

Comment on “How households’ balance sheets affect their asset allocation?”

by Sachiko Miyamoto

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Summary of the paper

- **Why are Japanese households risk averse? Why do they put most of their money into risk-free assets?**
- **This is simply because housing costs are too expensive and housing is a very risky investment in Japan. Japanese households are exposed to more leveraged risk than households in other countries.**
- **But the picture might be different in the near future. Because of aging, the average household will be older, so that they will have less housing debts. They will be able to increase the share of risky financial investment.**

My comments

1. **The relationship between demographic changes and portfolio choice is an important but controversial issue. This issue has been tackled by many researchers including Bakshi and Chen (1994), Ang and Maddaloni (2003), Iwaisako (2003), and Iwaisako, Mitchell, and Piggott (2005); however, we have not reached any consensus because of the lack of reliable data.**

$$E_t[(C_{t+1} / C_t)^{-\gamma - \theta \times M_t} (1 + r_t)] = 1$$

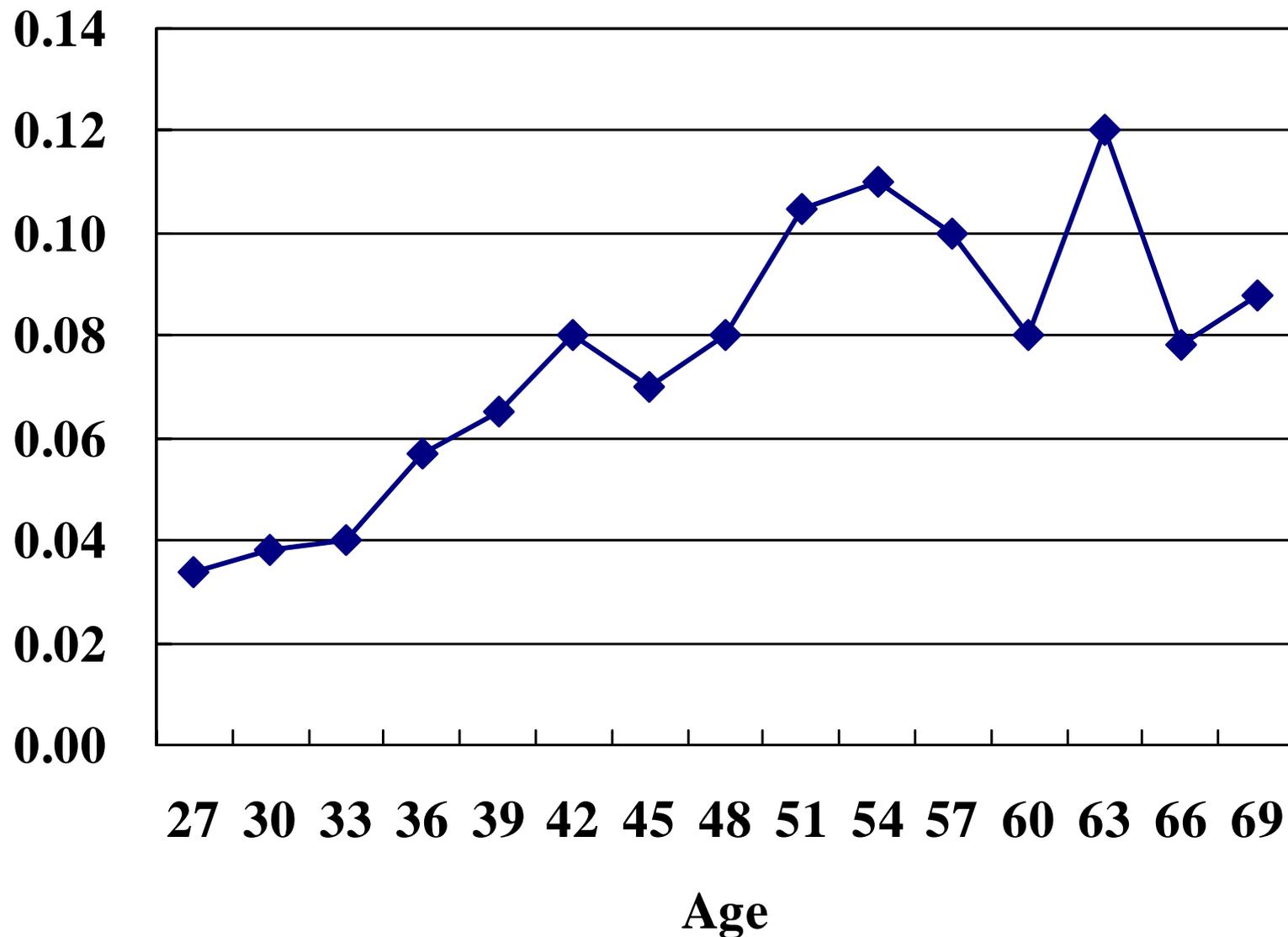
2. **Does aging decrease the degree of risk aversion? If so, to what extent?**
3. **Is this channel quantitatively important? Will the share of risky financial investment increase significantly?**

Household wealth in 2000: Japan, Europe, and the US

	Japan	Europe	US
Financial wealth per household	180967 euro	119985 euro	270986 euro
Percentage of disposable income	439%	338%	405%
Residential property wealth	121181 euro	105315 euro	103705 euro
Percentage of disposable income	67%	88%	38%

Currency and deposits	11.4%	10.1%	1.1%
Time and saving deposits	41.4%	17.3%	9.9%
Shares and other equity	8.3%	21.3%	33.1%
Securities other than shares	4.5%	6.8%	6.4%
Life insurance	17.7%	17.2%	7.1%
Pension funds	9.7%	10.7%	23.8%

Equity shares in financial assets by age: Japan in 1999



Comment #1: Is this a special feature for Japan?

Share of risky assets, by age

	Japan
Under 30	0.027
30-39	0.050
40-49	0.076
50-59	0.105
60-69	0.092
70 and over	n.a.

Comment #2: Is this quantitatively important? Will the share of risky financial investment increase significantly?

Population shares projected by National Institute of Population and Social Security Research

	Year 2005	Year 2010	Year 2025	Year 2050
Under 30	0.31	0.29	0.26	0.23
30-39	0.15	0.14	0.11	0.10
40-49	0.12	0.13	0.13	0.11
50-59	0.15	0.12	0.14	0.12
60-69	0.12	0.14	0.12	0.13
70 and over	0.14	0.16	0.23	0.29