

Why does demand for shares decline in times of crisis: preferences or expectations?

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Abstract

The economic crisis has impacted French savers, now less inclined to take risks in their financial decisions. What is the explanation behind these changes? According to “standard” theory, savers’ investments rest on three fundamental determinants: present resources; anticipated asset yield and risk, as well as expectations on earned income; and lastly, agent preferences, in particular as regards risk. We use French data from the PAT€R panel, a survey run in 2007 and again in 2009, 2011 and 2014. We show that it is the downward adjustment in anticipated yield from shares and negative impacts on current resources that help explain why the French are investing less and less in risky assets. Preferences with regard to risk, however, have remained stable. In contrast, the resurgence in optimism shown by savers in 2014 did not play out in reality, as the number of shareholders has continued to decrease. Is this a new puzzle waiting to be solved?

Key question

The economic crisis has affected French savers, now less inclined to take risks in their financial decisions. What is the explanation behind this change? According to standard theory, savers’ investments depend on three fundamental determinants: present resources; anticipated yield and risks from assets and earned income; and agent preferences, in particular as regards risk. After the collapse of Lehman Brothers in 2008 and the sovereign debt crisis in 2011, did the French simply adjust to the new economic environment? Or has the crisis changed their “psyche” as regards risk?

Method

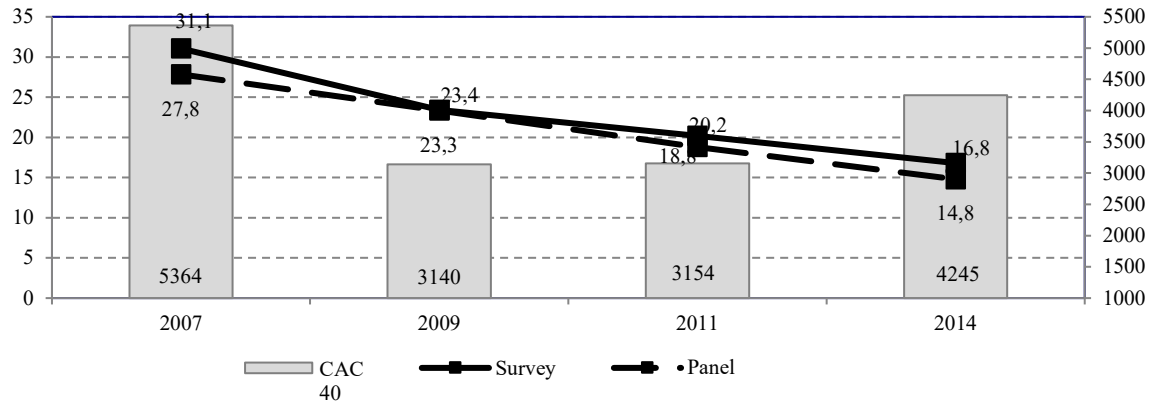
The study used French data from the various waves of the *PAT€R* survey (Estate and Preferences with regard to Time and Risk). These data, unique in France, offer a unique perspective on savers over time, before and after the 2008 crisis, up to end-2014. The surveys take stock of household assets and provide subjective information with which to measure, using a variety of methods, individual preferences with regard to risk, their expectations about the labour market and the stock market. Changes in preferences are measured using an original scoring method.

Key findings

- The investments of French savers were less and less frequently placed in risky assets during the crisis.

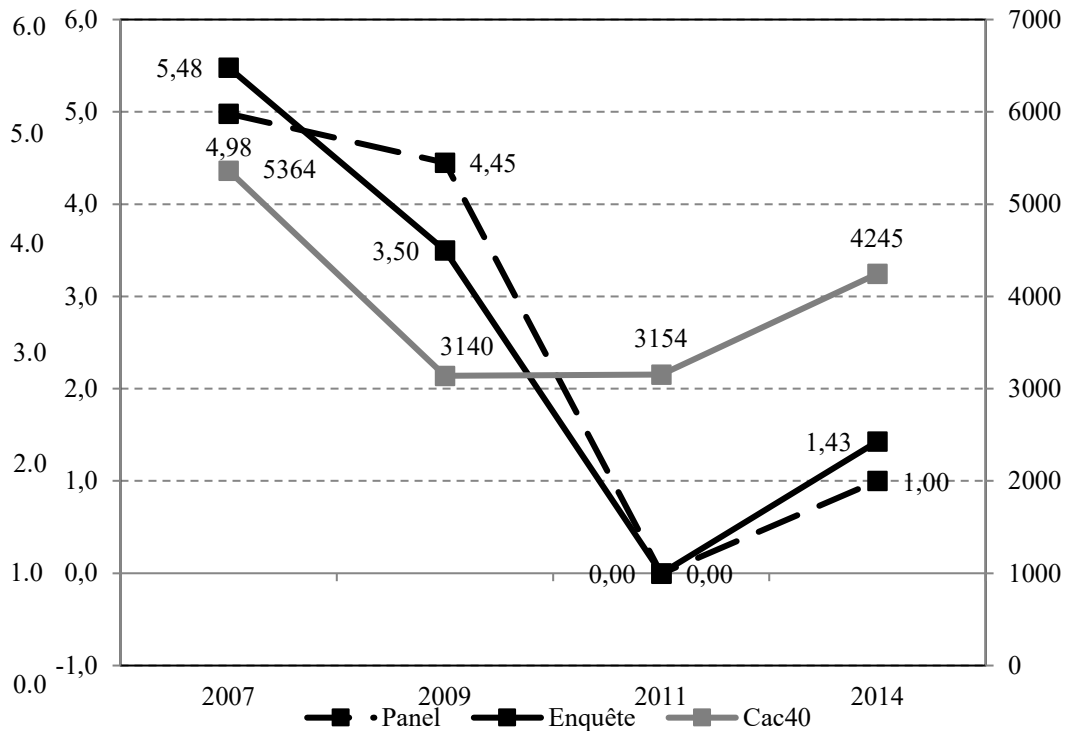
- This results in part from their having adjusted their expectations downward as regards yield from shares and shocks on current resources.
- The preferences of French households with regard to risk remained stable during the crisis.

