

# The Current Situation of Asset Allocation of Chinese Household

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## Abstract

With social-economic development, people's wealth accumulation continuously accelerates, making them pay attention to their asset allocation. There are many ways people can allocate their personal assets. Such as stocks, funds, bonds, and so on. But at the same time, a large number of people do not know how to use these tools correctly to make their asset allocation situation better. More professional and systematic educational guidance may lead people to allocate the most suitable asset allocation portfolio for them.

## Keywords

House Hold; Asset Allocation; The Investment Risk.

## 1. Introduction

Since 1978, China's *economy* has improved. Household income is also rising rapidly. According to nearly 20 years of data from the National Bureau of Statistics of China, China's national salary rose from 6,851yuan in 2001 to 62,612yuan in 2019. In this context, more people are willing to better manage a set since they expect it can help them grow their asset size. On the other hand, China's financial system has been basically established since the establishment of the China Banking Regulatory Commission in 2003. Since 2009, the emergence of more non-bank financial institutions has made various financial products emerge in an endless stream, giving people more opportunities to choose. Due to the widespread use of computers in recent years, people have more access to Due to the widespread use of computers in recent years. Gradually, becoming more and more aware of finance. Housing assets accounted for 77.7 percent of Chinese households' assets, while financial assets accounted for only 11.8 percent, according to the 2018 Wealth and Health Report of China's Urban Households, jointly issued by Guangdong Development Bank and Southwestern University of Finance and Economics. The housing percentage of American households was only 34.6 percent during the same period. 42.9% of the financial asset allocation of Chinese households comes from bank deposits.

The large savings and real estate ratio of Chinese households are the main courses for the "sub-health" of Chinese household wealth. "tether must plan their financial strategies over a lifetime rather" [1]. Chinese families need to learn and find a better way to allocate their assets.

### 1.1. 1.2 The concept of household finance:

The household assets can be divided into two parts: Financial assets and non-financial assets (fixed assets). Non-financial assets are include property, gold, cars, etc. Financial assets include bank deposits, stocks, bonds, etc. Each family's asset allocation is in a different proportion influencing their decision-making. For example, if people were at war, they would have more fixed assets because these are less risky than financial assets. Instead, people in the time of peace tend to divide their investment portfolio into household to make their net worth increase. Different cultures also make each family have different ideas about financial asset allocation [2]. American households have more diversified ways of allocating financial assets, and their

financial assets are distributed among various financial investment methods. Chinese households choose fewer financial investment methods, and their savings rate is too high." (Yating He, 2016). In addition, differences in income are the biggest reason why each family's financial choices differ. In this paper, I will mainly focus on the difference in asset allocation due to income disparities.

## 2. Concepts related to family asset allocation

### 2.1. Asset allocation

Asset allocation refers to the allocation of investment among different assets by investors in exchange for expected returns while reducing the risk to the lowest acceptable value. The determinants of asset allocation to sum up the main has the following five aspects. First, investment objectives, if investors regard capital preservation as the main target, the portfolio should include financing, bonds, and other products with lower low risk: if investors see capital appreciation as the main investment objective, investment portfolio They tend to manage their investment portfolio with stock, futures and other high profitability of the products. Second, he tolerable risk. If Investors have a strong risk tolerance, their portfolio will be more inclined to distribute to high-risk and high-yield assets, and vice versa, Third, the time limit of the investment plan. If investors have idle funds for long-term investment, they can be more be tempted to try and choose more risky assets such as stocks [3]. If investors' funds are only used for short-term storage, they should choose more liquid assets such as bank deposits. Fourth, age and income level, Investors of different ages and incomes may make different investment plans different ages, and the income structure of asset allocation is not the same, young people often can take risks and will adopt some more risky ways to invest.

Also, people with higher income surplus have more disposable income, therefore, the return on assets is much more important for them and they probably pay more attention to the value-added effect of household assets.

Fifth, educational level investors with higher education have more knowledge of finance. The types of financial assets that can be chosen from are multiple, the asset allocation structure is more diversified, and risks and returns are relatively balanced.

### 2.2. Types of household assets

Some scholars have proposed similar concepts in previous studies, but in this paper, I tend to adopt Liu Ying's definition of family assets: family assets must be actually owned and controlled by the family, which can be used for monetary calculation and investment activities and household consumption as a major economic source [4]. The classification of family assets in the theoretical circle is basically the same, which is mainly divided into the following aspects:

In the CHFS questionnaire, assets include financial assets and non-financial assets. financial assets include cash, demand deposits, time deposits, stocks, bonds, funds, derivatives, non-RMB assets, gold, loans, and other assets. Non-financial assets include agricultural or industrial and commercial production and operation, real estate and land, vehicles, durable goods, and other assets.

