

# Wealth Stratification and Portfolio Choice

Presented by Karl David Boulware

Wesleyan University

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# Introduction

- Over the past ten years, the unemployment rate has fallen by 6.4 percentage points, real GDP has grown by 25%, and the stock market has increased 2.5-fold.
- And yet, the already-large disparities in wealth and income between racial and ethnic groups has widened.
- Our goal is to explore the role households' asset allocation has played in exacerbating wealth stratification.

# What We Do

Our innovations:

- First, we define a new metric of wealth *stratification* based on racial/ethnic representation and wealth decile.
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Our main findings:

- Wealth stratification has increased, paralleling trends in income and wealth disparities.
- A contributing factor is the tendency for Blacks and Hispanics to hold less of their assets in equities, so they have missed out on the stock market boom.

## Relation to Existing Research

- Many studies compare wealth/income distributions (e.g. median wealth of Black versus White households), or the “rank gap”: Wolff (2014, 2017), Thompson & Suarez (2015), Kuhn *et al.* (2019). These studies ask: *conditional on race/ethnicity, what does the wealth distribution look like?*
- Some look at portfolio allocation by race/ethnicity, not controlling for other factors: Wolff (2014, 2017), Gittleman & Wolff (2004).
- Relative to the literature, our contributions are: (1) the use of a new stratification metric, and (2) an analysis of portfolio allocation, controlling for a number of other factors.

# The Survey of Consumer Finances (SCF)

- Collected by the Federal Reserve.
- Tri-annual cross-section survey of households, the most recent wave is 2016.
- Over-samples affluent households to better measure top end of the distribution.
- Includes a rich set of demographic variables.
- Generally considered the most accurate measure of income and wealth distribution.

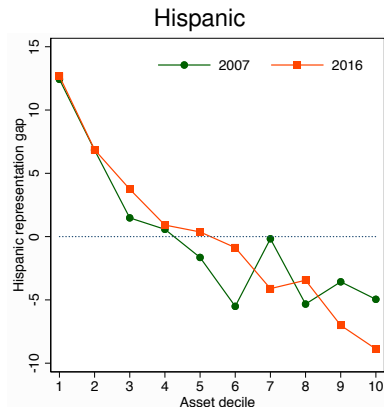
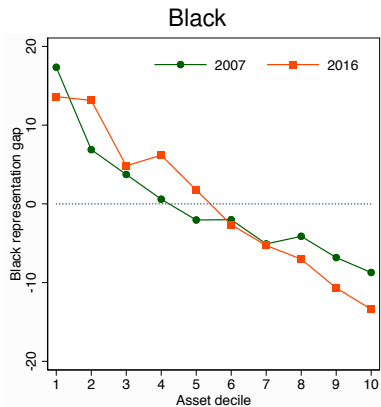
# The Wealth Distribution in 2016

	Asset Decile										Avg
	1	2	3	4	5	6	7	8	9	10	
Assets, \$1000s	0	2	14	64	129	206	303	469	902	5546	763
Net worth, \$1000s	-9	-12	-8	33	69	109	191	337	728	5243	668
Wages, \$1000s	14	22	35	34	38	49	55	61	90	218	62
Education level	8	9	9	9	9	9	10	10	12	12	9
White share, %	43	47	58	60	69	73	80	78	84	87	68
Black share, %	29	29	21	22	18	13	11	9	5	2	16
Hispanic share, %	24	18	15	12	12	10	7	8	4	2	11

Note: net worth excludes vehicles.

- Distribution is extremely skewed (Gini  $\approx$  0.8).
- Education is positive correlated with wealth.
- Racial/ethnic representation in the deciles is highly uneven.

# Visualizing Stratification



- Dots represents the group's share in wealth decile, relative to the population average.
- Steeper  $\Rightarrow$  greater stratification.



# A Metric of Wealth Stratification

$$S_i = \frac{1}{k} \sum_{j=1}^k |s_{i,j} - \bar{s}_i| \quad (1)$$

- *Measures the representation of a racial/ethnic group in a given wealth stratum.*
- Sum of gaps between the group  $i$ 's share in the  $j$ th wealth decile, relative to overall population share.
- Larger  $S_i \Rightarrow$  more stratification.

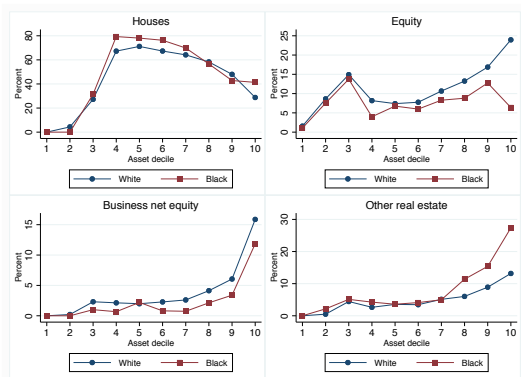
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- Increased from 2007 to 2016, especially for Blacks.

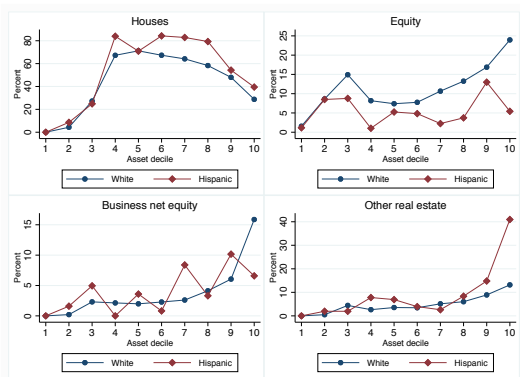
	Black	Hispanic
2007	5.7	4.2
2016	7.9	4.9

# Blacks' Portfolio Allocation as of 2007



Relative to White households (blue line): Blacks (red line) hold a *larger* share of assets in real estate, a *smaller* share in equity.

# Hispanics' Portfolio Allocation as of 2007



Like Black households, Hispanics (red line) hold a *larger* share of assets in real estate, a *smaller* share in equity.

# Race, Ethnicity and Portfolio Choice

	Houses	Equity	Business	Other RE	Other financial
Log assets	9.63***	0.74***	-0.20***	0.055	-10.2***
Log assets squared	-0.59***	0.044***	0.28***	0.19***	0.26***
Black	-0.92	-0.70	-0.66*	0.45	2.29
Black * log assets	1.01**	-0.59***	-0.12	0.48***	-0.30
Hispanic	-6.72***	1.25	0.51	-0.35	4.95**
Hispanic * log assets	1.79***	-1.00***	-0.13	0.90***	-0.66*

- We regressed portfolio shares on log assets and its square, race/ethnicity dummies, and dummies interacted with log assets; plus controls for age, education, and family size.
- The regression results confirm that Blacks and Hispanics hold more wealth in real estate, less in equities, controlling for other covariates.
- The gap depends on wealth level: at 90th percentile, for equities the gap is -6.7 percentage points for Blacks, -9.0 for Hispanics.

# Conclusion and Policy Implications

- Wealth stratification for Blacks and Hispanics is large and increasing.
- Portfolio choice could be one contributor (among many).
- If so, the question is *why*?
  - Peer effects (Bursztyn *et al.*, 2014).
  - Initial conditions (Bogan & Darrity, 2008).
- Macro policies that increase overall prosperity don't ameliorate inequality; micro policies, such as financial education and child development investment accounts, are needed.