

Comments on “Residential Property
and Household Stock Holdings:
Evidence from Japanese Micro Data”
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* The views and opinions expressed do not necessarily reflect those of any of Bank of Japan.

Household Stockholdings

- Simple portfolio models, such as static mean-variance portfolio model, predict that regardless of degree of risk aversion, **all households** invest in shares.
- **However, micro data are not consistent with this.**

Empirical Evidence

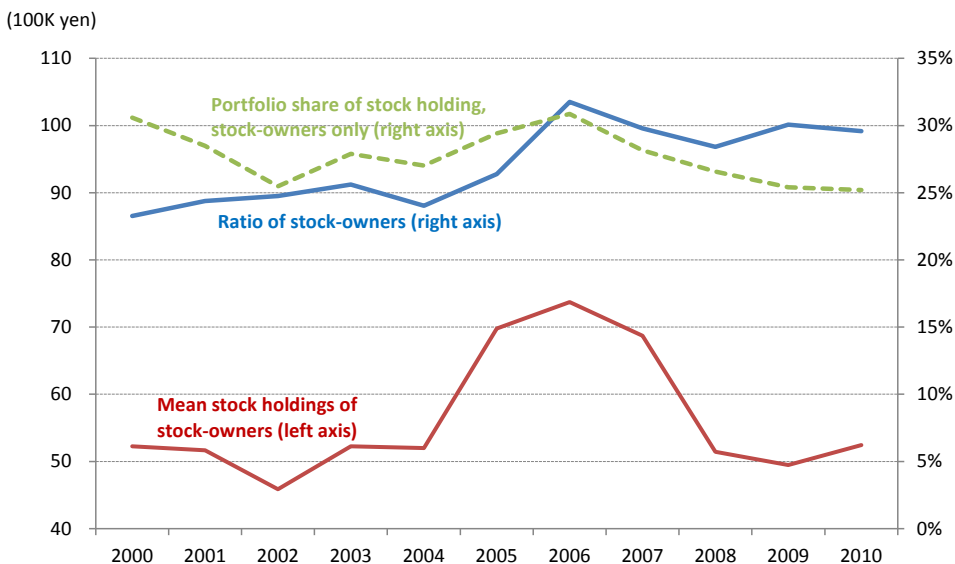
- Even in the US and UK, the two countries with the highest level of stockholding, about 80% of households do not invest in shares, and many more in Italy and Germany.

	United States	United Kingdom	Netherlands	Germany	Italy
Participation rate (Ratio of Stock Owners)	19.2%	21.6%	14.4%	10.0%	7.3%
Conditional share (Portfolio share of stockholding, stock owners only)	34.6%	42.7%	47.6%	18.6%	23.0%

Source: Guiso, Haliassos and Jappelli (2003)