Number of shareholders (direct or indirect) in 2007, 2009, 2011 and 2014 and change in CAC 40



Source: PAT€R 2007, 2009, 2011 and 2014 surveys In cross-section (Survey) or Panel

Average anticipated yields (over the next 5 years) on the stock market in 2007, 2009, 2011 and 2014



Source: PAT€R 2007, 2009, 2011 and 2014 surveys In cross-section (Survey) or Panel

Key conclusions

Contrary to a widely-held belief and to the conclusions of certain studies, this study reveals savers to be “stoic” in the face of torment, and no more risk-averse than previously. In contrast, it would appear that savers’ regained optimism in 2014 (increase in anticipated risk premium and rise in intentions to invest in shares) did not play out in reality, as the number of shareholders continued to decrease at least up to March 2016.

Perspectives

With four waves from 2007 to 2014 and a strong panel-based dimension, the PAT€R data now offer the ability to analyse numerous questions regarding savings, wealth and inequalities, providing a useful supplement to the information from the INSEE’s “Wealth” surveys and on more subjective and qualitative aspects of financial behaviours. Like other sources, the PAT€R data highlight the lesser appetite on the part of the French to take risks in their savings or their portfolio decisions during the crisis. Our article shows that this change in behaviours is not due to a change in the preferences of the savers we followed during the crisis: the said preferences are thought to have remained -- age effect aside -- statistically stable since June 2007. The lesser inclination toward risk-taking is thought to be the result, above all, of increasingly gloomy expectations regarding the (expected) yield from financial assets.

The stability of preferences over time as regards risk, observed based on our scores goes against the conclusions of other empirical studies measuring preferences using other methods (Likert scale, lottery, qualitative factors). By refuting the psychological impact of the current crisis on investor tastes, this result should be ascribed rather to standard saver theory than to behavioural economics, which establishes a parallel between emotions -- sometimes even “fear” -- and preferences. These results, however, call for further conclusions in a variety of directions.

A new wave of the Pater panel would likely round out our study on multiple factors. First of all, it would enable us to determine whether the French are gradually coming back to the stock market (demand for equities decreased at least up to March 2016) as certain indicators appeared to show in 2014, as well as why this delay might occur. It would secondly enable more robust statistical testing, over a less limited sample. As regards preferences, the aim will be to analyse changes in distribution of risk aversion within an ageing population, the new generations of which will be those of the “Great Recession”. Secondly, we cast light upon one last puzzle, as regards demand for equities in individual shareholders: if, in actuality, the French have been deserting the Stock Market since 2008, their investment intention curve on the stock market turned around in 2014. What remains to be

understood then is why households' financial intentions and behaviours are now diverging and for how long.

Parmi ses travaux récents :

- "Wealth effects on consumption across the wealth distribution: empirical evidence" (with Lamarche P. and Savignac F.), 2019, *European Economic Review*, 111, 139-165.
- "Household preferences and demand for stocks in the Crisis: France 2004-2014", (with J. Coffinet), *Revue d'économie politique*, 2019, vol. 129, no. 3, pp. 391-417.
- « Financial Literacy and Asset Behaviour: Poor Education and Zero for Conduct », *Comparative Economic Studies*, March 2018, Volume 60, Issue 1, pp 144–160.
- « Why does household demand for shares decline during the crisis ? », (avec A. Masson), *Économie et Statistique*, 2017, n° 494-495-496.
- « Savings and life expectancy: Which products and taxation? » (avec A. Masson), *Opinions et Débats*, Labex Louis Bachelier, 2016, n°14.
- « For richer, for poorer: savings preferences and choice of spouse », (with N. Frémeaux), *Economica*, 2016, 83(331) : 518-543.
- « How do households allocate their assets? Stylised facts from the Eurosystem Household Finance and Consumption Survey », (with L. Bartiloro, P. Fessler, P. Lindner, T. Y. Mathä, C. Rampazzi, F. Savignac, T. Schmidt, M. Schurz and P. Vermeulen), *International Journal of Central Banking*, 2016, 12(2) : 129-220.
- « Could French and Eurozone Savers Invest More in Risk Assets? », (with A. Masson), *Bankers, Markets & Investors*, n° 138, september-october 2015, 4-16.
- « Risks Management, Housing and Stockholding », (with F. Savignac), *Applied Economics*, 2015, 47:39, 4208-4227.
- « Stockholding in France: the Role of Financial Literacy and Information », (with M. Debbich, and F. Savignac), *Applied Economic Letters*, 2015, vol. 22, n°16, 1315-1319.
- « Allocation of savings and long-term investment » (avec A. Masson), *Opinions et Débats*, Labex Louis Bachelier, septembre 2014, n° 6.