Households have not yet returned to the stock exchange

Introduction

In the past decades, Dutch households have increasingly invested in securities. The emergence of modern information and communication technology made it easier and cheaper for households to use their free savings, built up outside pension funds and life insurances, for the purchase of securities. As a result, Dutch households have also become more sensitive to developments in the financial markets. Investments in securities may yield higher returns than money deposited on savings accounts, but also pose risks for households' financial position. In the past few years, private investors went through a turbulent period. Share prices strongly fluctuated. In February 2011, Dutch households held more than EUR 100 billion in securities (see Figure 1a), approximately EUR 15 billion less than before the outbreak of the financial crisis in 2007. This decline is the result of price losses and households divesting securities.

This article focuses on investments by Dutch households over the past four years. Since the recovery of the markets in the spring of 2009, households have hardly extended their positions in securities. On the other hand, a shift can be seen from bonds to (participations in) investment funds. In addition, households are still showing restraint in enlarging their positions in shares. First of all, the article will sketch the portfolio developments for four separate periods. Subsequently, separate sections will deal with the various portfolio instruments. The box will zoom in on the investments by households in shares listed on the AEX index.

The investment portfolio in brief

Dutch households' portfolio consists of investment funds, equities, capital market paper and money market paper. The value represented by money market paper − several tens of millions on a portfolio of EUR 100 billion − is negligible, and will not be included in subsequent studies. The same applies to derivatives. The recent developments in the portfolio form an integral part of the unusual events in the financial markets. The past four years can roughly be divided into four separate periods.

I. Liquidity crisis, (August 2007 - August 2008)
Start of problems in the market for asset-backed securities

II. Solvency crisis, (September 2008 - March 2009)
Collapse of Lehman Brothers leads to worldwide problems in the financial sector

III. Recovery, (April 2009 - December 2009)
Markets subside − recovery

IV. Debt crisis, (January 2010 - February 2011)

Several (euro) countries encounter problems with their public finances

Since the start of the liquidity crisis, the portfolio of investing households has decreased in size as a result of net sales (EUR 4 billion) and net price declines (EUR 15 billion); See Figures 1b and 1c.

Due to the stock market slump during the liquidity and solvency crises, some EUR 40 billion worth of portfolio investments evaporated through price falls. In the two years that followed, the financial markets recovered and approximately two thirds of earlier incurred (paper) losses were offset again by price gains. During the liquidity crisis, Dutch households sold almost EUR 5 billion worth of portfolio investments, replacing many of the riskier products in their portfolios, such as shares and some investment funds, by less riskier products, such as bonds. In addition, they deposited part of the proceeds on savings accounts. Over a period of more than a year, households saved a monthly sum of EUR 1.3 billion, some EUR 500 million more than they did on a monthly basis in the preceding two years. However, during the solvency crisis the financial markets deteriorated and households purchased securities for approximately EUR 1 billion. They bought primarily shares, partly because the sharply fallen equity prices were considered low by households. This is also referred to as stock picking. Since the recovery of the financial markets in 2009, households have been selling debt securities and started buying investment funds again, both for amounts exceeding EUR 4 billion. This has led to a shift towards riskier products.

Figure 1a: Investment portfolio of Dutch households
Balance (in EUR billion)

