



**KDI Conference on the Current Financial Issues
in China**

**The Study on Household
Portfolio Choice in China**

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UIBE**

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Theoretical Importance

**Asset
Pricing**



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graph TD; A([Asset Pricing]) --> B[Corporate Finance]; A --> C[Household Finance ?];
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**Corporate
Finance**

**Household
Finance**

?

Practical Importance



The Poors' Investment



Low Education level Individuals' Investment



Complexity of Financial Products



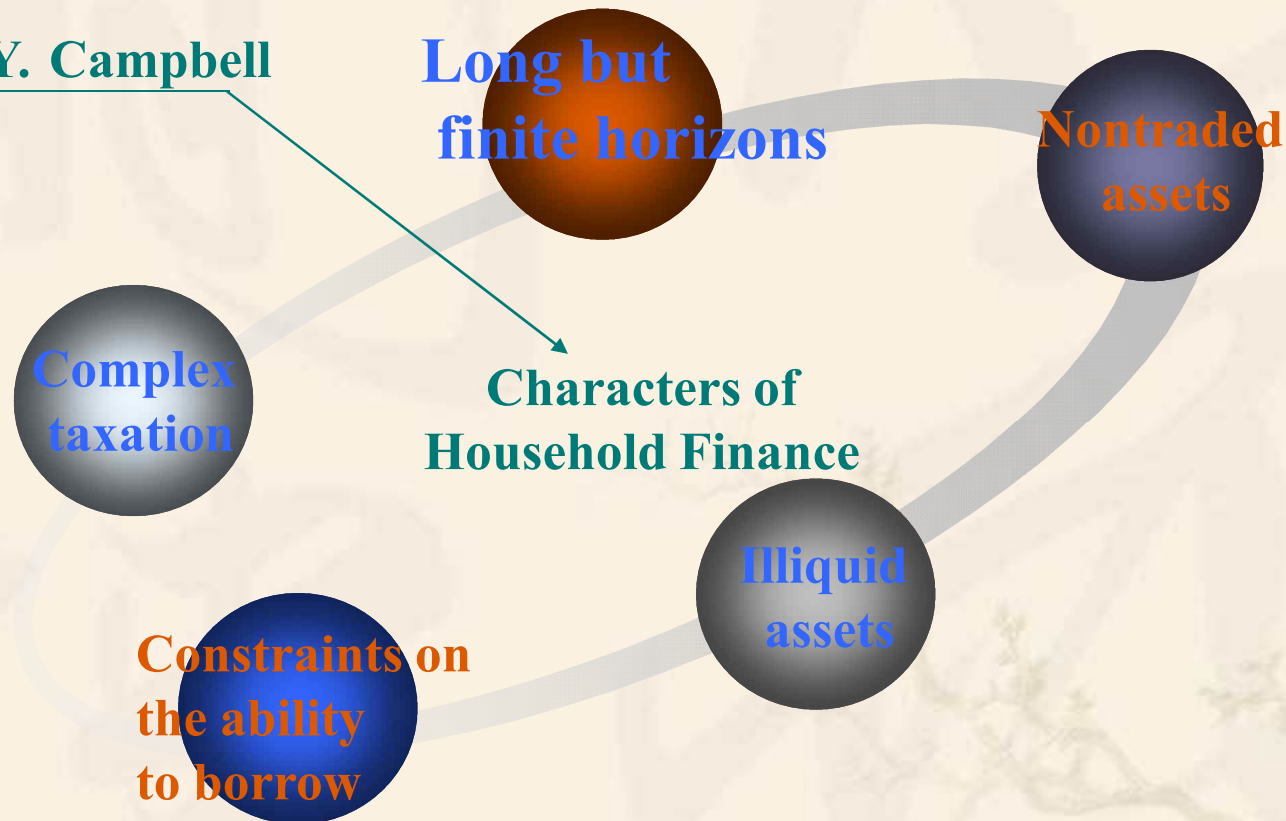
Household Financial Engineering?



Macroeconomic Effect

Is Household Finance a new field of Finance ?

John Y. Campbell



Data

- ❖ Most of Data in the series of study come from the “Chinese investor behavior” survey of Beijing Aordo Center from 2005 to 2009.
- ❖ Data in the study on the study of financial development and household portfolio choice come from synthesized statistics of data of PBC, NBS, CBRC, CIRC, www.chinabond.com.cn, and so on.

