic inequality against people of color, which has taken place in our country for over 400 years.

As an African-American Financial Advisor with 20 years of industry experience, I wanted to take time to share my thoughts on the topic of economic inequality within the Black community. Over these past 20 years, I have seen, heard and understood many perspectives from the Black community around the topic of economics, finances, and investments. In many cases, there are elements we cannot control without assistance from government policy and corporate leadership. However, it has been on my heart to take responsibility and share wisdom as to what we can control in our own financial situations, within our own community.

Here are six financial empowerment nuggets of wisdom – on finances, investments and estate-planning strategies – that I believe can reshape your community and our community.

1. YOU MUST HAVE A MONTHLY BUDGET

In today's consumer-driven economy, it is crucial to have a monthly budget that you manage and track regularly. Without budget planning – managing cash flow and ensuring that funds are allocated to the proper goals (i.e. emergency cash, retirement, college education) is extremely difficult. This can lead to overspending in the wrong budget areas and increased credit card debt.

2. YOU MUST HAVE EMERGENCY CASH

Consider keeping 6-12 months of emergency cash. Why? In turbulent economic conditions and recessions, the unemployment rate for our race is much higher than other races, ethnicities or nationalities.¹ Families and minority-owned businesses need to maintain much higher amounts than the general rule of 3-6 months of cash. Emergency cash is your buffer to weather economic storms. We know that tough

¹ EPI Analysis of BLS Current Population Survey Microdata (2018)

Morgan Stanley

times will come. The year 2020 offers a classic example of why having emergency cash is needed. The unemployment rate for African-Americans went from an all-time low in Feb 2020, to 16.8% through May 2020.² When this happens, your ability to lessen the financial blow to your household and avoid impact on retirement savings and increasing debt are extremely critical. Your financial situation cannot crash and burn every time there is a recession. I believe you cannot build and sustain wealth without ample emergency cash.

By the way, in many cases, credit card debt is caused by lack of emergency cash, not necessarily by frivolous spending.³

3. YOU SHOULD CONSIDER PARTICIPATION IN EQUITIES (STOCKS)

You should consider participating in the long term growth and appreciation of the US economy and global economy via the purchase of equities (stocks) and/or equity mutual funds. This is not a recommendation to put all of your money in equities. You should consult with a professional to understand your personal risk tolerance, goals, and objectives before considering equities as an investment allocation. As a race — research and surveys tell us that we keep many of our assets in cash and real estate, which historically have not provided a return as high as equities. The wealth gap continues to widen by race and nationality because we are getting left behind from the overall growth of stocks, as compared to cash and real estate.⁴

4. YOU SHOULD CONSIDER HAVING A PERSONAL FINANCIAL TEAM

You should consider creating your financial team of professionals to assist you with building, protecting and transferring your accumulated wealth. At minimum, your team should include the following: Financial Planner and Investment Advisor (this may be the same person or team), Estate Attorney (wills and/or trusts), Insurance

² US Bureau of Labor & Statistics (2020) <https://fred.stlouisfed.org/series/LNS14000006>

³ The Challenge of Credit Card Debt for African Americans, Catherine Ruetschlin, Dēmos, Dedrick Asante-Muhammad, NAACP (2013)

⁴ Ariel Investments 2015 Black Investor Survey: Saving and investing among higher income African-American and White Americans, (February 2016)

Morgan Stanley

Agent, and CPA (taxes). Why? There are lots of moving pieces throughout a 30- to 70-year period of wealth accumulation, and as you transition into and through retirement. Your financial team's job is to work together to help ensure the best possible outcome for you and your family. Lastly, this is very important: once you've chosen your team, they must know each other and be able to communicate with one another.

5. YOU SHOULD CONSIDER LIFE INSURANCE:

Are others financially dependent on you? What would happen to them if you died unexpectedly? Life Insurance can play a critical role in wealth accumulation and the growth of your estate over a lifetime. There are two main types of life insurance: term insurance and permanent insurance. Term insurance is a low-cost protection vehicle to help cover short term debts or survivor income replacement. Term is also a potential solution for business planning (Key-Person coverage, Buy-Sell funding). Term insurance provides coverage for a specified period of time. Permanent insurance provides coverages up to a lifetime. Permanent Insurance is a potential solution for wealth transfer, liquidity planning, estate equalization and gifting strategies. In addition, permanent insurance has potential for tax-deferred growth of cash value. Based on your financial situation, both can be adequate financial planning tools for different life stages.