#### 2.2.1. Cash and cash equivalents

Cash and cash equivalents refer to financial assets with strong liquidity, such as cash, bank deposits, and national debt within one year. The main purposes for households to hold such financial assets are as follows. First, meeting the demand of trading, dealing with daily expenses and cash flow problems, second meet the demand of preventive, family relative to the enterprises and other social organizations, on a smaller scale, weak ability to resist risks, so the family needs to hold some strong liquidity of cash and bank deposit In case of all kinds of emergencies [5]. These assets generally have the characteristics of strong liquidity, a short

retention period, and a low-risk coefficient. One of the main investing methods is to ensure prompt payment, rather than cash for household allocation.

### **2.2.2. Stock**

As a certificate for raising funds, the stock is a form of security issued by a joint-stock company for all shareholders to obtain dividends and bonuses [6]. Each share represents a basic unit of ownership in the business. The size of the company's shares owned by each shareholder depends on the number of shares held by the company as a percentage of the company's total share capital.

Constitute part of the capital stock is co. LTD., may be transferred, sold, is the main long-term credit tool, capital markets, to say the stock is one of the important elements of capital formation co. LTD., has an important role in the capital market, as the financial market globalization trend is more obvious, the investment needs to continue to pay close attention to the impact on the global stock market fluctuations.

### **2.2.3. Bonds**

Bonds are securities issued by governments, enterprises, banks, and other debtors to raise funds, and the issuer of the bond promise to repay the principal and interest on a specified date under legal procedures [7]. They are vouchers with weak liquidity but relatively strong security. The essence of bond is a kind of borrowing behavior, and the relationship between bond buyers and bond issuers is creditor's rights and debts.

Bonds are fixed-interest securities. In some countries with more developed financial markets. In particular, some national debt issued by the state and financial bonds issued by financial enterprises because of their high credit, strong security, fixed income and stable price, having become a great choice for some families who aim to enhance the value of assets.

Compared with stocks, the risks are lower, some national debt issued by the state and financial bonds issued by financial enterprises because of their high credit, strong security, fixed income and stable price, has become a great choice for some families who aim to enhance the value of assets.

### **2.2.4. Fund**

The fund can be divided into the broad fund and the narrow fund. A broad fund refers to a special set of funds for a certain purpose. Funds can also be divided into open-end funds and closed-end funds. Open-end fund refers to an investment fund whose size is not fixed, but which can issue new shares or be it can issue new shares or redeem them at any time. According to supply and demand in the market Closed-end fund, not like the open-end fund, refers to a type of fund that has a fixed amount of capital through the whole period, from the beginning of the issue to the end.

### **2.2.5. Insurance and bank financial products**

Insurance means that individuals pay insurers a certain premium to the insurer under the terms in the contract, and Insurers are liable to compensate a certain amount of money for the possible death, disability, disease, and other clauses contained in the terms of the contract as well property loss or after the insurer stipulates the age, time limit and other stipulated conditions in the contract, the stipulated insurance money shall be paid, which is a kind of commercial insurance [8].

With the development of the insurance market, families are more and more inclined to transfer their money to insurance institutions through investment insurance, through paying small premiums in advance in case of some large unexpected expenditures of families [9]. It can be said that insurance, as a means of risk management of family assets will receive more and more attention in the future.

Bank financial products are an asset investment and management plan developed and sold by commercial banks after mining and analyzing potential users based on specific user groups. In the special investment mode of bank financing, clients themselves or clients and banks jointly share the investment income and risks in a pre-arranged way.

In essence, banks only accept the authorization client to manage the funds. According to different types of expected returns, bank financial products can be roughly divided into three categories, namely, capital protected fixed income products, capital protected floating income products, and non-capital protected floating income products. Individuals can choose bank financial products that suit them according to the level of risk they can bear.

### **2.3. Household non-financial assets**

#### **2.3.1. Real Estate**

Is that people invest in real estate intended for investment purposes rather than as a primary residence. It may have the following high price, value, quantity limitations, the lack of diversity. Compared with other investments such as stock fund and futures, many countries' economics are influenced by inflation.

First of all, gold investment is mainly divided into physical gold, gold T+D, paper gold, spot gold, international spot gold (commonly known as London gold), futures gold, gold advance payment, people's livelihood gold, these 8 more popular forms of gold investment. For decades, many countries' economics are influenced by inflation.

