

# Research Department Federal Reserve Bank of San Francisco

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## Stockholders

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Wealthy individuals—the top 1 percent of the income distribution—accounted for over one half of all individual holdings of corporate stock in the late 1950's, and they still held over one half of the total in the early part of this decade. Their stockholdings amounted to \$397 billion in mid-1971 (market value), compared with the \$380 billion held by the other 99 percent of the population. Meanwhile, holdings of nonprofit institutions, corporations and foreigners totalled \$341 billion.

These and other findings are included in a detailed report on stockownership by Wharton School Professors Marshall Blume, Jean Crockett and Irwin Friend, published in the November issue of the **Survey of Current Business**. Their study traces changes in the pattern of stockownership over time, primarily on the basis of two large stratified random samples of individual income-tax returns taken over the past decade.

### Time trends

While the top 1 percent, with family incomes of \$50,000 or over in 1971, practically maintained its share of individual stockholdings with 51.7 percent of the total in 1958 and 51.1 percent in 1971, significant shifts occurred among other income groups. The rest of the top decile, with 1971 incomes between about \$20,500 and \$50,000, held 31.5 percent of total stock in 1958 but just 24.0 percent of the total in 1971. In contrast, the next 40 percent of the

income distribution (\$9,300-\$20,500 income) raised its share of the total from 12.3 percent in 1958 to 16.9 percent in 1971, reflecting a significant broadening of stockownership among middle-income families. The bottom half of the population held 4.5 percent of total stock in 1958 and 8.0 percent in 1971.

The Wharton study shows a fairly persistent tendency, extending over the past half-century, toward a more equal distribution in the direct ownership of stock. (Still, the trend was somewhat muted in the 1958-71 period). Total **wealth** also showed a decreasing amount of concentration up to the end of World War II, but hardly any change thereafter. Also, **income** distribution showed less concentration until 1945 but much more stability in later decades; in both 1958 and 1971, for example, the top 1 percent accounted for 7.5 percent, and the top 50 percent for 76.6 percent of total income.

### Stock vs. total wealth

The postwar difference in trend between stockholdings and total asset holdings reflects the fact that the ownership of stock was (and is) much more concentrated among upper-income groups than is true of wealth generally. (The trend is consistent with a greater diversification of asset structure by both upper- and lower-income groups.) It may also reflect the increased use by wealthy investors of other forms of investment, such as municipal

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bonds and real-estate holdings, to minimize taxes in a prolonged period of rising tax rates. Other factors have included the high returns available in the stockmarket during the 1950's and 1960's, and the publicity given to that situation by the Wall Street community in its efforts to attract small investors into the market. Those efforts were successful, since the number of individual stockholders rose from 12.5 million to 32.5 million between the late 1950's and the early 1970's.

Yet with the rise of the institutions, we have seen a decline in the individual share of total stockholdings, from 89.1 percent in 1950 to 72.3 percent in 1973. (This includes bank-administered personal trusts, which remained constant at about 10 percent of the total throughout this period.) The decline reflects both the rapid rise in assets of financial institutions (such as pension funds) and the increased proportion of their assets channeled into stock investment. Over

time, individual holdings of all sizes have been replaced by a much smaller number of large institutional holdings, while a large number of new (generally small) stockholders have acquired shares through reductions in holdings of large individual investors. The Wharton study comments, "Since institutions have not played an active role in corporate affairs, and small individual investors have tended to be less active than large investors, managerial control of U.S. corporations may have been enhanced over this period."

### **Large vs. small**

Not surprisingly, the study shows a more conservative investing attitude by small stockholders than by large stockholders. Lower-income portfolios have been concentrated much more in mutual funds and New York Stock Exchange issues, and among the latter, concentrated more in telephone and utility stocks. The widows-and-orphans label apparently still holds. On the other hand, upper-income investors have been more likely to hold stock with higher price-dividend ratios. This tendency is consistent with the greater tax advantages to high-income individuals of stock with low dividend payout and high earnings retention.

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More surprisingly, however, lower-income groups have generally realized just as high a rate of return (dividends plus capital gains) as have higher-income investors. This tendency was evident both in 1970-72 and in the decade-earlier period.

Also surprisingly, portfolios of higher-income groups have been just as poorly diversified as those of lower-income investors, although the former of course own substantially more stock on the average. One possible reason for upper-income individuals to hold an undiversified portfolio would be the hope of realizing extra returns from superior security analysis—although the Wharton authors wryly note that only exchange specialists and (occasionally) corporate insiders outperform the market consistently over long periods of time. An alternative explanation may be the desire by individuals to maintain control over firms by concentrating holdings in particular securities. (In closely held firms, it may make more entrepreneurial than investment sense to concentrate holdings.) For whatever reason, it appears that investors in all income categories assume greater risks than necessary through lack of diversification.

### **Bear-market implications**

This lack of effective diversification has important consequences during bear markets, such as we have experienced since the 1971 survey date. Given this situation, in a major market downturn a large proportion of all investors will do much worse than the market. Thus, with the market value of NYSE stock dropping about 46 percent from its early-1973 highpoint, millions of investors in all income categories must have experienced severe losses.

Another likely consequence of the bear market is a decline in the concentration of wealth, inasmuch as stock constitutes a much larger part of the assets of upper-income than lower-income groups. In contrast, little if any change would be expected in the distribution of income, partly because dividend income (unlike stock prices) has not been depressed, and partly because of the influence on income of labor-market and other factors.

**William Burke**

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**BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT**  
(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 12/18/74	Change from 12/11/74	Change from year ago	
			Dollar	Percent
Loans (gross, adjusted) and investments*	86,656	+ 597	+7,763	+ 9.84
Loans (gross, adjusted)—total	68,183	+ 585	+8,313	+ 13.89
Security loans	1,839	+ 74	+ 451	+ 32.49
Commercial and industrial	24,557	+ 353	+3,539	+ 16.84
Real estate	19,999	+ 19	+1,725	+ 9.44
Consumer instalment	9,815	+ 40	+ 757	+ 8.36
U.S. Treasury securities	5,429	- 92	- 834	- 13.32
Other securities	13,044	+ 104	+ 284	+ 2.23
Deposits (less cash items)—total*	83,374	+ 976	+9,194	+ 12.39
Demand deposits (adjusted)	22,939	- 636	+1,104	+ 5.06
U.S. Government deposits	791	+ 440	- 26	- 3.18
Time deposits—total*	57,987	+ 956	+7,835	+ 15.62
States and political subdivisions	6,932	+ 829	- 91	- 1.30
Savings deposits	17,957	+ 13	+ 424	+ 2.42
Other time deposits‡	29,525	+ 195	+6,872	+ 30.34
Large negotiable CD's	16,602	+ 92	+5,738	+ 52.82
<b>Weekly Averages of Daily Figures</b>	<b>Week ended 12/18/74</b>	<b>Week ended 12/11/74</b>	<b>Comparable year-ago period</b>	
<b>Member Bank Reserve Position</b>				
Excess Reserves	- 4	50		35
Borrowings	233	26		166
Net free (+) / Net borrowed (-)	- 237	24		- 131
<b>Federal Funds—Seven Large Banks</b>				
Interbank Federal fund transactions				
Net purchases (+) / Net sales (-)	+1,368	+1,761		+1,653
Transactions of U.S. security dealers				
Net loans (+) / Net borrowings (-)	+ 970	+ 879		+ 180

\*Includes items not shown separately. ‡Individuals, partnerships and corporations.

Information on this and other publications can be obtained by calling or writing the Administrative Services Department, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, California 94120. Phone (415) 397-1137.