

Is Household Diversification Increasing in Wealth? Norwegian Evidence

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Abstract

We study the diversification properties of equity portfolios using data on all Norwegian households with equity investments. While households typically have undiversified equity portfolios, diversification *is* increasing in wealth.

Keywords: Household Finance; Equity Portfolio Diversification

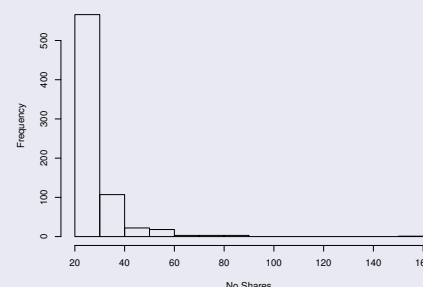
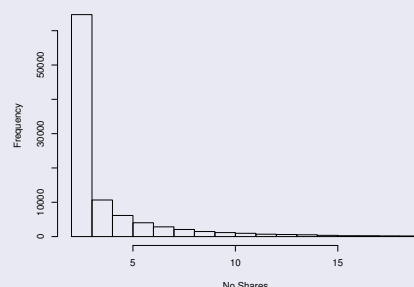
JEL Codes: D14; G02; G11;

Household Finance

Household portfolios underdiversified.

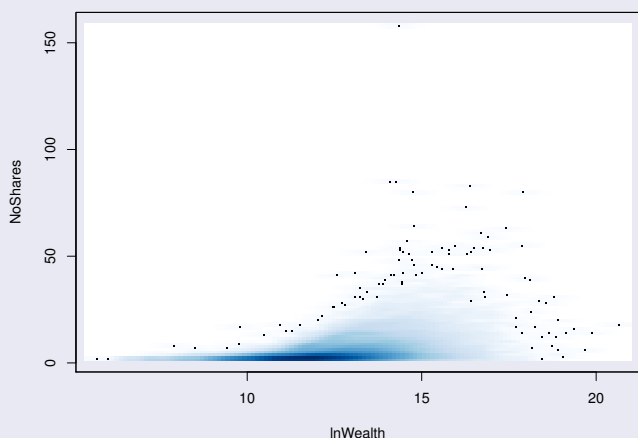
Diversification of Norwegian Households Portfolios

Actual Diversification: Number of Shares in Households Portfolios



Diversification and Wealth

The relationship between diversification (number of shares) and portfolio value (wealth)



The relationship between the number of assets in an individual (household) portfolio and the logarithm of that individual's equity wealth (total equity portfolio value). Data for September 2007. All households.

Diversification and wealth

Regressing Diversification on wealth:

$$\text{Diversification}_i = a + b \ln(\text{wealth}_i) + \varepsilon_i$$

	Dependent variable:	
	No Shares (1)	DI(Herfindahl Index) (2)
ln(Wealth)	1.052*** (0.007)	-0.034*** (0.0005)
Constant	-8.816*** (0.085)	0.925*** (0.006)
Observations	97,788	97,788
Adjusted R ²	0.187	0.050

Note: *p<0.1; **p<0.05; ***p<0.01

Results of the regression Diversification measure; = $a + b \ln(\text{wealth}_i) + \varepsilon_i$. The first column uses the number of shares in a household's portfolio where diversification measure is either number of shares or di All individuals. Data for 2007.

Conclusion

Diversification *is* increasing in wealth