

Changes in the risk tolerance of US households during 1992-2013

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Abstract

This research extends the work of Yao, Hanna, and Lindamood (2004) and others in attempting to ascertain how stock market fluctuations affect the risk tolerance of households. We used the 1992 to 2013 datasets of the Survey of Consumer Finances (SCF), and found that whether respondents were willing to take some risk varied somewhat during the period, with proportions increasing in the 1990's with the increases in stock market levels, and decreasing since 2001. In contrast, the proportion of respondents willing to take substantial or above average investment risk ("high risk tolerance") fluctuated much more during the period in relative terms, and generally was high after a sustained period of stock market gains. The proportion of respondents with high risk tolerance was low in the 2013 SCF, but is likely to be higher in the 2016 SCF. Logistic regression analyses controlling for age, racial/ethnic status, household composition, and other characteristics had generally similar results to the descriptive patterns, so the changes do not seem primarily related to changes in household composition.

Keywords: Risk tolerance, Stock market, Survey of Consumer Finances
JEL classification: D12, D14, G11

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