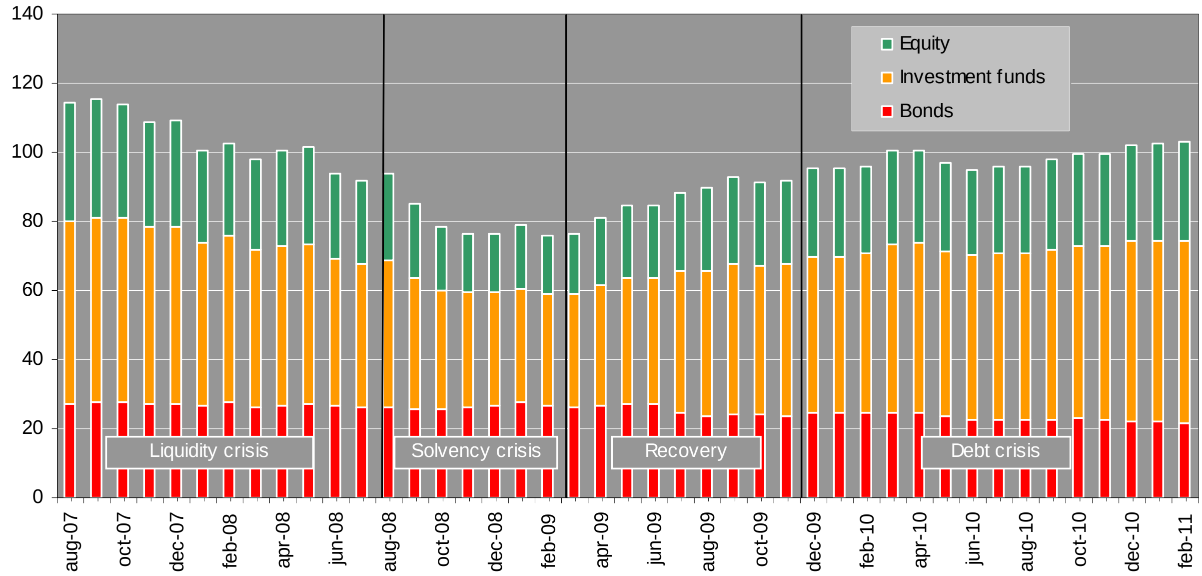
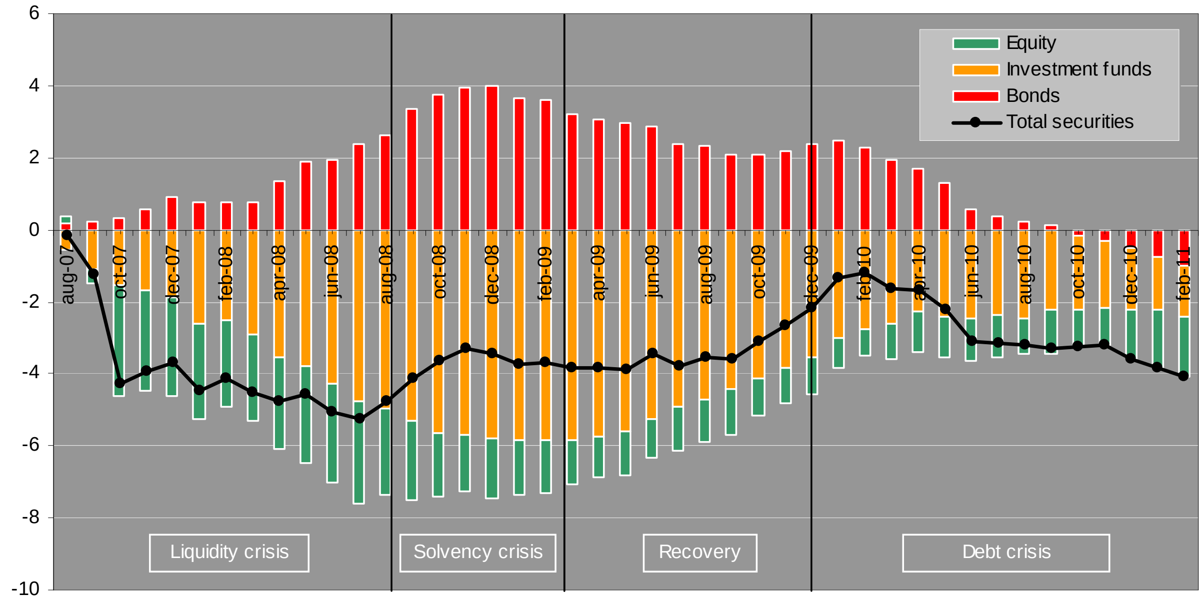
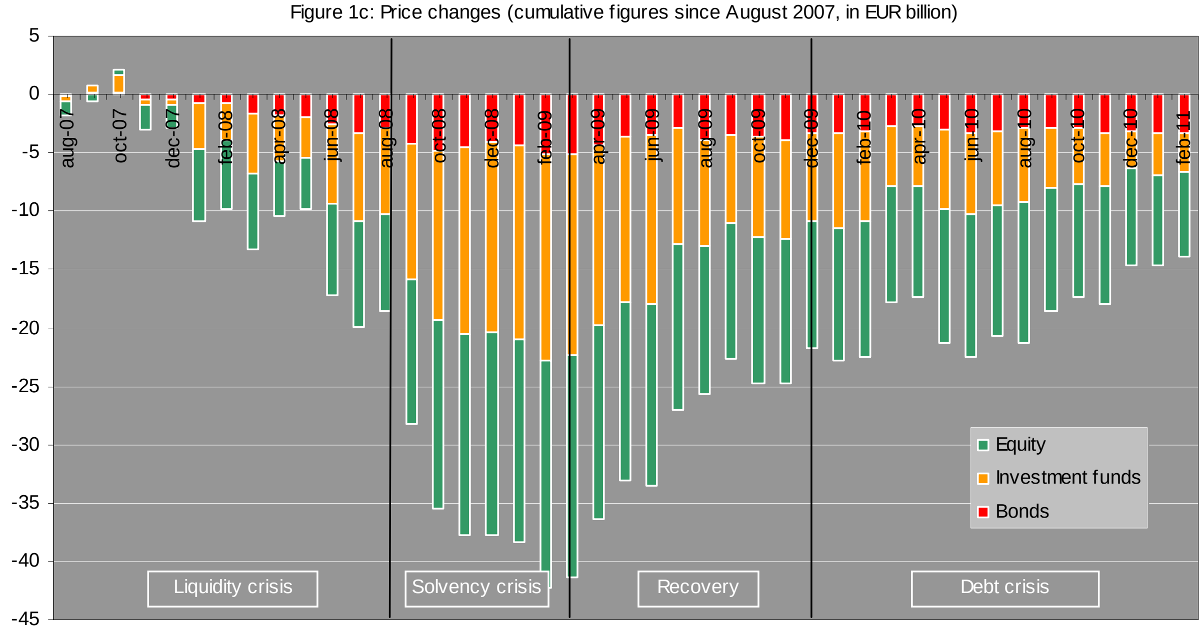


