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# Nonlinear linkages between financial risk tolerance and demographic characteristics

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## Abstract

We explore the nonlinear linkage between financial risk tolerance and demographic characteristics. Our tests support the nonlinear role of age, income and number of dependents.

## Acknowledgements

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## Notes

Females typically show a lower preference for risk than males – for example, Lewellen et al. ([1978](#)); Bajtelsmit and Bernasek ([1996](#)); Powell and Ansic ([1997](#)); Grable ([2000](#)); Grable and Joo ([2000](#)); Halek and Eisenhauer ([2001](#)).

<sup>2</sup> Roszkowski et al. ([1993](#)) suggest that single people have higher financial risk tolerance than married individuals because they have less responsibilities than married people, particularly with respect to dependents. However, a number of studies have failed to identify any significant relationship between marital status and financial risk tolerance (McInish, [1982](#); Masters, [1989](#); Haliassos and Bertaut, [1995](#)).

<sup>3</sup> Higher attained levels of education have been found to be positively related to higher financial risk tolerance – see, for example, Haliassos and Bertaut ([1995](#)); Sung and Hanna ([1996](#)).

<sup>4</sup> The impact of income and wealth tend to support a positive relationship with levels of risk tolerance – see, for example, Friedman ([1974](#)); Cohn et al. ([1975](#)); Riley and Chow ([1992](#)); Schooley and Worden ([1996](#)); Shaw ([1996](#)); Grable and Lytton ([1999](#)).

<sup>5</sup> The FinaMetrica Personal Financial Profiling system is a proprietary, computer-based risk tolerance measurement tool. It has been available commercially to the Australian financial planning industry since 1998 and was introduced in the US in 2002. See [www.FinaMetrica.com.au](http://www.FinaMetrica.com.au) for further information about the FinaMetrica system.

<sup>6</sup> A value of 1 indicates the respondent did not complete high school; a value of 2 that they did complete high school; a value of 3 that they have a trade or diploma education; and a value of 4 that they have a university or higher qualification.

<sup>7</sup> A value of 1 indicates an individual income under \$30 000; a value of 2, an income between \$30 000 and \$50 000; a value of 3, an income between \$50 000 and \$100 000; a value of 4, an income between \$100 000 and \$200 000; and a value of 5, an income over \$200 000.

<sup>8</sup> A value of 1 indicates a combined income under \$30 000; a value of 2, a combined income between \$30 000 and \$50 000; a value of 3, a combined income between \$50 000 and \$100 000; a value of 4, a combined income between \$100 000 and \$200 000; and a value of 5, a combined income over \$200 000.

<sup>9</sup> A value of 1 indicates net assets under \$50 000; a value of 2, net assets between \$50 000 and \$150 000; a value of 3, net assets between \$150 000 and \$500 000; a value of

4, net assets between \$500 000 and \$1 000 000; and a value of 5, net assets over \$1 000 000.

<sup>10</sup> The variable CINC is interacted with DMARR, since it is only validly defined for 'married' respondents.

<sup>11</sup> The nonlinear effect in NASS is dropped due to insignificant results.

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