

Racial/Ethnic Difference in Risky Assets Ownership

After the Financial Crisis

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Abstract

The purpose of this study is to investigate risky assets ownership after the financial crisis by race/ethnicity using the 2010 Survey of Consumer Finances (SCF) datasets. The results indicate that 65% of White, 38% of Black, 31% of Hispanic, and 61% of Asian/Other households own one or more risky high-return assets such as stock, business assets, and investment real estate. Logistic regression analysis suggests that even after controlling for income, risk tolerance, education, and other factors, Black, Hispanic, and Asian/Other households are less likely to hold risky assets than White households. Based on results from the decomposition methods, if the households with respondents choosing one of these three identifications had the same demographic and economic characteristics as White households, the racial/ethnic gap in risky assets ownership would be narrowed to a large degree.

Key Words Racial/ethnic differences, decomposition methods, investment choices, portfolio allocation

I. Introduction

Investment in risky assets can improve a household financial well-being. If households have a long horizon it is rational to hold a risky diversified portfolio to maximize their lifetime satisfaction (Hanna & Chen, 1997). Although there are some risks, households are better-off by holding some risky assets with the high rate of returns in the long run. A classification of risky assets is based on historical mean rates of returns, and standard deviation of each asset. If assets produce high returns corresponding to a high volatility, then previous research categorize them as risky assets (Embrey & Fox, 1997; Gutter, Fox, & Montalto., 1999; Gutter & Fontes, 2006; Hanna, Wang, & Yuh, 2010). This study considers investment in stocks including individual stocks and stocks in mutual funds, real estate, and business ownership as risky assets following Hanna, Wang, and Yuh's definition (2012). Historically, stocks yield much higher returns than other financial investments (Morningstar, 2007). Investment in real estate and business ownership may still be a reasonable way of diversifying household assets in terms of a high expected return and risks even though it is difficult to estimate the average rate of return, and standard deviation of two assets (Hanna et al., 2012).

Race/ethnicity is one of the factors correlated with the willingness to take financial risks, and thus individuals' risky assets ownership directly and indirectly (Yao, Gutter, & Hanna.,

2005). Also, according to Yao et al., risk tolerance is influenced by other factors including market expectations, and life-cycle characteristics. The financial market during the Great Recession from 2007 to 2008 changed dramatically. Bricker, Kennickell, Moore, and Sabelhaus (2012) indicated that major stock market indexes fell sharply by almost 50 % between September 2007 and March 2009, but only about one-half of the losses had been recovered by September 2010. The unemployment rate soared up to 9.5% in the second quarter of 2009, and stayed above 9.4% during 2010. The high unemployment rate may influence some households' investment decisions in that they might have a much shorter time horizon than those who are employed, and thus shift from stock investments to liquid assets such as cash equivalents.

In a normative framework, if factors including income and risk tolerance, even after the financial crisis, are the same for all race/ethnicity groups, there should not be a difference in the ownership of risky high return assets depending on racial/ethnic groups. However, individuals do not always make rational choices due to the complexity of their financial situations, and difficulties of understanding financial market and products (Campbell, 2006). The losses resulting from the financial crisis may influence individuals' expectations about the market differently depending on race/ethnicity, and the impact of the financial crisis on risk tolerance, and risky assets ownership might differ by race/ethnicity. This gap is probably explainable by various levels of access to, and usage of information about the stock market. Also, individual preferences regarding financial assets by racial/ethnic groups could influence the diverse levels of risk tolerance, and thus choices of risky assets. In this sense, it is significant to investigate individuals' ownership of risky assets by race/ethnicity after the financial crisis.

Although this study mainly follows Hanna, Wang, and Yuh's framework (2010), this study is distinct in that this study uses the datasets collected in 2010 after the recession, includes Asian/Other households for analyses, and take a non-linear approach for a decomposition method, while Hanna et al. analyzed the 2004-2007 datasets before the financial crisis, excludes Asian/Other households, and assumed a linear model for the decomposition. The most important contribution of this study is that the datasets from the 2010 SCF survey are utilized, which include information about U.S. households' financial assets after the financial crisis. This will help to discover how the recent recession influenced U.S. households' choices regarding the ownership of risky assets.

Secondly, this study includes Asian households' risky assets ownership compared to that of White households. Most previous studies focusing with racial/ethnic differences in risky assets ownership have excluded Asian households from analyses due to the small number of samples available, or a limitation of datasets. However, since the 2010 SCF dataset collected 47% more samples than usual, it is possible now to ensure a quality number of samples for analyses. In the SCF public dataset, only a single category of "Asian/Other" combining Asian and other racial/ethnic groups together is provided, but it is suggested that most households in this category are likely to be Asian or Pacific Islander (Hanna & Lindamood, 2008). While it is difficult to disentangle Asian groups from other racial/ethnic groups, it is still meaningful to include this group for our analyses since very few studies have actually examined Asian households' ownership of risky assets.