Figure 1b: Net transactions (cumulative figures since August 2007, in EUR billion)



Note:
- Net transactions are purchases minus sales
- Cumulative figures respresent the sum of the transactions of all previous months

Figure 1c: Price changes (cumulative figures since August 2007, in EUR billion)

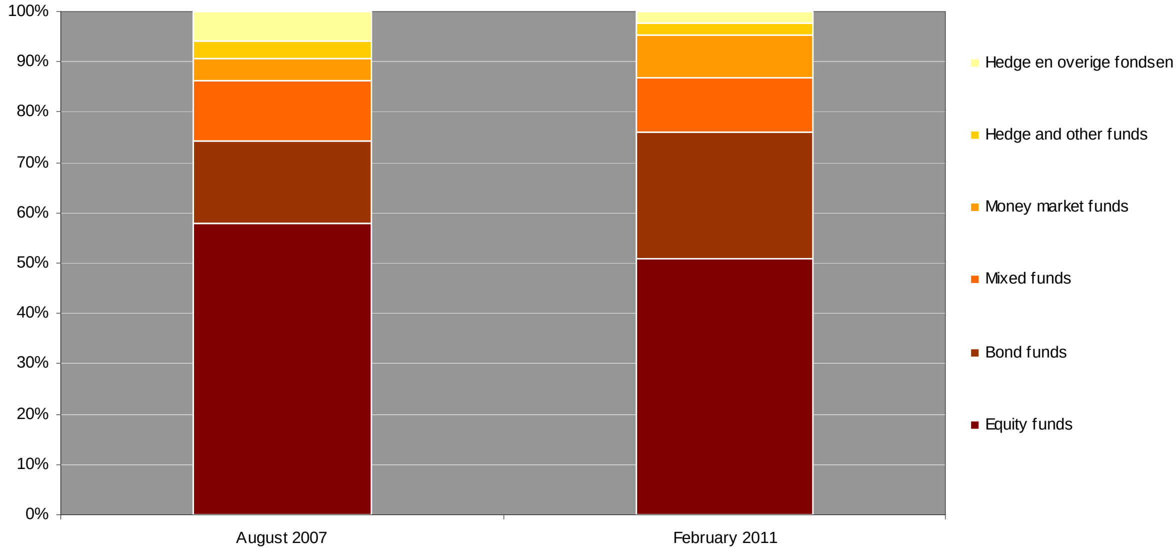


Note:
- Cumulative figures represent the sum of the transactions of all previous months

<u>Investment funds</u>

Half of Dutch households' portfolio, i.e. EUR 50 billion, is made up of investment funds, equity funds being the most popular (EUR 27 billion), followed by bond funds (EUR 13 billion). The remaining EUR 10 billion is divided over other fund categories, such as mixed funds and money market funds. In recent years, a shift has become perceivable in distribution by fund type (see Figure 2). The share of equity funds has declined (from 58% to 50%) in favour of debt securities (bond and money market funds) within the category of investment funds (from 20% to 35%). The share of mixed funds (over 10%) remained more or less the same in the past years.

