A Death of Equities Redux

Although the stock market has risen for eight (going on nine) years in a row, the gains haven't been felt equally by the investing public. Bloomberg shared some data Friday on stock market ownership broken out by age group and how it's changed since the previous cycle peaked in 2007:

In almost every age group, the share of families owning equities—either directly or through funds and retirement accounts—declined from 2007 to 2016, according to the Federal Reserve's most recent Survey of Consumer Finances*. There's one prominent exception: households headed by someone 75 or older.*

Almost 49 percent of those households own stocks, up from 40 percent in 2007, just before the financial crisis, and about 35 percent in 2013, as many Americans were still recovering from the wreckage. It's the highest number since the Fed began its triennial report on Americans and their money in 1989.

The top rate of stock ownership, 58 percent, is among families headed by people 55 to 64, just before traditional retirement age.

There are surely a number of reasons for these changes beyond your typical investor mistakes but investors have a history of irrational allocation decisions after periods of poor performance in stocks (stocks went nowhere for the entire decade of the 2000s).

Stocks languished for years following the 1973-74 bear market, which led to the infamous *Death of Equities* Business Week cover story from 1979. Here are some stats from that piece that sound eerily similar to the more recent stock ownership figures:

The problem is not merely that there are 7 million fewer shareholders than there were in 1970. Younger investors, in particular, are avoiding stocks. Between 1970 and 1975, the number of investors declined in every age group but one: individuals 65 and older. While the number of investors under 65 dropped by about 25%, the number of investors over 65 jumped by more than 30%. ***Only the elderly who have not understood the changes in the nation's financial markets, or who are unable to adjust to them, are sticking with stocks.***

These investors likely made similar mistakes when they were younger and learned their lesson.

Experience and expertise aren't the same things as age doesn't prevent irrationality. But it would appear experience investing over a number of market cycles has helped older investors understand that you don't give up on stocks following extended periods of poor performance.

In the U.S. it's now been a number of years since we've dealt with an extended period of subpar equity markets. It's worth remembering to avoid giving up on stocks when that dry spell eventually shows up again.

Sources:
Stock Wealth Surges for the Oldest Americans While the Young Miss Out (Bloomberg)
The Death of Equities (Business Week)

Further Reading:
Millennials & the New Death of Equities
How Stocks Took Over Asset Allocations