Lastly, this study uses a decomposition technique in order to clarify if differences in risky assets ownership are due to characteristics of households, or due to factors unobserved. In the current study, a variation of the Blinder-Oaxaca decomposition method (Blinder, 1973; Oaxaca,

1973) as described by Fairlie's technique (2005) is used. In the SCF dataset, since there are differences among the number of each racial/ethnic group interviewed, a repetitive sampling procedure in which to match the number of subjects in the White group to that of non-White racial/ethnic groups is used for Fairlie's decomposition method in order to reduce selection biases. Also, Fairlie's model could be more appropriate because the dependent variable of our model is binary, which denotes ownership of risky assets while the Blinder-Oaxaca technique is based on a continuous dependent variable. The model based on the Blinder-Oaxaca technique will also be applied for sensitivity tests.¹

II. Method

The 2010 SCF dataset is used to investigate the White-Black, White-Hispanic, and White-Asian gaps in risky asset ownership. In the 2010 Survey, 6,492 households were included in the dataset, which is about 47% larger than the datasets collected in the previous years. The SCF is a triennial cross-sectional survey of U.S. households. The data provides rich information on households' wealth, financial assets holdings, and demographic characteristics of the U.S. households. Table 1 shows the number of households with respondents self-identifying in each racial/ethnic category in the 2010 dataset. After the 2004 dataset, the newer question asking a separate Hispanic identification question is added, and it is possible to create a combined coding with both questions. For instance, if a respondent's self-identified race/ethnicity is White in the older question, and Hispanic in the newer question, the respondent is recoded as Hispanic. This study uses the older variable, which is consistent with Hanna et al.'s study (2012). For some households, same households are coded in different racial/ethnic categories in different implicates. Since the racial/ethnic identification is a major explanatory variable for analysis, the 34 households that do not have the same racial/ethnic category in all five implicates are excluded in this study.

The dependent variable is dichotomous, and coded as 1 if the household holds at least one risky asset such as stocks, real estate investment, or business assets. Logistic regression analysis will be used for the dependent variable with the value of 0 or 1. The explanatory variables are included such as race/ethnicity of the respondent, age of the head of household, age squared, education, health status, risk tolerance, household income, presence of children under the age of 18, household type, expectation of inheriting wealth, and homeownership. Both age and age squared are included considering a non-linear effect of age of the head of household on risky assets ownership. If a household has a child or foster child of the head or of the spouse/partner aged under 18, children's presence is coded as 1, otherwise 0.

The risk tolerance is measured by the question: "Which of the statements on this page comes closest to the amount of financial risk that you are willing to take when you save or make investments?" The responses are: "taking substantial financial risks expecting to earn substantial returns, taking above-average financial risks expecting to earn above-average returns, taking average financial risks expecting to earn average returns, and not willing to take any financial

¹ We have not included the literature review and some other sections for this version of the paper, but the reference list includes all papers we referred for this study. For theoretical and empirical frameworks, we followed Hanna, Wang, and Yuh's study (2010). For full paper, send an email to Su Hyun Shin, shin375@osu.edu.

risks.” The reference category is “not willing to take any risks”, and the other three levels of risk tolerance will be included into the models as dummy variables.

For education, for single households, the head’s highest educational attainment will be used while for coupled households, the higher educational attainment between the head and the partner will be selected. The level of education will be categorized into less than high school degree, high school degree, some college without degree, bachelor degree, and post bachelor degree. The reference category is “less than high school degree”, and the other educational attainment will be included as dummy variables. There are four levels of health status: poor, fair, good, and excellent health. The reference category is “poor health”, and the other health categories are used as dummy variables. For coupled households, if either one or both have poor health the household is coded as having poor health, etc. If the household owns a house, the home ownership variable is coded as 1, otherwise 0. Household type has three categories, with couple as the reference category, and single male and single female households are coded as dummy variables.

III. Results

Descriptive Results

The mean amount and ownership of each risky asset including stocks, investment real estate, and business investment for all samples and for each racial/ethnic category are presented in Table 2. Stock assets comprise 38%, investment real estate assets comprise 24%, and business investment assets comprise 38% of the total of risky assets. Black and Hispanic households are less likely to own each type of risky assets as opposed to White households in general, and risky assets ownership between White and Asian/Other households appear to be similar. Non-financial assets such as investment real estate for Black households and business investment for Hispanic households are important, comprising a higher proportion of risky assets for those households than White households.