Characters of Household Portfolio Choice in China

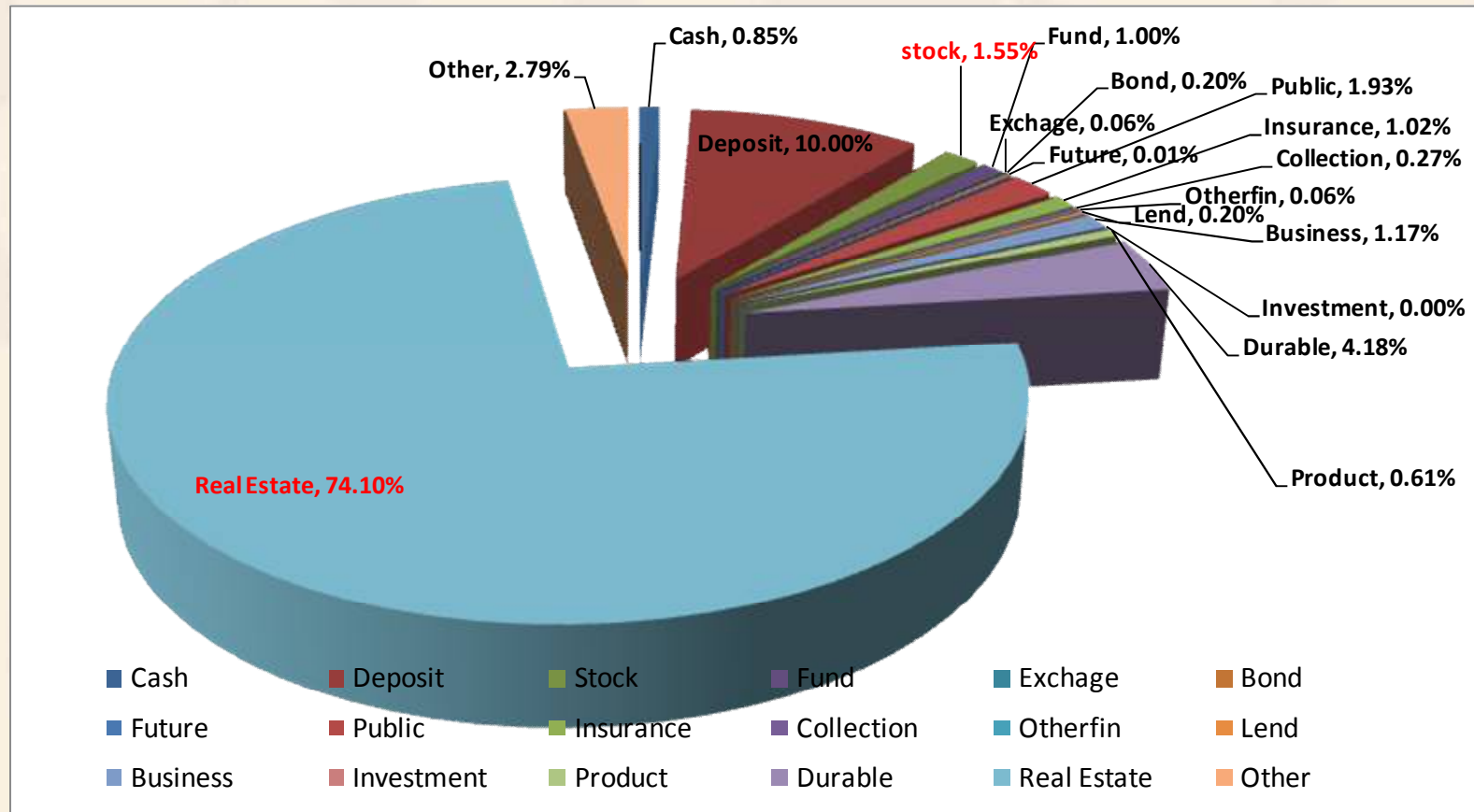


Figure 1 Household Portfolio Composition in China in 2009

Characters of Household Portfolio Choice in China

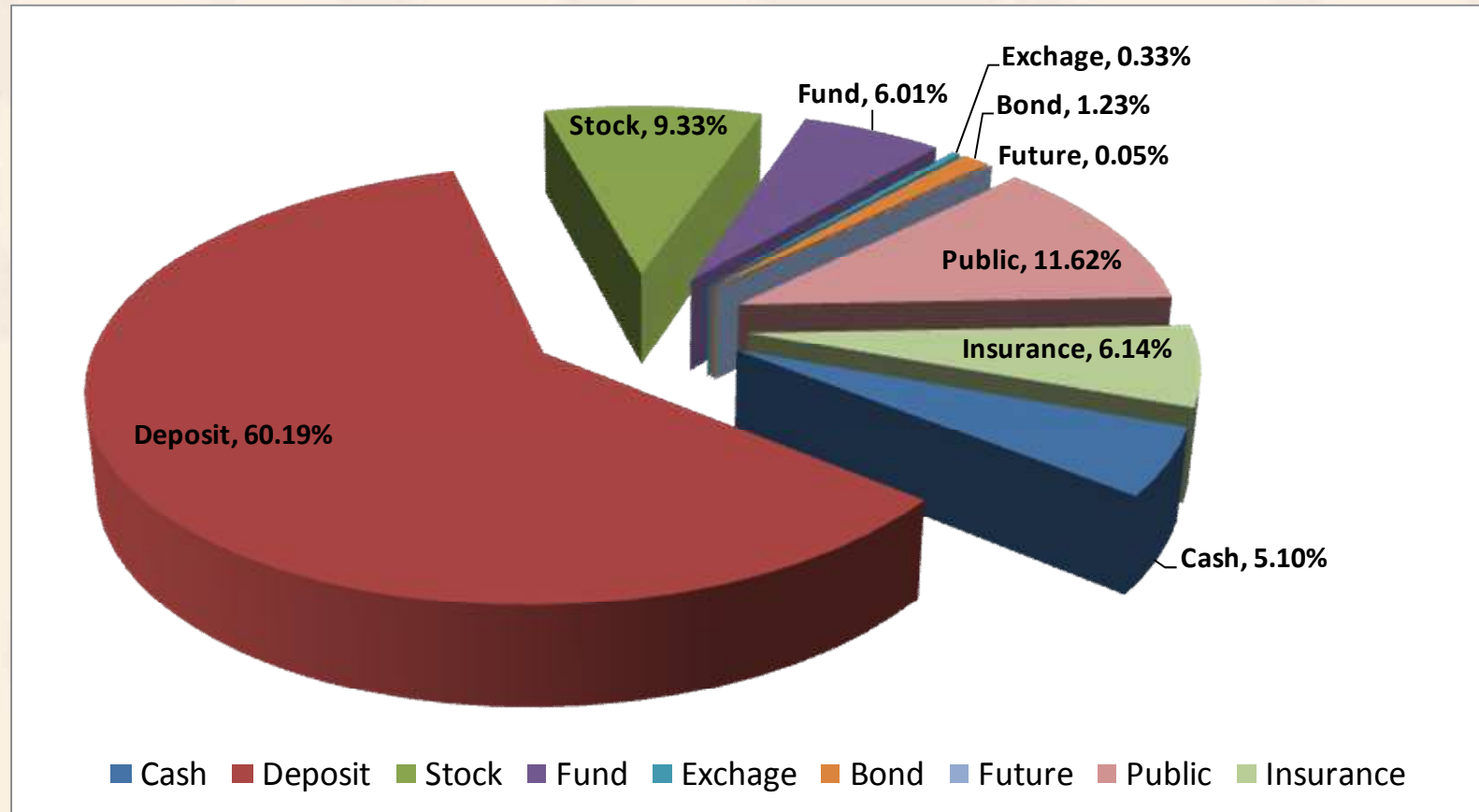


Figure 2 Household Financial Assets Composition in China in 2009

Characters of Household Portfolio Choice in China

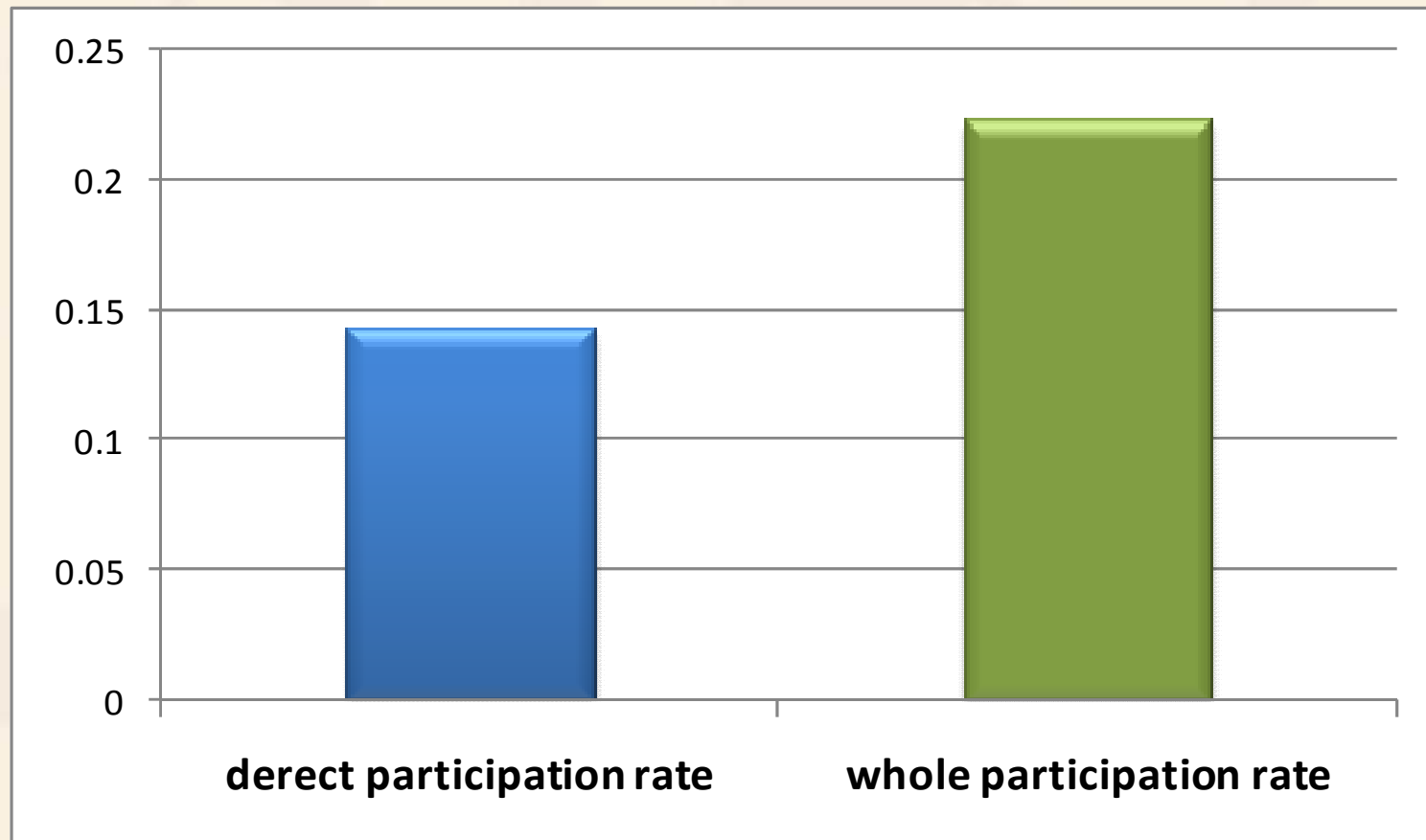


Figure 3 Stock Market Participation Rate in 2009

Characters of Household Portfolio Choice in China

Two Problems

The proportion of
stocks/total assets
(financial assets) is
low in China

Stock market
participation rate