Figure 2: Distribution of the investments in investment funds by type of fund



A clear split can be observed in the trade of households; during the liquidity and solvency crises, selling prevailed, while since the recovery of the financial markets households have turned to buying investment funds again. Probably due to the sharp price drops (Figure 3), households initially strongly reduced their positions in investment funds, shifting to less riskier products, such as debt securities and deposits.

Figure 3: Investments of Dutch households in investment funds (in EUR billion, cumulative figures since August 2007)

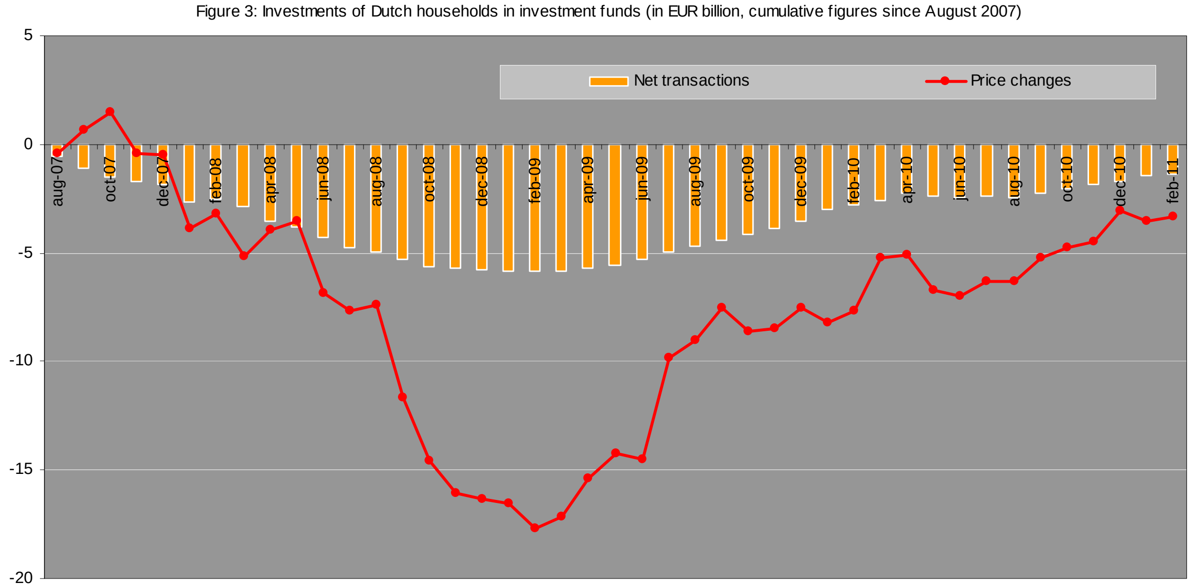


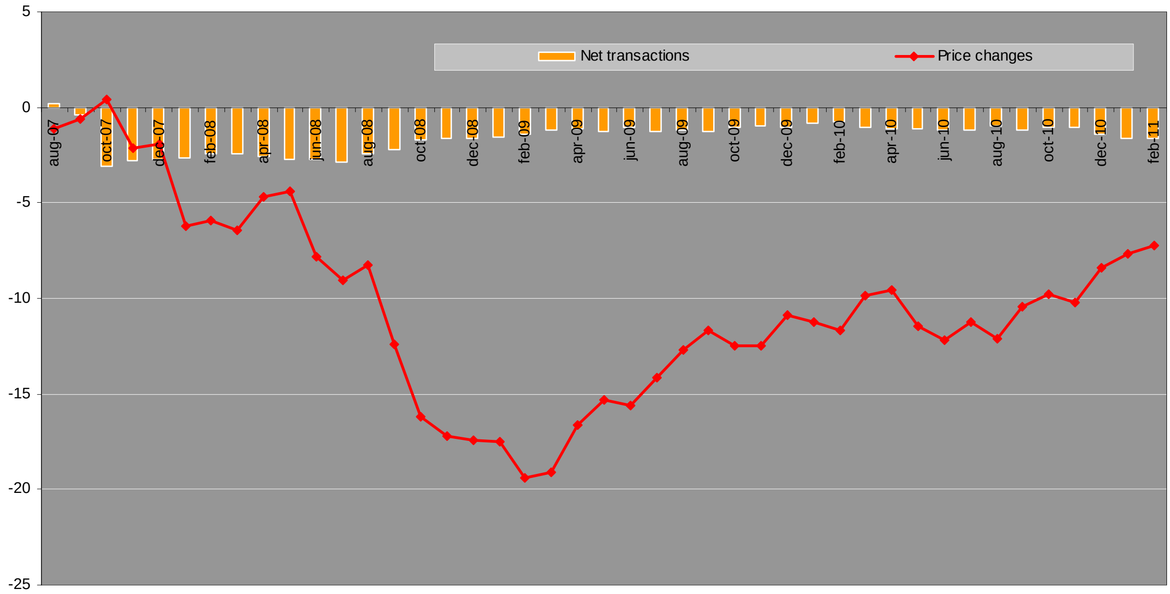
Figure 3 shows that in the period of the liquidity and solvency crises, price losses kept rising and households on balance sold securities. At the beginning of 2009, a clear turning point is noticeable when the recovery of the financial markets begins to materialize. At that moment, share prices augment and households start buying investment funds. Over the entire period, households on balance sold almost EUR 1.5 billion in investment funds and the price losses over the first years were largely offset.

Equity

Dutch households hold approximately EUR 30 billion worth of equity investments, most of which (EUR 20 billion) consists of shares issued by Dutch parties, in particular shares included in the AEX-index. More than eighty percent relates to shares issued by non-financial institutions. Foreign shares are primarily American (EUR 2 billion), French and German (both EUR 1 billion). The vast majority of these (some 80%) is accounted for by shares issued by companies in the non-financial sector.