Table 3 shows the ownership of one or more risky assets investment by racial/ethnic categories. The proportions are 57.6% (vs. 58.1% in 2004-2007 dataset) for all households, 65.1% (vs. 65.1%) for White households, 38.4% (vs. 35.7%) for Black households, 31.3% (vs. 30.3%) for Hispanic households, and 60.9% (vs. 66.6%) for Asian/Other households. The percentages of risky assets ownership are relatively the same for all households, and exactly the same for White households as the results for the combined 2004-2007 dataset before the financial crisis. There are slight increases in the proportions of risky assets ownership for Black households and for Hispanic households after the financial crisis. A noticeable decrease in the proportion of risky assets ownership is observed in Asian/Other households.

Multivariate analyses

Results from the logistic regression analyses are presented in Table 4. Logistic regression is used to predict the probability of holding risky high return assets as a function of explanatory variables such as racial/ethnic groups, income, and risk tolerance. Net worth is not included in

the model due to endogenous issues that households with risky high return assets are more likely to have a higher net worth than those without risky assets. Based on the results, most of the selected explanatory variables are related to the probability of risky assets ownership for pooled samples and for each subgroup. Even after controlling for income, education, risk tolerance, and other factors, there are significant differences in risky assets ownership by racial/ethnic groups, and Black, Hispanic, and Asian/Other households are less likely to hold risky high return assets than those of White households.

Hanna et al. (2010) estimated coefficients from logistic regression analysis with the 2004-2007 SCF dataset, and estimates are -.7085 (vs. -.5701 with the 2010 SCF dataset) for Black households, -.6318 (vs. -.7265) for Hispanic households, and -.0332 (vs. -.2869) for Asian/Other households in the model with pooled samples of all households. Interestingly, there is no significant difference between White and Asian/Other households before the financial crisis based on Hanna et al., while Asian/Other households are significantly less likely to hold risky assets compared to White households after the recession. This may suggest that Asian/Other households are more responsive to the economic recession than White households when investing in risky assets although a further analysis is required to confirm this statement with panel data. Although a marginal effect becomes greater after the recession than before the recession, a tendency that Hispanic households are less likely to hold risky assets than White households is remained the same as before the recession. Black households are less likely to hold risky assets than White households, but a marginal effect of being a Black household is decreased after the financial crisis, indicating that the racial gap between the two groups is slightly declined if we control for other characteristics of households. Historically, Black households tend to prefer to hold tangible, nonfinancial assets such as housing instead of financial assets (Blau & Graham, 1990). However, the recession might influence Black households to reallocate their assets from tangible to intangible due to a drop in housing values during the period.

Age is strongly related to the likelihood of risky assets ownership except for the Asian/Other group, and age squared is significant in the models with the pooled sample, the Hispanic, and the Asian/Other group. Predicted risky high return assets ownership increases with age for the pooled sample and each subsample except for the Asian/Other group. For the Asian/Other group, the probability of risky assets ownership increases with age, and then decreases. Income is an important factor to predict risky assets ownership for the pooled samples and each subsample, even though the relationship is rather weak for Hispanic and Asian/Other households. As income increases so does predicted risky assets ownership increase in the model. Education is a strong predictor for risky high return assets in the pooled samples and in the subsamples, although the effect of having a high school, some college, or bachelor degree for Asian/Other households is not significantly different from having less than a high school degree. This may be due to the small number of Asian/Other households in each education category, especially in the lowest education category. Otherwise, education is not a strong predictor of the likelihood of risky assets ownership for Asian/Other households.

Health status is significantly related to risky assets ownership in the pooled sample and most of the subsamples except for Hispanic households. In the pooled sample and other racial/ethnic samples, health status has a positive relationship with risky assets ownership. Based on the health capital theory (Grossman, 1972), having good health indicates more days for

individuals to work and earn income; households with good health would have more resources to invest in risky high return assets than those with poor health. The willingness to take some level of risk is positively related to the probability of risky high return assets ownership, although Asian/Other households that are willing to take substantial risks are not significantly different from those households who are not willing to take any risk. This might be explainable by the small number of samples in this category of risk tolerance for Asian/Other households.