This is not a solicitation for permanent or term life insurance, but rather an explanation of how both can provide coverage based on your life stage. With regard to African-American families, throughout my 20 years of managing wealth I have noticed that many families tend to have term insurance that expires near the age of 65. It was sold during the wealth accumulation stage of life and based on their needs around age 30-35 when they were newly married, near the beginning of starting a family, and based on what their budget could afford at that time. This is correct planning in most cases. As you transition into the next phase of life, the retirement phase, and begin to think about leaving money to children and grandchildren (generational wealth creation), this is where you might consider having insurance that has built a cash value and lasts until death. With permanent insurance, as long

Morgan Stanley

as you pay the insurance premium, the death benefit would go to your desired beneficiaries.

Please consult with your insurance professional to discuss your family's needs and goals depending upon your life stage. Note: Insurance should also be monitored and reviewed, just like your investment portfolio, to make sure it is performing according to your financial goals and objectives.

6. YOU SHOULD CONSIDER AN ESTATE PLAN

The Black community is filled with marriages, second marriages, blended families and single parents. In many cases, we are taking care of nieces, nephews and grandkids as part of our immediate family. You must have a will and/or trust (or combination of both) to ensure that your assets go to your desired individuals/organizations and are distributed in the most tax-efficient way. Do not let the probate court of your state dictate how your hard-earned accumulated assets are transferred.

In summary, there are no silver bullets, no shortcuts, and no secret formulas to financial success. It takes time, discipline and vision to build, maintain and transfer wealth. If you are in the first generation of wealth accumulation for your family, this can take 30-40 years to happen without an inheritance. I believe all of these nuggets are needed in your life-long journey toward financial independence and generational wealth creation.

So, be patient, be steady, and be empowered.

We are The Melior Group at Morgan Stanley
In Persistent Pursuit of Better

Morgan Stanley



Jesse Walton Jr., CFP® CIMA® CPWA®

Executive Director, Financial Advisor

Portfolio Manager

Senior Investment Management Consultant

The Melior Group at Morgan Stanley

5 Concourse Parkway, Suite 2000 | Atlanta, GA 30328

Phone: 770-481-1731

Fax: 470-419-8202

jesse.walton@morganstanley.com

<https://advisor.morganstanley.com/the-melior-group>

NMLS# 1288029

Morgan Stanley

The views expressed herein are those of the author and do not necessarily reflect the views of Morgan Stanley Wealth Management or its affiliates. All opinions are subject to change without notice. Neither the information provided nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. Past performance is no guarantee of future results.

Morgan Stanley Smith Barney LLC ("Morgan Stanley"), its affiliates and Morgan Stanley Financial Advisors or Private Wealth Advisors do not provide tax or legal advice. Clients should consult their tax advisor for matters involving taxation and tax planning and their attorney for matters involving trust and estate planning and other legal matters.

This material does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The strategies and/or investments discussed in this material may not be appropriate for all investors. Morgan Stanley Wealth Management recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a Financial Advisor. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives.

Morgan Stanley Smith Barney LLC does not accept appointments nor will it act as a trustee but it will provide access to trust services through an appropriate third-party corporate trustee.

Morgan Stanley Smith Barney LLC offers insurance products in conjunction with its licensed insurance agency affiliates.

Since life insurance is medically underwritten, you should not cancel your current policy until your new policy is in force. A change to your current policy may incur charges, fees and costs. A new policy will require a medical exam. Surrender charges may be imposed and the period of time for which the surrender charges apply may increase with a new policy. You should consult with your own tax advisors regarding your potential tax liability on surrenders.

Information contained herein has been obtained from sources considered to be reliable, but we do not guarantee their accuracy or completeness.

Morgan Stanley Smith Barney LLC. Member SIPC.
CRC 6281367 01/2024