In recent years, households have on balance made no significant changes to their position in shares (see Figure 4), especially compared to transactions in other products such as investment funds and debt securities. At the start of the liquidity crisis (October 2007) a modest rise in selling was perceivable as a result of the conversion of shares of ABN Amro Bank into cash following the take-over of this institution. Dutch households especially sold shares between October 2007 and October 2008 (almost EUR 2.5 billion) because of the takeover of ABN Amro Bank, while during the solvency crisis shares were purchased again. The increased interest for shares may have been prompted by the strongly declined prices. As a result, households were able to realise (quick) profits. Recently, DNB also reported that pension funds bought shares during the peak of the financial crisis. Pension funds partly do so to rebalance their portfolios. When equity prices go down, shares are bought to keep the percentage of shares in the portfolio at the same level.[i] Households, just as pension funds, conducted a mild anti-cyclical investment policy at the height of the crisis.

Figure 4: Investments of Dutch households in equity (in EUR billion, cumulative figures since August 2007)



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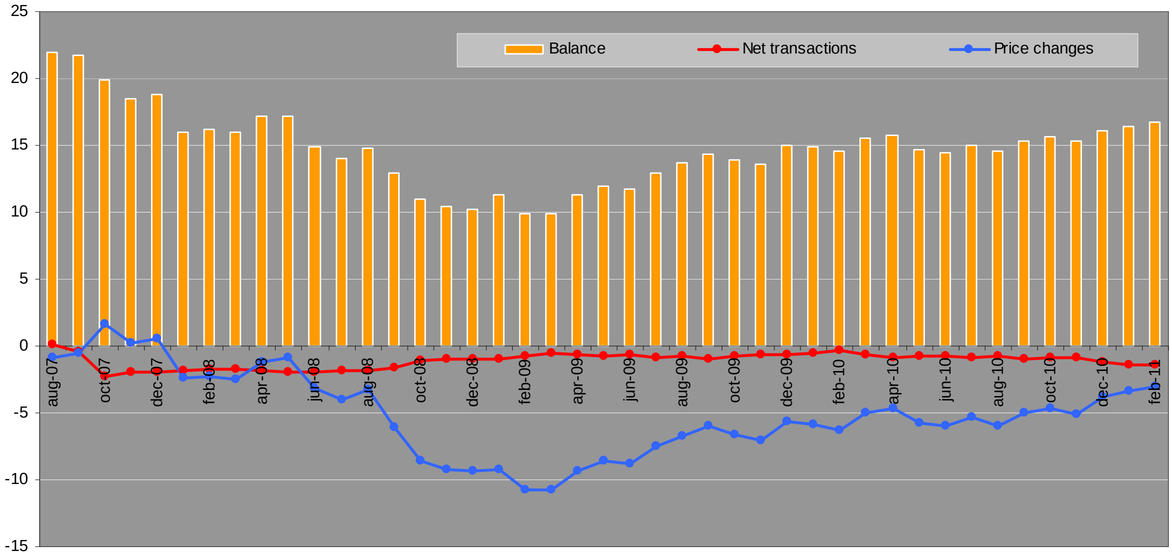
Investments in shares included in the AEX-index