is low in China

Factors Which Affect Household Portfolio Choice in China



Life Cycle and Household Portfolio Choice in China

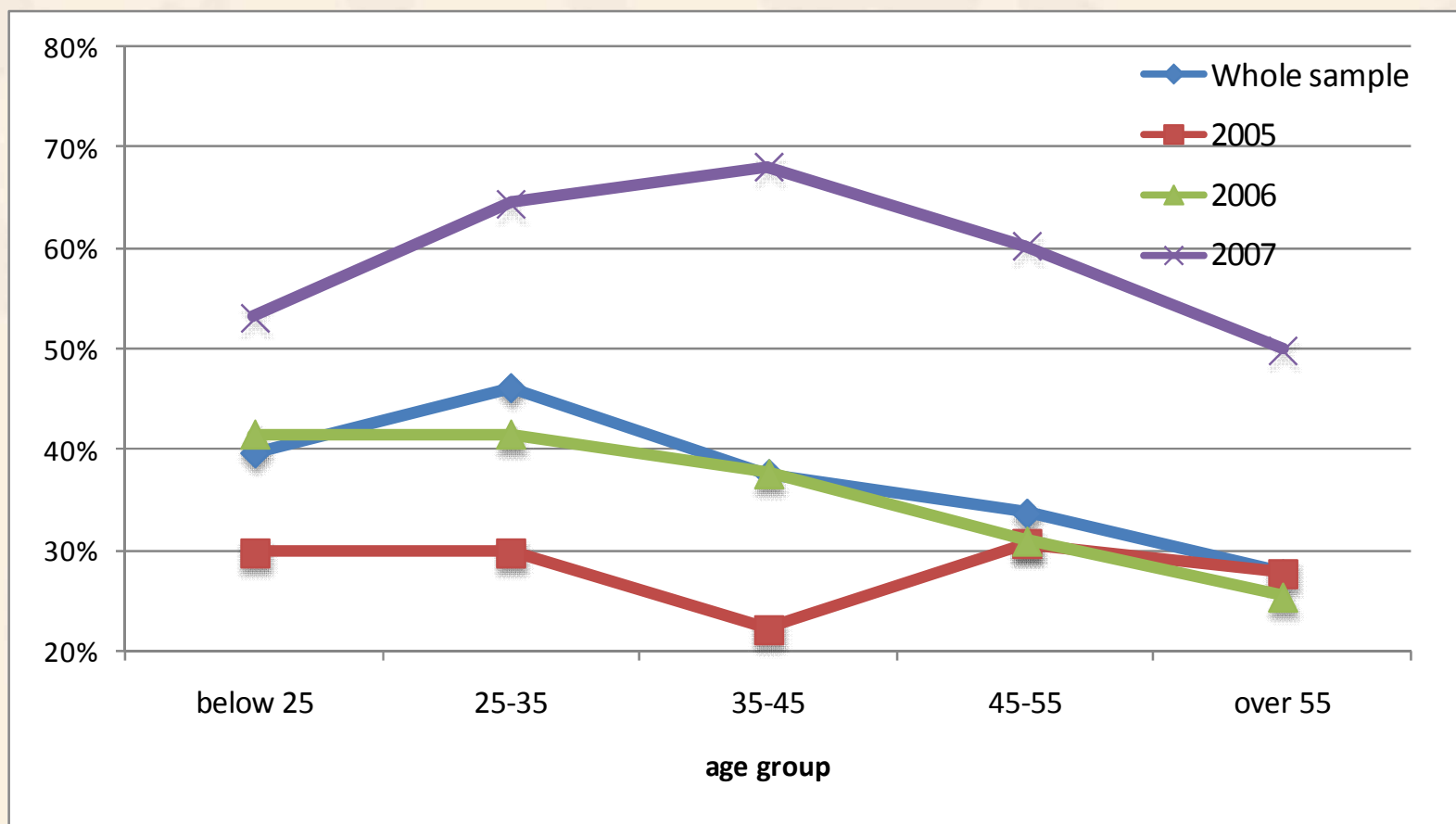


Figure 4 The Whole Market Participation Ratio Grouped by Age

Life Cycle and Household Portfolio Choice in China

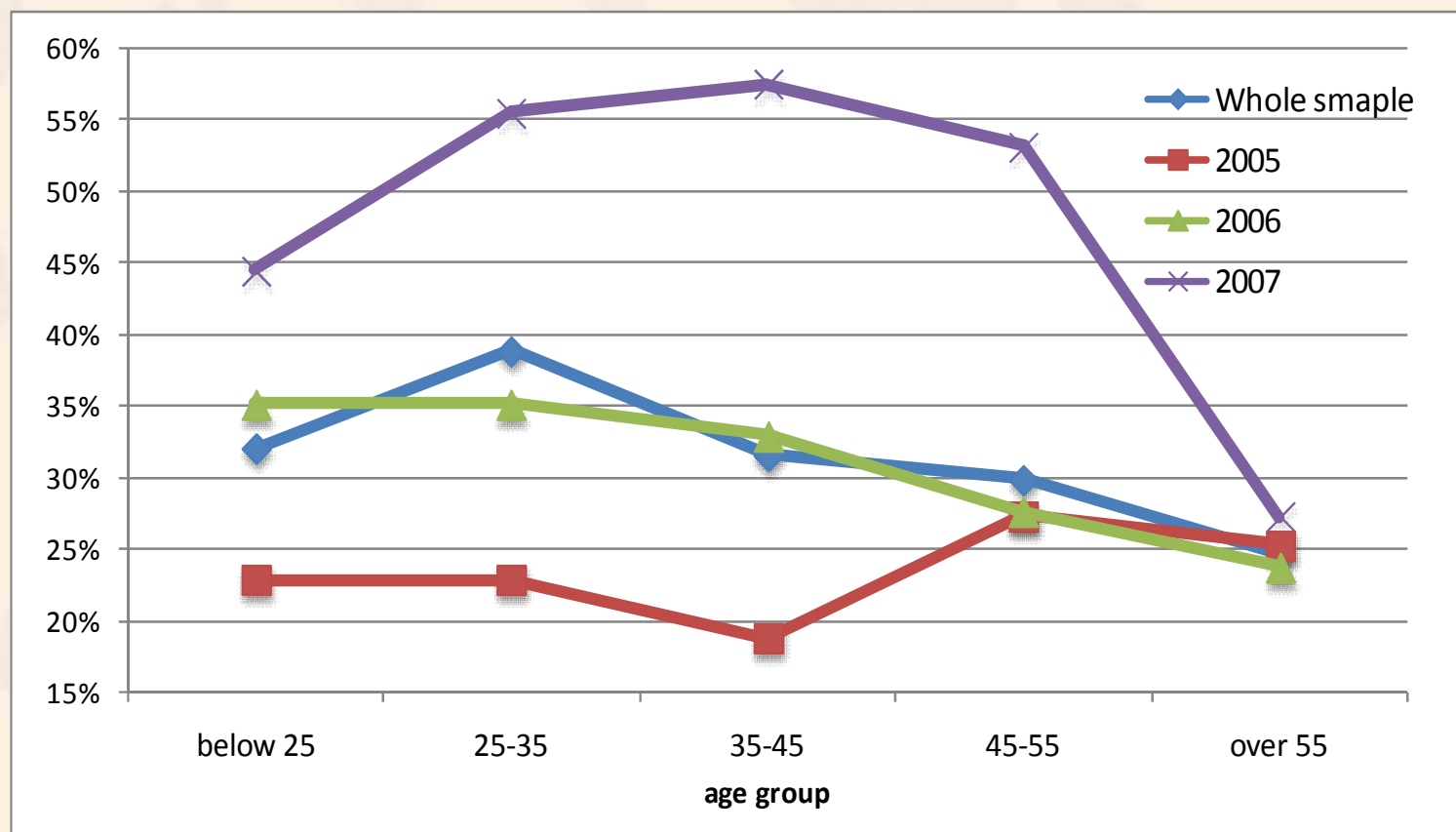


Figure 5 The Direct Market Participation Ratio Grouped by Age

Life Cycle and Household Portfolio Choice in China

(Weixing Wu and Qian Xu (2011))

- ❖ First, the choice of the family directly participating stock market shows age effect, even exclude the explanation ability about accumulation of wealth, education level and other factors. Household direct participation rate shows a "bell-shaped" distribution varying with age.
- ❖ In addition, participation rate has increased significantly year by year implying that more and more Chinese residents began holding stocks and other risky assets.

Real Estate and Household Portfolio

Choice in China (Weixing Wu and Tianxiang Qi (2007),

Weixing Wu and Jinye Qian (2009)

- ❖ The investment in illiquidity assets, especially real estate assets had significant effects on the stock market participation and portfolio composition, where the substitution effect dominates.
- ❖ Homeowners are more likely to participate in the stock market, and owning real estate reduces relative holdings of stocks and other risky financial assets.
- ❖ Due to investment in housing, younger and poorer investors have limited financial wealth to invest in stocks, which reduces the benefits of equity market participation.

Real Estate and Household Portfolio

Choice in China (Weixing Wu and Xinjing Li (2010))

- ❖ If other variables remain unchanged, the effect of catching up with Joneses will squeeze out the investment in stock market
- ❖ If there are mortgages or loans, the families will invest more in stock market..

