Discussion of

Kick, Onali, Ruprecht, Schaeck:

Wealth shocks, credit-supply shocks, and asset allocation: Evidence from household and firm portfolios

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Summary of Kick et al.

The Question

How do wealth shocks and credit shocks affect diversification of portfolios of households and non-financial firms?

Dataset

- Unique bank-level data on security holdings from all DE banks
- Info on asset class (bonds, stocks, ...), type of issuer (govt, NFC, ...), country of origin

Method

Analysis of Herfindahl indexes using

- Diff-in-diff regressions
- IV regressions
- Lots of sensitivity checks

Summary of Kick et al.

Findings

- Wealth shocks
  - Households exposed to distressed countries increase diversification
  - Firms don't
- Credit supply shocks
  - Both firms and households increase diversification
- Effects stat significant but modest

Methods—Wealth Shocks

- Herfindahl–Hirschman Index (HHI)

$$HHI = \sum_{j=1}^{N} s_j^2$$

s_j ... share of value invested in asset type j; $HHI \in [1/N, 1]$

- Diff in diff estimation:

$$HHI_{it} = \beta_0 + Crisis_t \beta_1 + (Crisis \times Treatment_i)\beta_2 + X_{it}\beta_3 + u_i + \gamma_t + \varepsilon_{it}$$

- HHI_{it} ... Herfindahl for bank i and period t
  Herfindahls by asset class, issuer and for households/firms
- $Treatment_i$ ... 0–1 dummy for bank with large share of securities from distressed countries in 2009
- β_2 ... key parameter of interest

Methods—Credit Supply Shocks

- IV regression

$$\begin{aligned} Loans\ Drop_{it} &= Z_{it}\gamma_2 + \nu_{it}, \\ HHI_{it} &= \alpha_0 + Loans\ Drop_{it}\alpha_1 + X_{it}\alpha_2 + u_i + \gamma_t + \varepsilon_{it} \end{aligned}$$

- $Loans\ Drop_{it}$ ...dummy for decline in customer loan
- Z_{it} ...instruments: capital injections dummy, concentration of loans (HHI), hidden liabilities dummy, liquidity ratio
- Novel combination of data on portfolios and capital injections

Comments—Data Limitations

- Nice, unique bank-level dataset/combination of data
- BUT Ideally would like to have household-/firm-level data
- Households may hold portfolio with different banks and shift between them
- Not clear if analysis of HHIs at bank level can capture that
- Representativeness of dataset/coverage of financial assets
- Only annual frequency

Comments—Limitations of HHIs

- Increase in aggregate amount of saving (during recession)?
- Inflow of savings from abroad?
- Aggregate savings moving from distressed banks?
- NOT captured in HHIs (based on asset shares, not values)
- "Hhs tend to hold more diversified portfolios than firms"?
- Puzzling b/c, e.g., low participation of Hhs in stock market
- How do HHIs reflect possible changing correlation b/w assets or perceptions of riskiness?
- Are HHIs a good measure of portfolio diversification?

Comments—Terminology

- Terminology: Not clear why ‘wealth’ shocks? All sorts of risks might have changed
- ‘Wealth’ changes likely modest? in DE
- Dummy variables for ‘crisis’ (years 2009–2012) may be crude given high frequency nature of events

Summary

- Interesting unique dataset explored in a nice way
- BUT subject to data limitations
- Can think of other specifications
- Can interpret estimates differently (than ‘wealth’ shocks)