By combining the data from the 1992, 1995, 1998, 2001 and 2004 Survey of Consumer Finances, this dissertation examined racial differences in households' financial asset allocation over the years. The sample size for the 1992 SCF was 3,906; 4,229 for the 1995 SCF; 4,305 for the 1998 SCF; 4,442 for the 2001 SCF and 4,519 for the 2004 SCF, each with five implicates.

On the basis of the theoretical framework of Expected Utility Theory and Capital Asset Pricing Model, financial assets were categorized into four groups: equities (including directly-held stocks and other indirectly-held stocks through mutual funds, retirement accounts, and etc.); bonds (including directly-held bonds and other indirectly-held bonds through mutual funds, retirement accounts, and etc.); cash accounts (including cash, certificates of deposit, and liquid accounts) and other financial assets. Then, this study employed a two-step approach to analyze investment decisions on the likelihood of having each financial asset category as well as the relative degree these financial assets are held in household portfolios conditional on the likelihood. The application of Heckman selection models provided a more detailed view on household investment decisions.

Based on the theoretical framework and previous literature, the empirical models set forth the probability and the proportion of holding each financial asset category as a function of year, race, other demographic variables (age, education, gender, marital status and number of kids), socio-economic variables (income, wealth, working status, having defined benefit plans vs. having defined contribution plans, inheritance, homeownership and business ownership) and an attitudinal factor (risk tolerance). Race had four categories: white, black, Hispanic and others. To fully analyze racial differences in holding each of the four financial asset categories, 20 interaction terms of the four racial categories and five years (1992, 1995, 1998, 2001 and 2004) were included in the models. White-headed households in 1992 were used as the reference group.

The results from the four Heckman Selection Models showed that most of the interaction terms between race and year were significant. Racial differences were found when comparing households headed by blacks, Hispanics or other races to households headed by whites. There was, however, little variation in effects among households headed by blacks, Hispanics or other races, in other words, minorities. Households headed by whites increased both the probability of equity ownership and the proportion of financial assets in equities over the period of 1992 to 2004. When compared to a white-headed household in 1992, a household headed by a minority had a lower or equal probability of equity ownership throughout the period. In other words, minorities were worse off than whites in 1992 in terms of the probability of equity ownership. Households headed by blacks, Hispanics or other races increased their equity shares during this period, primarily 1998 or later.

When compared with white-headed households in 1992, the probability of owning bonds and the bond share for white-headed households changed according to the annual return of bonds. The probability of bond ownership and bond share were lower for all other races in all five years, except for 1998.

The probability of holding cash accounts increased, but the proportion of financial assets invested in cash...
accounts decreased on average over this period for households headed by whites. When compared with households headed by whites in 1992, the probability of owning cash accounts was relatively lower for households headed by blacks, Hispanics and other races during this period. Also, the proportion of financial assets invested in cash accounts was relatively lower for black-headed households. However, the proportion increased for households headed by Hispanics or other races over time.

White-headed households decreased both the ownership and the proportion of other financial assets during the period. Similar trends were shown for households headed by other races. When compared with households headed by whites in 1992, the probability of owning other financial assets decreased, but the proportion invested in other financial assets increased for households headed by blacks or Hispanics over time.

In summary, minorities were much more risk averse in investments, as compared with whites. Financial planners/counselors and educators should realize that the meaning, and understanding, of risk may be different for minority groups. Also, financial planners and educators should educate minorities with financial knowledge related to risk tolerance and characteristics of financial assets, and increase their exposure to the high return/high risk equities and bonds. With financial knowledge, minorities may substantially increase the likelihood of equity or bond ownership and benefit from the equity and bond market in accumulating more wealth. Increased equity/bond ownership should help reduce the wealth gap in the long run. Future research should focus on the impact of inefficient portfolio planning on the well-being of minority households and on how to increase the likelihood of equity/bond ownership.