

Get In Early: The Association Between Financial Socialization in Childhood and Stock Market Knowledge in Adulthood



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Introduction

- Family finances have long been a taboo subject for American households, despite one of the most important channels through which children develop financial literacy being family.
- Financial socialization is a process of introducing and advancing attitudes, values, standards, and behaviors that promote financial viability, literacy, and well-being (Danes, 1994).
- Discussions with young adults about spending behavior, financial investments, and the importance of savings is financial socialization in action and has been shown to improve attitude toward financial matters and financial well-being (Utkarsh, Pandey et al. 2020).
- Research shows that adults exposed to finances early in life may improve investment returns and asset diversification but assessing how childhood exposure to finances influences concrete understanding of the stock market is yet to be done (Grohmann, Kouwenberg et al. 2015).

Research Questions

- Is financial socialization in childhood associated with stock market knowledge in adulthood?
- Does the association between financial socialization in childhood and stock market knowledge in adulthood differ for individuals with and without a non-retirement investments, such as stocks, bond, and mutual funds?

Methods

Sample

- Participants (n=6394) were drawn from the September 2017 National Financial Well-Being Survey
- The Financial Well-Being Survey is a nationally representative sample of non-institutionalized, English or Spanish speaking adults aged 18 or older in the US

Measures

- Financial socialization in childhood was assessed using the sum of seven questions about whether the participants experienced a financial socialization activity or lesson with family while growing up. Each response was coded as 0 for no or 1 for yes, then summed. Scores ranged from 0 (no financial socialization) to 7 (most financial socialization).
- Stock market knowledge was assessed similarly, using the sum of seven multiple choice questions about the stock market. Each response was coded as 0 for incorrect or 1 for correct, then summed. Scores from 0 (least knowledgeable to 7 (most knowledgeable
- Participants' possession of non-retirement investments, such as stock, bonds, or mutual funds, was coded dichotomously

Results

Univariate

- The majority of participants, 15%, were exposed to four financial socialization events in childhood.
- The majority of participants, 26%, answered six stock market questions correctly.

Bivariate

- A Pearson correlation test showed that **financial socialization in childhood was significantly and positively associated with stock market knowledge in adulthood** ($r=0.12$, $p<0.001$).
- A simple linear regression analysis showed that, on average, for every financial socialization event someone experienced in childhood, their stock market knowledge in adulthood is expected to increase by 0.09 (Figure 1).

