The relationship between homeownership, race, income, and the effect on making investment decisions

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Objective
The objective of this study is to examine the relationship between homeownership, race, and income and their effect on financial risk taking and portfolio stock allocation. Using the 2016 Survey of Consumer Finances we investigate whether homeowners are more likely to subjectively rate themselves as risky and allocate a greater percentage of investment portfolio to risky asset holdings as compared to non-homeowners.

Significance
Prior studies find that homeownership crowds out stock market participation and lends to homeowners choosing less risky asset holdings. Our study revisits homeowner financial risk-taking and investing behavior. We use a subjective measure representing willingness to take financial risk and the objective measure stock percentage as independent variables and examine if homeownership is positively correlated with taking financial risk when saving and investing.

Method
We use the Ordinary least squares method to conduct two data analysis. First, we regress financial risk-taking willingness on homeownership as well as various other independent controls. Prior research has assessed stock holding using an average industry standard threshold of 50% stock allocation as moderately aggressive. We therefore regress a dummy variable that indicates portfolio holding over 50% in stock on homeownership and financial risk taking along with other control variables.

Results
Based on preliminary results the study finds that higher likelihood of taking financial risk when saving or investing for investors who categorize themselves as low, medium or high-risk takers positively correlate with owning a home. These results were significant for females, income and education. For investment portfolio stock allocation, we also observe a statistically significant correlation between percentage of asset holdings in stocks with homeownership and willingness to take financial risk. We find the results significant for income, age, female, and college at p-value < 0.05.

Conclusions/Relevance
The study tested the hypothesis that homeowners are more willing to take higher financial risk. After controlling for other variables, we find evidence that financial risk taking is positively associated with homeownership for all levels of willingness to take financial risk. Using a ten-point scale that rates financial risk takers as low, moderate, or high risk in relation to saving and investing, homeowners display higher levels or willingness to take financial risk. Additionally, results show significant association between a high percentage of stock holdings in investment portfolio with homeownership and willingness to take financial risk. Because housing is both a consumption and investment good homeowners who hold greater percentage of stock in their portfolio may be overexposing themselves to risk in both the stock and housing market. Further research should investigate whether homeowners factor costs associated with owning a home into their decisions process when allocating financial portfolio investment. Controlling for factors associated with housing expenditures, home equity, mortgage balance, and personal saving may modify homeowner willingness to take financial risks and provide more robust analysis of financial portfolio risk behaviors by tenure choice.

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