Household stock holdings in Japan

This paper
Data : Nikkei RADAR data



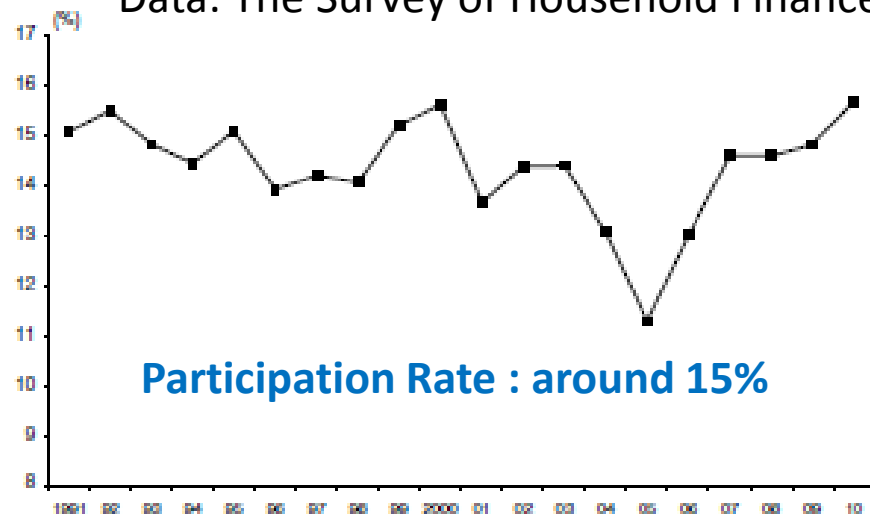
Participation Rate: around 25-30%

Conditional Share: around 25%

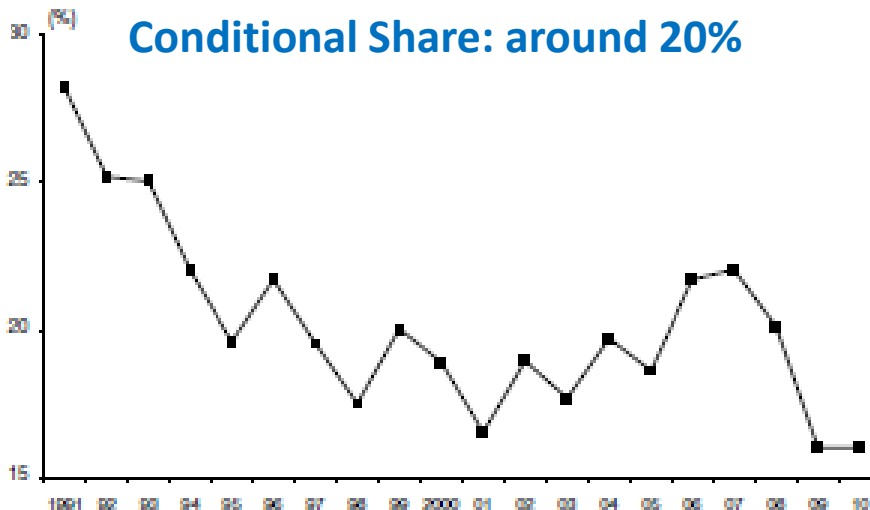
Due to Sampling from Tokyo area households, the figures are higher than nation wide survey.

Both participation rate and conditional share of Japanese households are lower than US and UK.

Fujiki, Hirakata and Shioji (2013)
Data: The Survey of Household Finance



Participation Rate : around 15%



Conditional Share: around 20%

Why don't all households invest in stocks?

- This implies that fixed participation costs exist according to a simple model.

The share of wealth invested in the risky asset

$$\lambda = \frac{R_r - R_f}{a\sigma_r^2}$$

R_r : Gross return of safe asset
 R_f : Gross return of risky asset
 σ_r : variance of risky asset

If $R_r - R_f > 0$ and no fixed cost, then all households participate in the stock market.

However, consider households incur a fixed cost K to buy stock.

A household with wealth W will invest in stocks, if

$$\lambda W(\hat{R}_r - R_f) > K. \quad \text{Participation or Fixed cost}$$

This implies that households with more wealth W which is available for investment are more likely to invest in stocks.

What is Fixed (participation) cost?

- Example: information cost
 - Transactions of stocks need cost of information gathering and processing.
 - If so, higher educated people can gather and process information more efficiently and are more likely to own risky assets.
- ⇒ Fixed participation costs are barriers to entry stock markets. So, low participation rate could imply that there are frictions or inefficiencies in financial markets.
- ⇒ **So, this paper are important for policies as well as academics.**

Summary of this Paper

- By using Nikkei RADAR from 2000 to 2010, the paper examines:
 - Whether residential property inhibits household from owning stocks (extensive margin)
 - Whether residential property crowds out stocks in financial assets of stockholders (intensive margin)

Main Results:

- (2) Households with higher residential property relative to gross total asset are **less** likely to **own** stocks
 - Consistent with the **“crowding out” effect** hypothesis
- (3) Conditional on owning stocks, households with higher residential property relative to gross total asset hold a **larger share in stocks relative to financial assets**
 - Consistent with the **“diversification” effect** hypothesis

Comments on the Results about Participation

- (2) Households with higher residential property relative to gross total asset are **less** likely to **own** stocks
 - Consistent with the “**crowding out**” effect hypothesis

(Interpretation)

- Households with higher residential property relative to gross total asset may hold less financial assets.
- Holding less financial asset makes lower the probability of owning shares with fixed participation cost, given residential property.
=> **“Fixed participation cost story”**
- Which is important, “Fixed participation cost story” or “Residential property story” or both? Or the two hypothesis are equivalent in the end?
- Or, if “Residential property story” is essentially important, illiquidity of residential properties is crucial ?

(About international difference in participation rate)

- This result is consistent with the fact that participation rate of Japan is lower than that of U.S. or U.K.?

Comments on the Results about share in stocks

(3) Conditional on owning stocks, households with higher residential property relative to gross total asset hold a **larger share in stocks relative to financial assets**

Consistent with the “**diversification**” effect hypothesis

(Interpretation)

- Stock price correlate with land price positively.
- Considering this, is the result consistent with the “diversification” effect?
- If households diversify their portfolio, households with higher residential property relative to GTA hold less stock and more cash.
=> This result is interesting, but it is difficult to interpret this result....

(About international difference in conditional share)

- This result is consistent with the fact that conditional share of Japan is lower than that of U.S. or U.K.?
- A small question: residential properties are valued in MtM?

Conclusion

- The paper finds many important and interesting results. On the other hand, there are difficulties in interpreting the results.
- The paper provides interesting and important stuffs for future researches and policies.