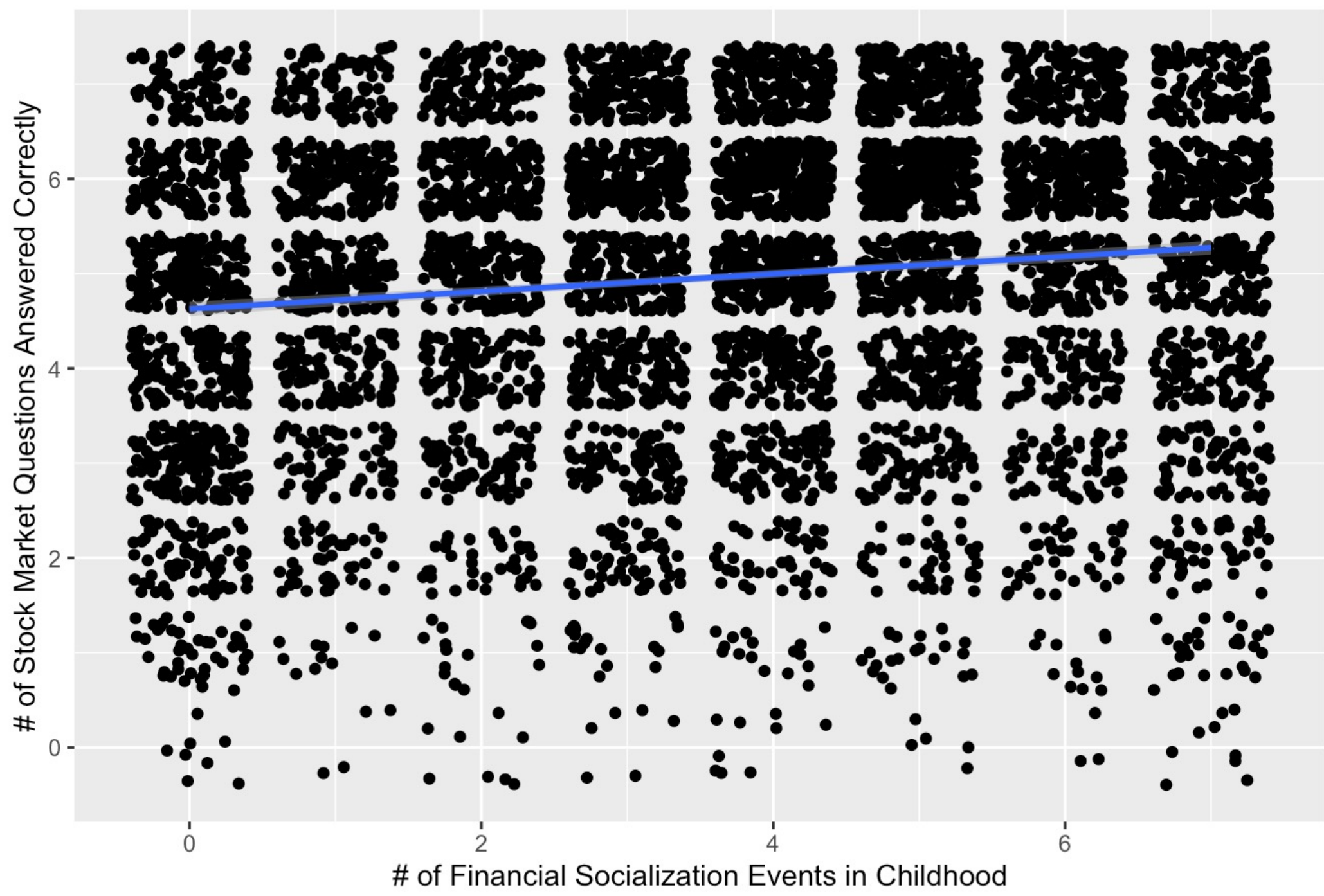


Figure 1. Number of Financial Socialization Events in Childhood vs. Number of Stock Market Questions Answered Correctly

Multivariate

- As expected, participants that do have non-retirement investment have higher knowledge of the stock market that increases with higher financial socialization and participants that do not have non-retirement investments have lower knowledge of the stock market that increases with higher financial socialization (Figure 2)

