



OBSERVATOIRE DE L'ÉPARGNE EUROPÉENNE

STOCKHOLDING : A EUROPEAN COMPARISON

A research project of the Observatoire de l'Épargne Européenne

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Summary

The research project has revealed considerable growth in participation in European stock markets during the last decade and significant regularities in how households allocate their savings among different assets. One of the main findings of the project is that in all countries examined stock market participation is strongly correlated with financial wealth. At the bottom of the wealth distribution very few households invest in stocks, either directly or through mutual funds and other managed investment accounts. We take this as firm evidence that entry costs, minimum investment requirements and participation costs limit severely stock market participation.

We also observe that among the richest segment of the population (even in the top 10 percent of the wealth distribution) many households do not invest in stocks. Can this feature be fully accounted for by entry and management costs? Or should one bring information costs explicitly into the picture?

Evidence on this issue is provided by the strong correlation between education and stock market participation. Better-educated households are more likely to hold stocks because they are better informed about the existence and properties of different assets, and are thus better able to take advantage of investment opportunities. Overall, this project suggests that entry costs and information costs still represent important barriers to entry European stock markets, despite the spreading of an equity culture in the last decade. Lessons from this project are therefore relevant not only to economists to understand the effect of market instability, but also to the financial community interested in marketing financial products to targeted groups. Finally, the still incomplete process of privatization in most European countries together with the likely increase in the importance of private pensions funds as a response to the inevitable pension reforms, imply that in the future the still significant gap in stockownership will be partly filled in.



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Turning to shares of stocks as a proportion of total financial assets of those who do hold stocks, we find a number of interesting results. Among those who do hold stocks, the average asset share devoted to stocks is quite similar in all European countries considered and in the United States, despite differences in participation rates. Substantial differences are observed, however, when we also include investments in mutual funds. These show that United States households tend to invest much larger proportions of their financial assets than Europeans in this indirect form of stockholding, suggesting that there may be considerable scope for expansion along this intensive margin, along with prospects for expansion of the customer base.

Conditional asset shares invested in stocks drop at low levels of financial wealth but rise at high wealth levels. They tend to be relatively flat for the middle range of the financial wealth distribution, suggesting that changes in financial wealth do not induce substantial portfolio rebalancing across this middle range. Similarly, there seems to be no clear relationship between age and conditional asset shares.

All in all, our findings on participation in stockholding and on shares of stocks conditional on participation suggest that various demographic groups, defined according to education, age, and financial resources, exhibit important differences in stock market participation but much less important differences in conditional asset shares of stocks or differences that are much more difficult to explain with state-of-the-art analytical models. Still, comparison with the United States suggests that there is plenty of room for financial practitioners to expand both the number of stockholders and the shares of stocks in their financial portfolios.