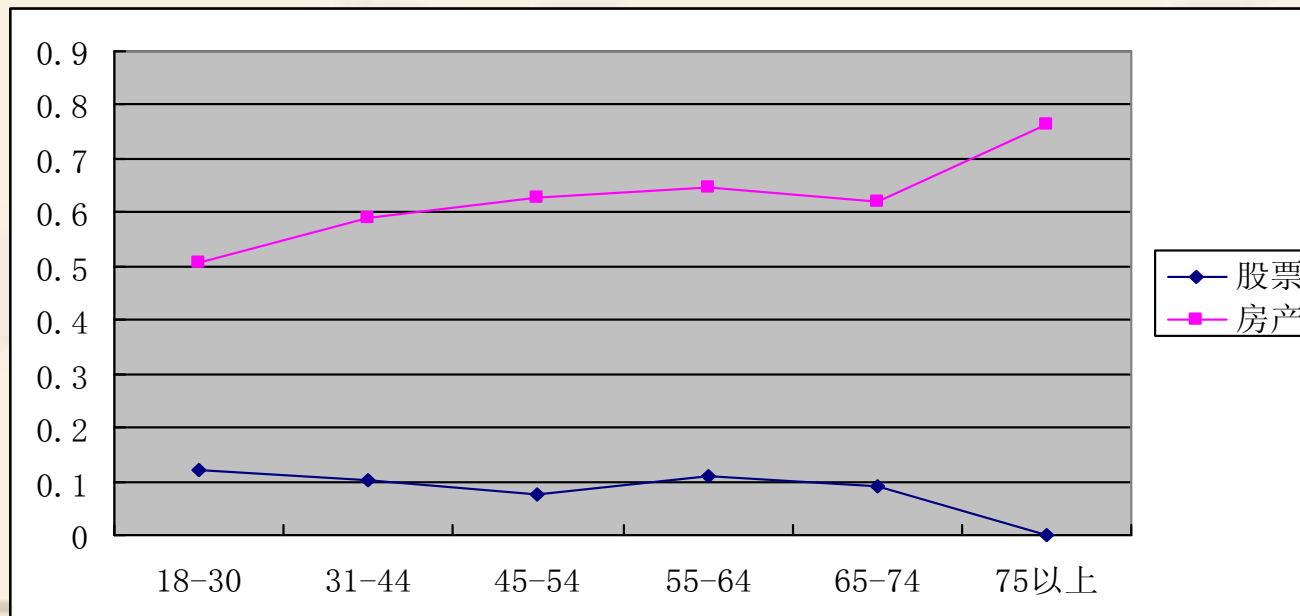


Figure 6 Stocks/Financial Assets and Real Estate/Net Wealth in 2007

Wealth and Household Portfolio

Choice in China (Weixing Wu and Tianxiang Qi (2007))

- ❖ The increase in the wealth would increase the probability of households' stock market participation and the proportion of their wealth invested in risky assets

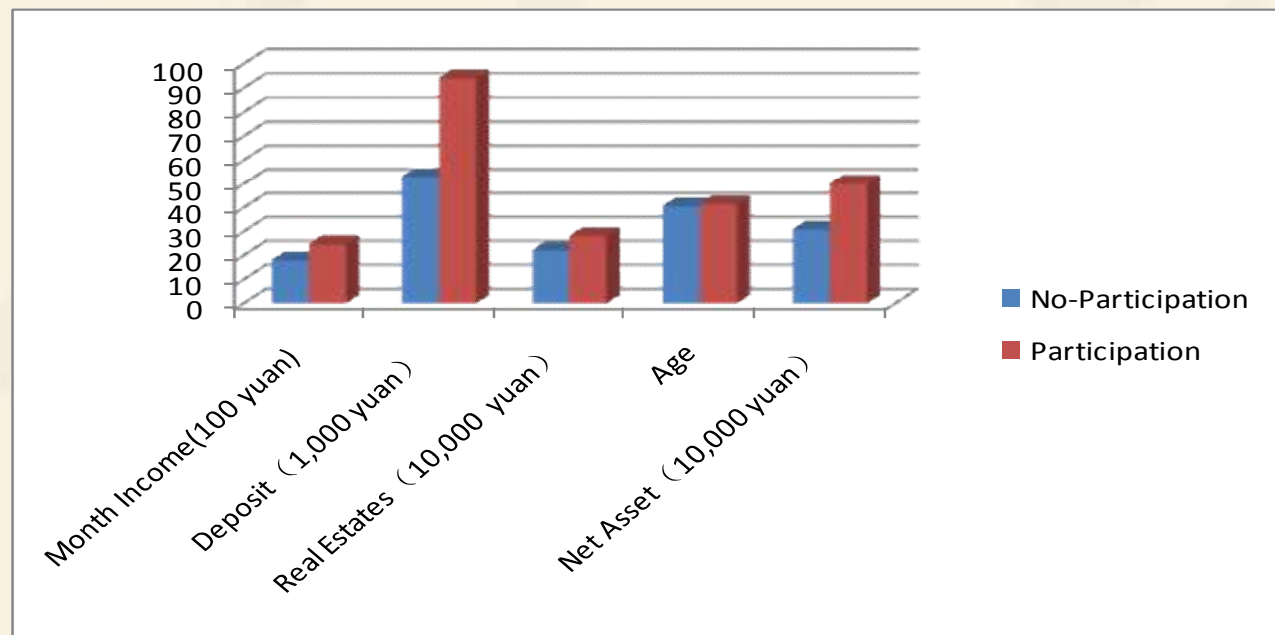


Figure 7 The Characters of Participation and No-participation in 2006

Wealth and Household Portfolio

Choice in China (Weixing Wu, Jinran Yi and Jianming

Zheng(2010))