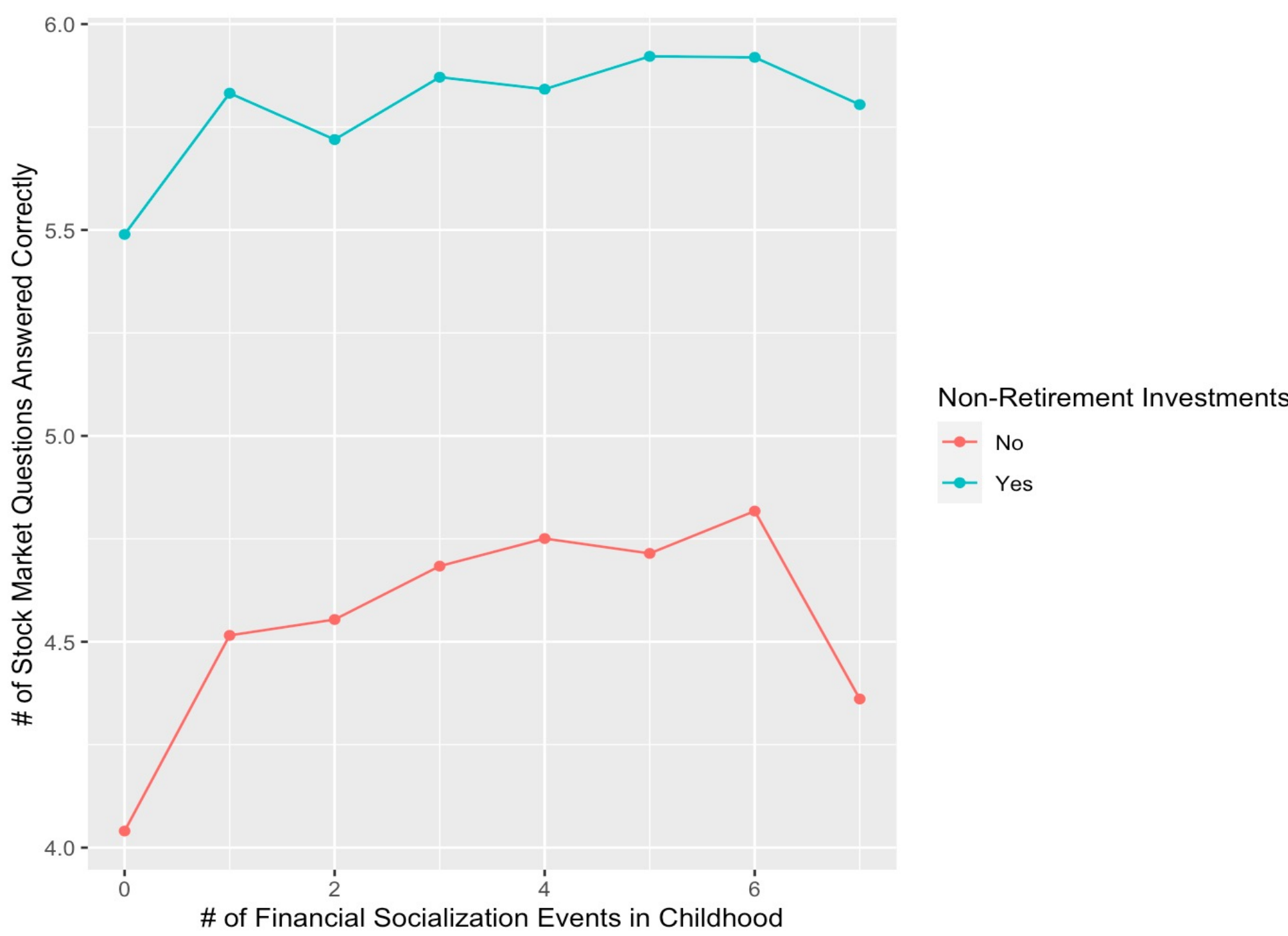


Figure 2. Number of Financial Socialization Events in Childhood vs. Number of Stock Market Questions Answered Correctly by Possession of Non-Retirement Investments

- After controlling for possession of non-retirement investments, financial socialization in childhood is significantly and positively associated with stock market knowledge ($B=0.06$, $p<0.001$)
- A multiple linear regression analysis showed that, on average, for every financial socialization someone in possession of non-retirement investments experienced in childhood, their stock market knowledge in adulthood is expected to increase by 0.06.

Discussion

- Individuals that experienced financial socialization in childhood do have increased knowledge of the stock market.
- Regardless of whether an individual possesses non-retirement investments, such as stocks, bonds, or mutual funds, financial socialization carried over from childhood is an important factor in understanding the stock market in adulthood.
- Since the publication of the National Financial Well-Being Survey in 2017, the push for policy and institutional changes that promotes financial education and foster financial confidence among young adults is growing.
- Schools for all ages can use this information to incorporate economics and accounting into curriculum, family counselors to address the stigma surrounding family financial matters, and families to provide allowance and savings account for their children.

Danes, S. M. (1994). "Parental perceptions of children's financial socialization." *Journal of Financial Counseling and Planning* 5: 127-149.
Grohmann, A., et al. (2015). "Childhood roots of financial literacy." *Journal of Economic Psychology* 51: 114-133.
Utkarsh, et al. (2020). "Catch them young: Impact of financial socialization, financial literacy and attitude towards money on financial well-being of young adults." *International Journal of Consumer Studies* 44(6): 531-541.