

Comprehensive Risk in Consumer Portfolios

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Most studies of asset allocation have focused on asset price volatility while ignoring the influence of insolvency risk on portfolio choice. The present study adds to the literature by exploring the influence of financial solvency and risk tolerance on the share of assets allocated to classes with different liquidity and risk-reward characteristics. It utilizes a sample extracted from the 22nd wave of *De Nederlandsche Bank* (DNB) Household Survey (DHS), a longitudinal panel study designed to be nationally representative of the Dutch-speaking population in the Netherlands. Multinomial logit analyses were used to discover the influence of debt to asset ratios on portfolio tercile shares of various asset types. Dutch households use debt leverage primarily to invest in tangible assets such as mortgages. The influence of mortgages on portfolio allocation has been analyzed for the U.S. with a focus primarily on allocations to stocks, and there is some evidence regarding credit card debt and portfolio allocation. Results extend those findings and suggest that insolvency risk constrains some asset portfolio choices more than others, that aging does not decrease the use of risky assets, and that individuals with health problems are less likely to invest in safer tangible assets. Implications are discussed for monitoring household financial risks comprehensively, and for serving “middle market” consumers of investment advice.

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