Strength in Differences: How Racial Integration Shapes Household Financial Decision-Making
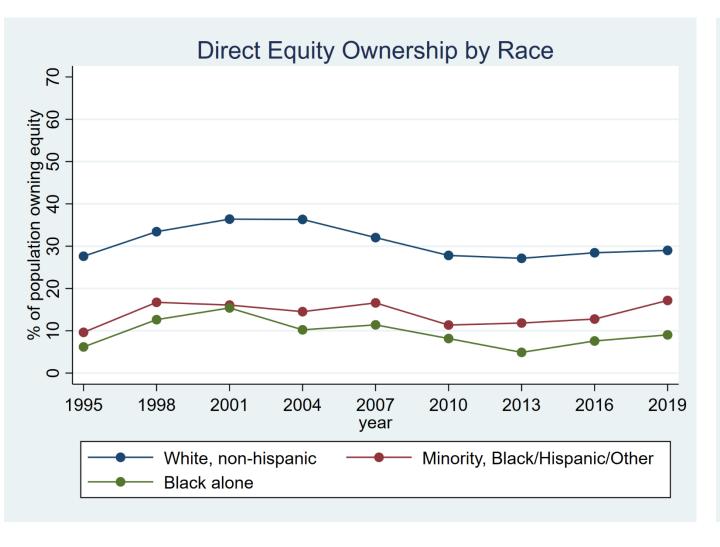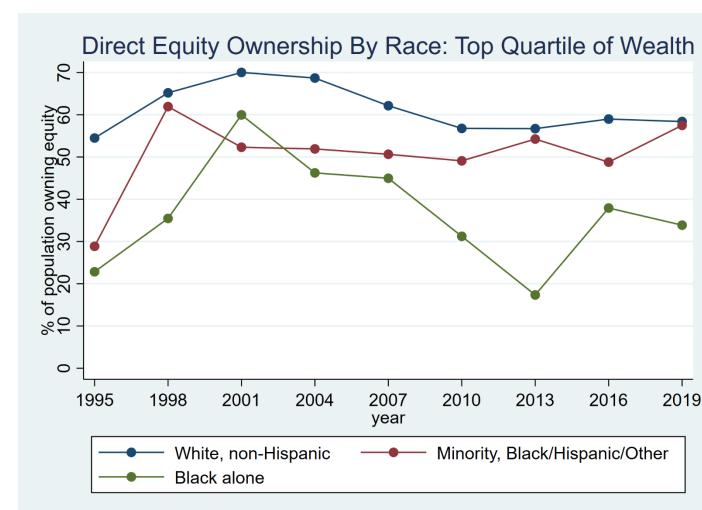
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OVERVIEW

Objective
- **Identify** potential **barriers to financial market participation**, particularly for **minority households**

Direct Equity Ownership by Race

Direct Equity Ownership By Race: Top Quartile of Wealth

Main Research Questions
- Does **racial residential integration** influence household **financial decision-making**?
- Does **racial residential integration** improve the **likelihood of equity market participation**?
- If so, what is the **mechanism** through which integration influences the decision to participate?

Conjecture
- **Integrated environments** foster **diverse friendship networks**
- Network **diversity** increases network **overlap**
- Network **overlap** facilitates **information transmission** across groups
- Leading to an **Increase** in **information availability, reducing informational costs of participation** (Eagle, Macy, Clayton (2010))

Main Takeaways
- **Households residing in racially integrated** counties are **significantly more likely to participate** in **public equity markets** after **accounting for a host of individual- and county-level characteristics**
- The effect of **integration is equally as important** for **both Black and White** households
- Evidence suggesting that **racial integration improves quality** of **local information environments**

Racial Integration Increases Likelihood of Equity Market Participation
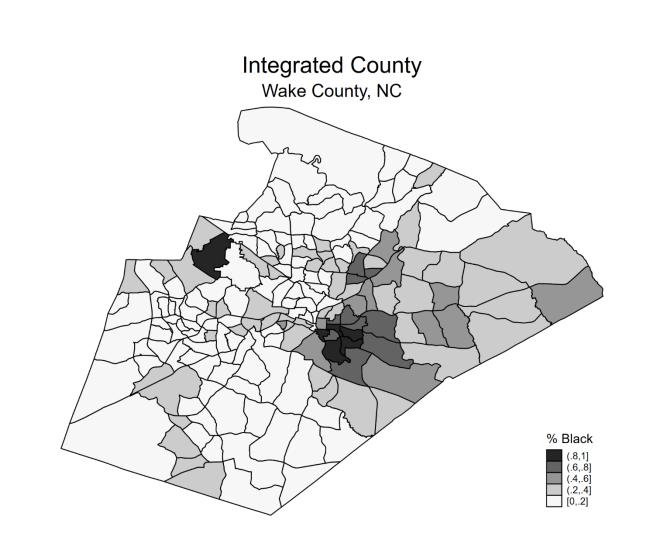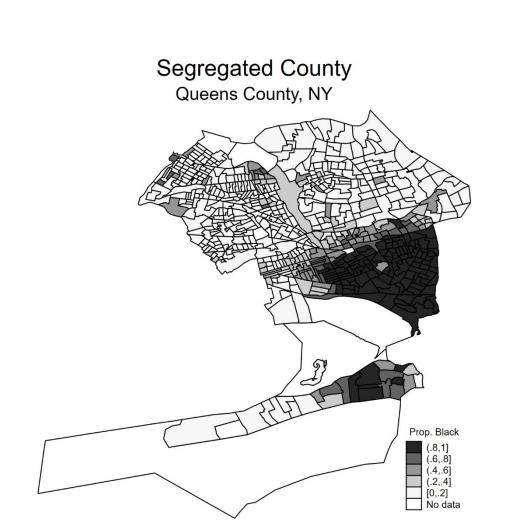
METHODOLOGY