Single male and single female households are less likely to hold risky high return assets than coupled households in the pooled sample and each subsample. A marginal effect of being in single female households is greater than the effect of being in single male households for all groups except for Asian/Other households. Households with home ownership are more likely to hold risky high return assets than those without home ownership in the pooled sample and each subsample because renters are more likely to invest in safer assets to meet their goal of purchasing a home in the future. Having children aged less than 18 in their home decreases the probability of risky assets ownership in the Asian/Other sample. It is probably because since Asian parents invest their resources more for their child than other racial/ethnic parents, they are less likely hold risky assets than others. Households that expect a substantial inheritance in the future are more likely to hold risky assets except for Asian/Other households. Since they expect to have greater wealth in the future from an inheritance, they might be more willing to take risks, and invest in risky assets. On the other hand, Asian households that expect an inheritance might have a low desire to invest in risky assets because they have more resources for consumption smoothing than those who do not expect an inheritance.²

IV. Conclusions

The influence of the recent recession has only a minor effect on risky assets ownership of the U.S. households in general. There are slight decreases in risky assets ownership for all racial/ethnic subgroups except for White households. In particular, the percentage of Asian/Other households that hold risky assets is declined by almost 6 percent points, which is more than that of the other racial/ethnic groups. There is no significant difference in risky assets ownership between White and Asian/Other households before the recession, but Asian/Other households are significantly less likely to hold risky assets than White households after the recession, although the difference is not as great as that of Black and Hispanic households. However, this result could be limited in that this study uses the cross-sectional data collected in 2010 after the financial crisis. In order to clearly investigate effects of the recession on risky assets ownership of the U.S. households, the 2007-2009 SCF panel data would be a better choice.

Differences in characteristics of households explain most of the total difference in risky assets ownership between White and households with a respondent self-identifying with one of the three other racial/ethnic groups, i.e. accounting for about 73% for Black, 72% for Hispanic, and 53-54% for Asian/Other households. If other racial/ethnic households had the same demographic and economic characteristics as White households, the racial/ethnic gap in high return assets ownership between White and other racial/ethnic households would be drastically

² Results obtained from decomposition methods are not reported in this version of the paper, but summaries of main results are discussed in a conclusion.

declined. Before the financial crisis, household characteristics explain 102% and 89% of differences in risky assets ownership for Black and Hispanic households, respectively (Hanna et al., 2010). The racial/ethnic gaps in risky assets ownership are widened after the recession, which may imply that other racial/ethnic households are somewhat more responsive to the economic shock than White households. Further study is required to support this different reaction to the negative economic shock depending on race/ethnicity.

Also, reducing the differences in education, homeownership, and risk tolerance would greatly contribute to abate the gaps in risky assets ownership for Black and Hispanic households. For Asian/Other households, the racial/ethnic gap could be diminished if Asian/Other and White households have similar characteristics in age of head and homeownership. An interesting fact is that education contributes a significant amount in decreasing the difference in risky assets ownership between Asian/Other and White households. Decomposition methods are advantageous in that quantitative dimensions of the importance corresponding to each independent variable can be obtained. Contrary to logistic analysis assuming the same contributions of each characteristic of households (Fairlie, 1999), the decomposition methods enable us to compare the effects of race/ethnicity of households and those of other variables on the difference in risky assets ownership. Results from the decomposition methods can provide us with more implications in the racial/ethnic gap in risky assets ownership than logistic analysis.

Similar results are drawn from the two decomposition methods except for the fact that an income effect dominates effects of other variables when explaining the racial/ethnic gap between White and non-White households. It seems that the Blinder-Oaxaca method is more sensitive to units of variables than the Fairlie method. The detailed results are not reported in this paper, however when income is included into our model instead of log of income, the percentage of the difference in racial/ethnic gap explained by income is much higher than the current estimates while the Fairlie method produces relatively consistent estimates regardless of which income measure is used. It might be better for researchers to utilize the Fairlie method for nonlinear models to obtain more reasonable and consistent results.

The effect of the economic recession could be investigated better with comparing actual values of risky assets owned by households rather than analyzing risky assets ownership since households may choose to hold less amounts of risk assets than before the recession over to reallocate their assets from risky assets to safe assets and not holding any risky assets. Future research could utilize the two-stage model developed by Heckman (1979). The two-stage model is recommended to avoid selection bias because households holding risky assets and those not holding risky assets might be systematically different.

Economic and demographic characteristics of households such as homeownership, risk tolerance, and education are important factors contributing to the racial/ethnic gap between White and Black, and White and Hispanic households. As we observed from the decomposition results of Asian/Other and White households, showing that education decreases the gap, it is possible to encourage minority groups to hold risky assets by improving their socioeconomic situations. Also, financial education and socialization could be helpful to change risk tolerance of Black and Hispanic households, which is related to investing behavior in risky assets. An increased effort in financial education targeted to Black and Hispanic households will reduce the racial/ethnic gap.