Prices rising but purchasing power falling over Gold itself is a precious commodity, and its price tends to rise with inflation, which can offset inflation and protect investors from the effects of inflation. In addition, its value is stable and constant. Household assets allocation in the different family: household assets allocation is influenced by many reasons. Different incomes will lead to different attitudes towards investment. According to the findings of Zhang Zhe in the paper "Research on Financial Asset Allocation and Wealth Effect of Rural Households" [10]. Most of the financial assets of rural households are made up of savings. Rural residents hold less than 5% of their holdings in risky investments such as stocks. According to a 2013 report on China's Household Income Gap by the CHFS, the vast majority of rural residents' income comes from wages and agriculture which together account for 67 percent, while investment income only accounts for 1.8 percent. The relatively low level of education and the lack of financial awareness are the main reasons why rural households are less involved in financial activities. The current situation is that rural families are weak in resisting the risk of financial investment and lack of necessary financial knowledge. Among those few choices of venture investments in rural areas, stocks are the main investment project they will choose.

Equities are high-risk and high-return assets compared to deposits and bonds, and there are no restrictions on access to the high-risk stock market, which makes it a risky financial asset for rural residents to participate in the first choice of the production market. On the other hand, the limited access to financial products leads to a limited understanding of many financial products among rural residents. Thus, most are more likely to put their money in the bank for deposit.

Even if investing directly in stocks isn't the best way to manage your money. However, more and more banks have been established in rural areas around rural areas, which will enable rural residents to know more about better financial products and participate in financial activities in the future.

In contrast, the income structure of urban residents shows that investment income accounts for 7.1% of total income which was 5.3% higher than rural investment income over the same period. This is because there are more financial activities and more publicity in urban areas. Urban residents are also more resilient risks. In the Analysis of Financial Asset Allocation Characteristics of Urban Households, the data show that the proportion of residents

participating in financial management is as high as 73.39%, and the proportion of households participating in stocks and funds are also 31.45% and 28.23% respectively. This figure is much higher than that of rural residents.

However, due to the relatively conservative financial management concept of Chinese families, the savings and cash rates of residents are still as high as 82.26% and 81.45%. In addition, urban residents' investment in real estate is also very high. Residents' housing assets accounted for 59.1% of the total assets [11]. This is mainly due to the massive construction of infrastructure in China in the past two decades, and the sharp rise in people's income, which has led to the rise in housing prices. Real estate investment has become extremely hot. But it is also a direct result of the extremely 'unhealthy' allocation of Chinese households' wealth. In the "China Household Wealth Index Survey Report", the data shows that property is the biggest contributor to the increase of household wealth. Real estate returns accounted for 69.9% of the income of the entire family's wealth growth. On the other hand, the property is also the main reason for the decline of those households' wealth, accounting for 33.4 percent of the total. Even though China has introduced many policies, but the enthusiasm of people to buy houses is still high. The imbalance in the allocation of investment projects is the main problem faced by urban residents at present.

### 3. Conclusion

The establishment of CHFS represents the importance Chinese academic circles attach to family finance. As a new topic, it has the same importance as enterprise finance. China's economy has developed rapidly in recent years and Chinese people are getting richer and richer. China's GDP per capita has grown from \$307 in 1978 to \$8,242 in 2019, according to the IBRD World Bank. Such economic growth also gives people more capital to invest and manage their money. On the other hand, the wide use of the Internet also means people are easier to get access to all kinds of information.

Schools and books are no longer the only channels for people to receive financial knowledge. People can even use mobile phones to obtain the professional teaching and science popularization of financial professionals. People have more channels to learn about the latest financial products, to choose the most suitable one for them, and get a higher return from their investments. Secondly, China's financial system is also constantly improving. Even though many experts and scholars have pointed out in their papers that China's capital market system is not perfect and investors' financial investment activities are limited, it is undeniable that a series of financial reforms have changed the system and made it more perfect. "Expand the opening up of the financial sector will inject new vitality into China's financial sector, help to improve the overall competitiveness of China's financial sector, achieve a higher level, a higher level, and more healthy development, and provide a huge momentum for the construction of a new development pattern" [12]. The proportion of Chinese households' asset allocation is unbalanced, and the property share is too high. This will cause them to over debt and reduce cash flow. These are not conducive to a market economy, and 'unhealthy' asset allocation ratios cannot maximize the growth of people's assets. China's household finance is a new proposition, there are many problems that need to be solved. In today's Internet age, the dissemination of information will and more knowledge can be gained to help them build their family asset structure.

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