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## VALUE JUDGMENTS

# Who we are sways how we invest, for better or worse

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October 31, 2004

When it comes to investing, who we are may matter more than what we know. Cultural and religious background plays a bigger role than education in determining investors' attitudes about money, according to an article in a forthcoming collection of scholarly works by Oxford University Press titled "The Sociology of Financial Markets."

The weighty tome takes on such issues as the role social networks play on trading behavior in financial markets and the decision-making process of the Federal Reserve.

And in a chapter devoted to the role cultural bias plays in investor decision-making, Werner DeBondt, a behavioral finance professor at DePaul University in Chicago, reviews a study of Western European investors that found stark differences among nationalities and religions.

French investors, for example, were more likely than others to say that money buys happiness. British investors, to a greater degree than Europeans as a whole, said the risk-return trade-off is better with savings accounts than with real estate.

"Culture matters," said DeBondt. "Certain groups are clearly underrepresented in equities."

Studies of U.S. investors have found similar cultural bias. Even after controlling for income, black and Hispanic investors are substantially underrepresented in the stock market compared with their white counterparts, for example.

Just 13 percent of Hispanics earning at least \$75,000 a year owned common stocks in 2003, compared with 18 percent for the general U.S. population, according to a coming study by Mediamark Research for Hispanic Business Inc., a market research firm. Fourteen percent of affluent Hispanics owned mutual funds, while 21 percent of the wider U.S. population owned them last year. Hispanic investors in the study were found to concentrate more of their wealth in their homes and their own businesses.

A separate annual investor study by Charles Schwab and Ariel Capital Management found that 61 percent of black investors owned stocks in 2003, compared with 79 percent of white investors. More than half of black investors reported being bearish about the market, compared with 40 percent of white investors.

Once you realize you may be investing according to type, there is a case to be made for learning to change your habits.

"Retail investors tend to buy stocks they are familiar with, including local firms or firms that do business in your native country. In reality, most individuals do not make money with this logic," said Mark Seasholes, assistant finance professor at the University of California-Berkeley. "It seems the way to overcome this problem is to buy index funds."

Taking familiarity and cultural bias out of investing will protect investors from trading too much or falling victim to unscrupulous brokers trying to take advantage of these biases, Seasholes said.

But I wonder if there might be some merit to hanging on to some of the old ways.

Hispanics are less likely to own credit cards and more likely to invest higher portions of their wealth in their own companies and homes. Think about the economy, rising consumer debt levels and the stock market over the last five years, and it becomes harder to make the case for transitioning more people into the equity markets.

It's important to note that these patterns are changing, as more Hispanics climb the corporate ladder and amass sizable 401(k) plans, said Juan Solana, chief economist for Hispanic Business.

But even as more Hispanics gain access to higher incomes and investment strategies, a significant portion may continue to gravitate to lower-risk investment products because of their ingrained cultural values, he said.

Simply chasing the highest investment return can be costly in terms of stress if it injects a level of volatility that doesn't suit you, said Steven Leder, a Los Angeles rabbi and author of "More Money Than God: Living a Rich Life Without Losing Your Soul."

"If the return on investment is the omnipotent factor, people will make bad decisions," Leder said. "Sleeping at night is worth a lot of money."

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