

# Research Policy Brief

## Family Economics Research Coordinating Committee (NCCC052)

### The Decrease in Stock Ownership by Minority Households

**The issue.** Disparities in wealth between minority households and white households in wealth have not decreased much during the past 20 years. The proportion of Hispanics, Asians, and the other minority population are projected to double between 2000 and 2050, thus, the wealth of minority groups is important in considering the wealth of U. S. households. To find out the causes of the 2001-2004 drop in stock ownership rates by minority households in the United States, this study analyzes the Survey of Consumer Finance datasets for 2001 and 2004.

**According to our research.** This conceptual model suggests that recent stock market changes and other economic changes might influence the willingness to invest in high return but risky assets such stocks. Under this model, portfolio allocation decisions are based on lifecycle stage, income, and other household characteristics, and willingness to take investment risks. Hypothetically, stock ownership will not change between 2001 and 2004 after controlling for changes in risk tolerance and household characteristics.

However, results of the analysis suggest that stock ownership rates for minority households would have decreased significantly from 2001 to 2004, but those of white households would not have decreased. This result indicates that reasons other than changes in risk tolerance, demographic, and economic characteristics may have led to the decreased stock ownership of minority households. One possible reason is that minority households' shorter investment history may have led more of them to panic when the downturn occurred in 2002. It may be that white investors are more experienced with the stock market, so that they are prepared for the inevitable drops. Minorities tend to be new investors and may be scared off more easily.

**Policy conclusions.** In the long run, households build wealth by putting money in high-return investments, and there's no better high-return investment for most people than the stock market. There are going to be scary periods, but in the long run investing in stocks is still a good idea. The best remedy may be increased education. It is important that households understand the long-term nature of investments and how high-yield investments like stocks perform over the years when compared to other types of savings and investments.

*By Sherman D. Hanna (Ohio State University) and Suzanne Lindamood (Ohio Legislative Service Commission)*

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The NCCC052 committee, functioning under the National Agricultural Experiment Station System, facilitates collaboration among family economics researchers nationally and internationally. The committee provides a forum to examine research methodology and family economic issues in depth from a multidisciplinary perspective. The committee fosters development of research related to the economic well-being of individuals and families that is of interest to multiple institutions across the nation. For more information, see <http://nimss.umd.edu/homepages/home.cfm?trackID=7036>.