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Changes in Financial Risk Tolerance, 1983-2001

Yao, R., Hanna, S. D. & Lindamood, S. (2004). *Changes in financial risk tolerance, 1983-2001. Financial Services Review, 13*(4), 249-266.

20 Pages

Posted: 3 Mar 2016

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Date Written: 2004

Abstract

Using six Survey of Consumer Finances cross-sectional datasets representing the years 1983-2001, this study investigates changes in financial risk tolerance levels over time. Logit analyses are performed to test changes in risk tolerance, controlling for respondent and household characteristics. Willingness to take some risk fell from 1983 to 1989, did not change from 1989 to 1992, increased in 1995, increased again in 1998, then decreased in 2001. Financial risk tolerance tends to increase when stock returns increase and decrease when stock returns decrease. This relationship could lead to buying when prices are high and selling when prices are low. Financial education is needed to help investors overcome the bias of overweighting recent events.

Keywords: individual investing, economic trends, risk tolerance, stock ownership, Survey of Consumer Finances

JEL Classification: D140; G110

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