Measuring Integration
- **Socio-spatial measure** of residential integration from sociology measuring the **likelihood of interracial interaction** within a **county** depending on **geographic clustering** (White 1986)

County = Integrated *when*
households are likely to have **racially diverse networks** based on **likelihood of racially diverse interactions**

Integrated County
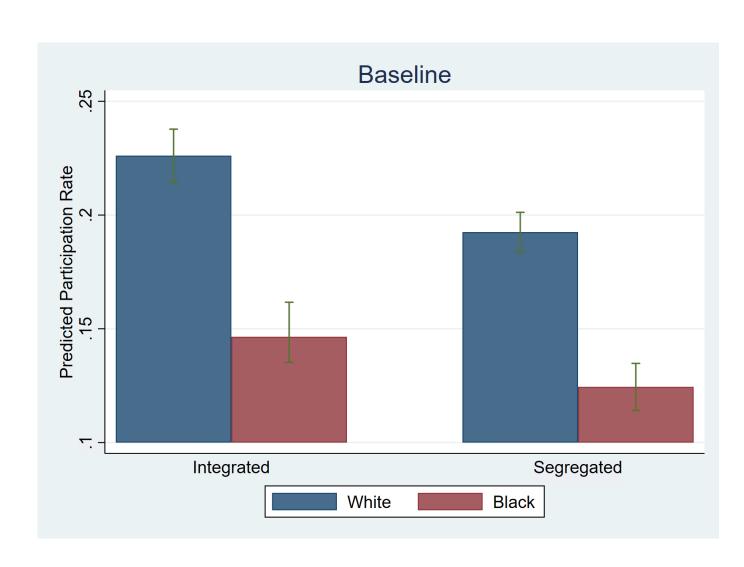Wake County, NC

Segregated County
Queens County, NY

Empirical Strategy
- Exploit **proprietary data** containing the **census tract level residential location of households** from the Panel Study of Income Dynamics (PSID)
- Identify **within-individual variation** using **household relocation**
- **Instrument** for **contemporaneous integration** using historical *predicted* Black population shocks that occurred during the **Great Migration** (1940-1970) ((Boustan (2010); Derenoncourt (2019))
- Identify **information channel** by **evaluating investor-level trading behavior and portfolio performance** using data from a large discount brokerage (Barber and Odean 2000)

Proprietary Household Data Within-Individual Variation from Relocation Instrument for Integration

RESULTS

- Households **residing in integrated counties** are **4% more likely to invest in public equities**
- Racial **integration increases participation** likelihood for **both Black and White households**

Baseline

- Households **moving to integrated counties** are **9% more likely to** *enter* the stock market with the **effect increasing** up to **four years post-move**
- Effect is **robust** to an **instrumental variable** specification

Overall and Local Portfolio Performance					
	$R_i - R_f$	*Sharpe*	$R_{local,i} - R_f$	*Sharpe$_{local}$*	*LocalBias*
	Mean (%) [SE]	Mean (%) [SE]	Mean (%) [SE]	Mean (%) [SE]	Mean (%) [SE]
Integrated	1.383 [0.012]	0.308 [0.052]	1.471 [0.021]	0.158 [0.002]	18.90 [37.6]
Segregated	1.353 [0.009]	0.286 [0.060]	1.319 [0.017]	0.151 [0.001]	12.91 [33.8]
Difference (*Diverse— Segregated*)	0.029** [0.015]	-0.022 [0.081]	0.154*** [0.026]	0.006*** [0.002]	5.99*** [0.056]

- **Superior risk-adjusted** *local* **portfolio performance** suggestive of an **information channel**
  - Results robust to controlling for the FF-4 factors and a passive local stock index

CONCLUSION

- *Features* of **social networks** matter for **household financial decision-making**
- **Residential segregation** serves as a **barrier to financial market participation**
- These findings can **help explain persistent racial gap in participation**

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