- ❖ The current wealth of the households would have important effects on the probability of households' stock market participation and the proportion of their wealth invested in risky assets. The participation rates of risk-free assets investment have an inverted U-curve pattern, which is first increasing and then decreasing with wealth level.

Table 1 Each Kind of Asset/Financial Asset Grouped by the Size of Total Asset in 2007

Total Asset (10,000 Yuan)	0-2.5	2.5-7.5	7.5-15	15-40	40-60	60-85	85-200	200-500	>500
Deposit	2.13%	49.45%	55.99%	39.89%	38.35%	26.77%	23.22%	19.26%	22.90%
Cash	62.87%	22.79%	8.24%	5.25%	2.45%	1.62%	3.37%	7.98%	23.37%
Real Estate	5.00%	9.22%	21.67%	39.93%	47.68%	55.77%	62.43%	46.26%	19.96%
Stock	0.00%	6.09%	3.75%	4.18%	4.20%	6.38%	3.79%	3.73%	4.61%
Insurance	25.00%	2.60%	1.61%	1.62%	0.61%	1.26%	0.83%	3.12%	0.17%
Fund	0.00%	2.55%	3.29%	2.26%	2.36%	2.17%	0.91%	1.37%	4.61%
Personal Financing Product	0.00%	0.42%	0.55%	0.15%	0.07%	0.05%	0.27%	0.66%	0.67%
Bond	0.00%	0.33%	0.69%	0.76%	0.56%	0.23%	0.39%	1.21%	4.05%
Future	0.00%	0.11%	0.04%	0.09%	0.02%	0.03%	0.08%	1.27%	0.56%
Foreign Exchange	0.00%	0.10%	0.13%	0.35%	0.06%	0.49%	0.19%	1.99%	2.23%

Labor Income Risk and Household

Portfolio Choice in China (Weixing Wu and Yu Qian

(2010))

- ❖ Labor income risk can be divided into a permanent income risk and the transitory income risk. They are significant for household portfolio choice.
- ❖ The impact of labor income risk on urban households is larger than rural households.
- ❖ The impact of permanent income risk on urban households is larger than transitory income risk. The result of rural household is different.

Health Status and Household

Portfolio Choice in China (Weixing Wu and Pingguo Rong (2010))

Rong (2010))

- ❖ Investors' health status does not affect his decision about participation in the stock and risk asset markets.
- ❖ It does affect how much household invests in the two markets