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[Table 1] Racial/Ethnic Category

Category	Frequency	Percent (%)
White	4,729	70.73
Black	788	13.85
Hispanic	639	10.80
Asian/Other	292	4.62
Total	6,448	100.00

Note: The 34 households with imputed values for racial/ethnic identifies are excluded.

[Table 2] Ownership and Mean Levels of Stock, Investment Real Estate, and Business Assets by Race/Ethnicity

Investment		Racial/Ethnic Category				
		White	Black	Hispanic	Asian/Other	Total
Stock assets	Percent owning	57%	30%	25%	52%	50%
	Mean dollars	135,839	13,493	12,558	121,784	104,934
	Proportion of all risky assets	38%	32%	26%	42%	38%
Investment real estate	Percent owning	21%	13%	9%	18%	19%
	Mean dollars	82,056	22,943	14,601	63,132	65,712
	Proportion of all risky assets	23%	55%	30%	22%	24%
Business assets	Percent owning	16%	6%	6%	15%	13%
	Mean dollars	134,887	5,398	21,258	107,503	103,492
	Proportion of all risky assets	38%	13%	44%	37%	38%
All risky assets	Mean dollars	352,907	41,761	48,432	292,770	274,161

Note: The 34 households with imputed values for racial/ethnic identifies are excluded.

[Table 3] Ownership of One or More Risky Assets Investment by Race/Ethnicity

Category	Percent Distribution	Percent owning any risky assets
All	100	57.6
White	70.73	65.1
Black	13.85	38.4
Hispanic	10.80	31.3
Asian/Other	4.62	61.0

Note: The 34 households with imputed values for racial/ethnic identifies are excluded. These results are similar to Hanna et al.'s results with the 2004-2007 SCF datasets.

[Table 4] Logistic Results: racial difference in risky assets ownership in different samples

Variable	Racial/Ethnic Category									
	Pooled sample		White		Black		Hispanic		Asian/Other	
	Coef.	p	Coef.	p	Coef.	P	Coef.	p	Coef.	P
Intercept	-5.272	.000	-5.3119	.000	-10.320	.000	-5.9689	.000	-5.2119	.005
Racial/Ethnic group: reference category = White										
Black	-.5701	.000								
Hispanic	-.7265	.000								
Asian/Other	-.2869	.003								
Age of head	.0301	.000	.0304	.000	.0338	.000	.03822	.000	.0154	.230
Age squared	-.0001	.003	-.0000	.175	-.0002	.060	-.0003	.014	-.0005	.000
Log of income	.1311	.000	.1167	.000	.5665	.004	.2275	.088	.3842	.059
Education: reference category = less than high school										
High school	.8575	.000	.6432	.000	1.2970	.000	.9418	.000	.6762	.111
Some college without degree	1.1706	.000	1.0087	.000	1.4325	.000	1.1360	.000	.5181	.240
Bachelor degree	1.8285	.000	1.5915	.000	2.2411	.000	2.0213	.000	.6991	.123
Post-bachelor	2.3833	.000	2.2570	.000	2.2226	.000	2.0416	.000	1.3292	.012
Health status: reference category = poor health										
Fair health	.4977	.000	.6022	.000	.0131	.932	.0570	.770	.8366	.008
Good health	.9337	.000	1.0832	.000	.7835	.000	-.2330	.236	.7164	.019
Excellent health	1.0702	.000	1.2001	.000	.9066	.000	.0348	.872	.5852	.079
Risk tolerance: reference category = not willing to take risk										
Average	1.1829	.000	1.4335	.000	.5439	.000	.6448	.000	.4691	.008
Above average	1.5834	.000	1.8631	.000	.9764	.000	1.2148	.000	.7198	.001
Substantial	1.2758	.000	1.7371	.000	.6681	.004	.5700	.005	.5066	.107
Household type: reference group = couple										
Single male	-.5463	.000	-.5989	.000	-.0199	.885	-.4361	.011	-1.0121	.000
Single female	-.6117	.000	-.6756	.000	-.0771	.566	-.4439	.000	-1.0014	.000
Home owner (v. renter)	1.1214	.000	1.1344	.000	.6749	.000	1.1655	.000	2.4402	.000
Child <18	-.0124	.751	.0435	.376	.0634	.507	-.0892	.429	-1.0165	.000
Expect inheritance	.4925	.000	.0580	.000	.8365	.000	1.2833	.000	-.9471	.005
Pseudo R ²	.3609		.3455		.2926		.2481		.3535	

Note: The 34 households with imputed values for racial/ethnic identifies are excluded.