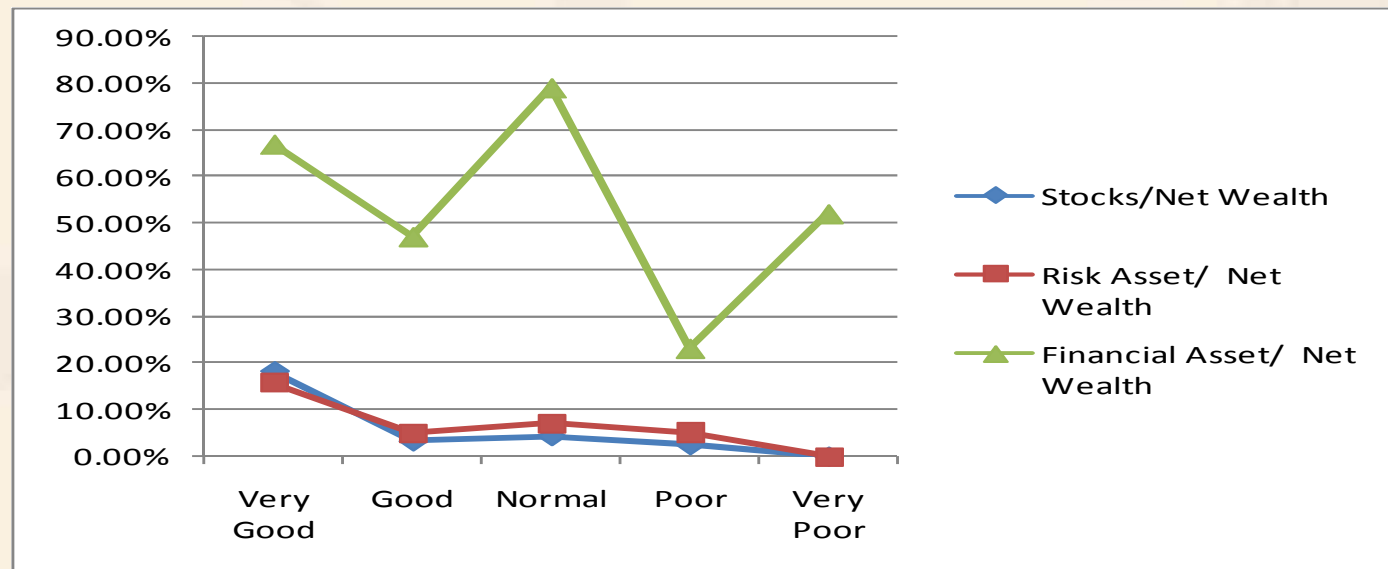


Figure 8 The Household Portfolio Grouped by Health Status in 2007

Competence Effect and Household Portfolio Choice in China

- ❖ Competence posits that ambiguity aversion is affected by the subjective competence level of participants. When people feel skillful or knowledgeable in an area, they would rather bet on their own judgment (even though it is ambiguous) than on an equiprobable chance event (e.g., drawing balls from an urn with known contents), even though the outcome of the chance event has an unambiguous probability distribution. However, when participants do not feel competent, they prefer to bet on the unambiguous chance event. (Heath and Tversky (1991))

Competence Effect and Household

Portfolio Choice in China (Weixing Wu and Gong

Wang (2010))

- ❖ The influence of the competence on the market participation is significant, and meantime the education, health, fortune and liquidity constraint influent the competence effect.
- ❖ The investors with high competence effect are relative rational, and the investors with low competence effect are irrational, whatever in normal market environment or in crazy bull market environment.

Financial Development and Household Portfolio Choice in China

❖ Channels of Financial Development Affecting Household Portfolio Choice

- ❧ Firstly, many financial products will be created with the development of Finance, but some new products can't benefit every investor (Campbell and Cocco (2003) 、 Campbell (2006)) .
- ❧ Secondly, Financial System has a function of producing information(Levine(2004)), and according to Peress(2004), the lower cost of information and more information will produce more investment in risk asset.
- ❧ Thirdly, Financial System has a function of risk diversification, some research(Hong et al. (2004) 、 Guiso and Paiella (2007)) show that the risk attitude of investors will affect the probability of participation in stock market.

Financial Development and Household Portfolio Choice in China

(Weixing Wu, Xueliang Lv and Meiling Wang (2010))

- ☞ We find that financial development affects mainly the long-run dynamics of household portfolios, and asset returns affects the short-run dynamics.
- ☞ Whatever in the long-run or in the short-run, stock market plays an important role in Household Portfolio Choice.

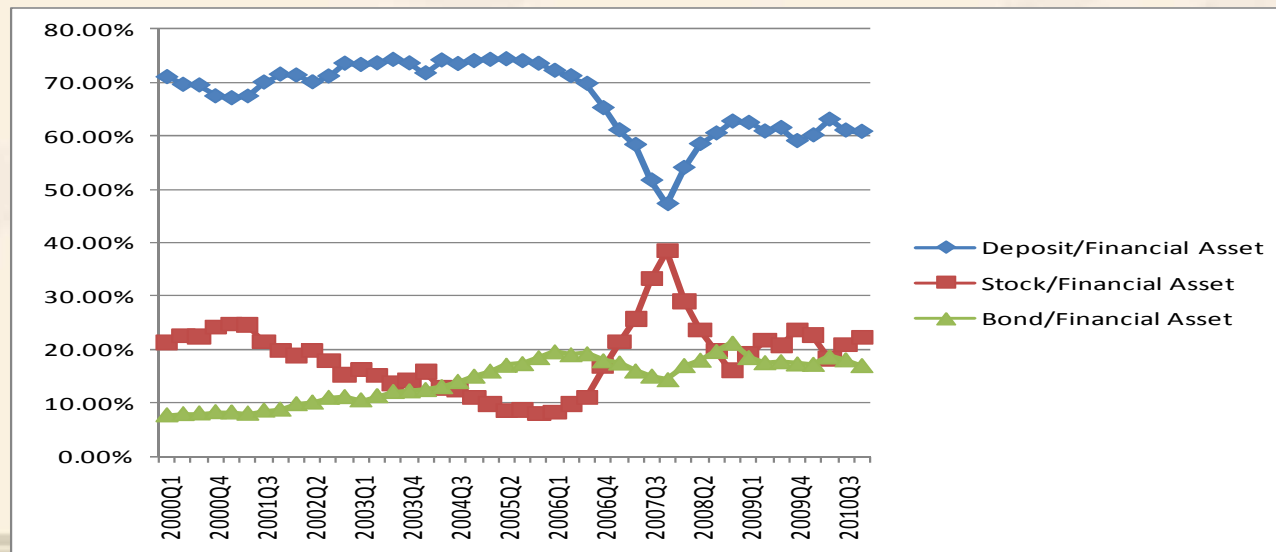


Figure 9 The Structure of Household Portfolio in China

Possible future research

- ❖ Low participation rate;
- ❖ Complex factor of household participation;
- ❖ Market participation and income inequity;
- ❖ Market participation and wealth distribution.



THANKS !