Investments of Dutch households in shares included in the AEX-index in February 2011 totalled approximately EUR 16 billion, about EUR 6 billion less than before the outbreak of the crisis. In recent years, households made no significant changes to their AEX portfolios, given the stable development of the curve representing cumulative transactions (Figure 5).

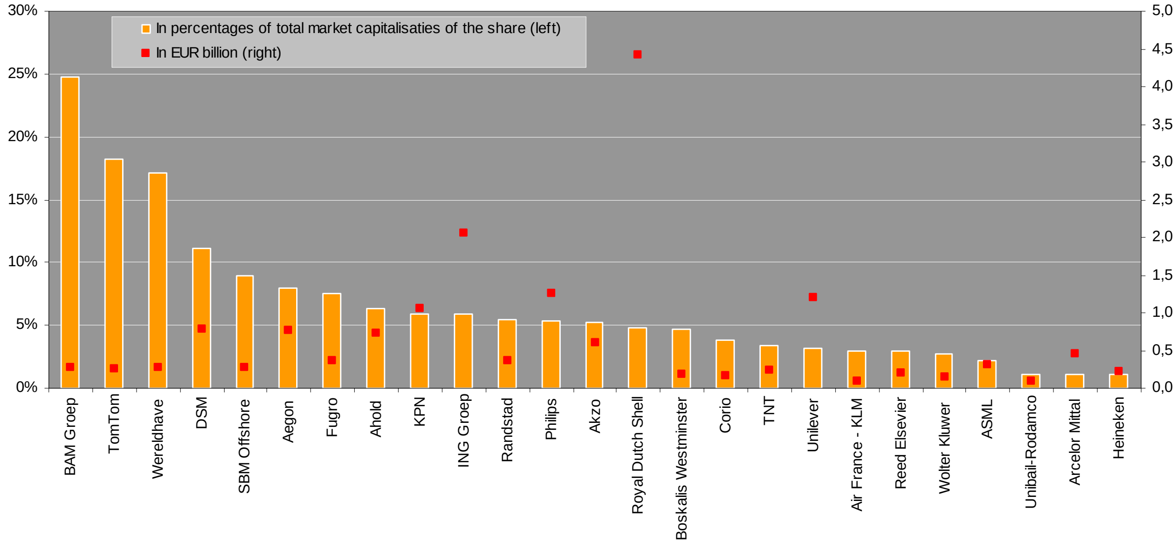
Figure 5: Investments of Dutch households in shares included in the AEX-index (in EUR billion, cumulative figures since August 2007)



When the liquidity crisis developed into a solvency crisis around mid-2008, (equity) markets worldwide slumped and households bought EUR 1.3 billion in AEX shares. Households in particular purchased equity that had plummeted in value. For instance, they bought more than EUR 1 billion worth of ING Group, Fortis and Aegon stocks.

Broken down by individual AEX funds, Royal Dutch Shell accounts for the highest percentage in Dutch households' equity portfolio (almost EUR 4.5 billion, representing more than a quarter of the value of the AEX portfolio), followed by ING Group and Philips. In percentages of market capitalisation of the shares, BAM Groep is relatively popular, followed by TomTom and Wereldhave (Figure 6). A possible explanation for the interest in BAM Groep and Wereldhave shares may be their dividend returns.

Figure 6: Investments of households in individual shares included in the AEX-index (February 2011)



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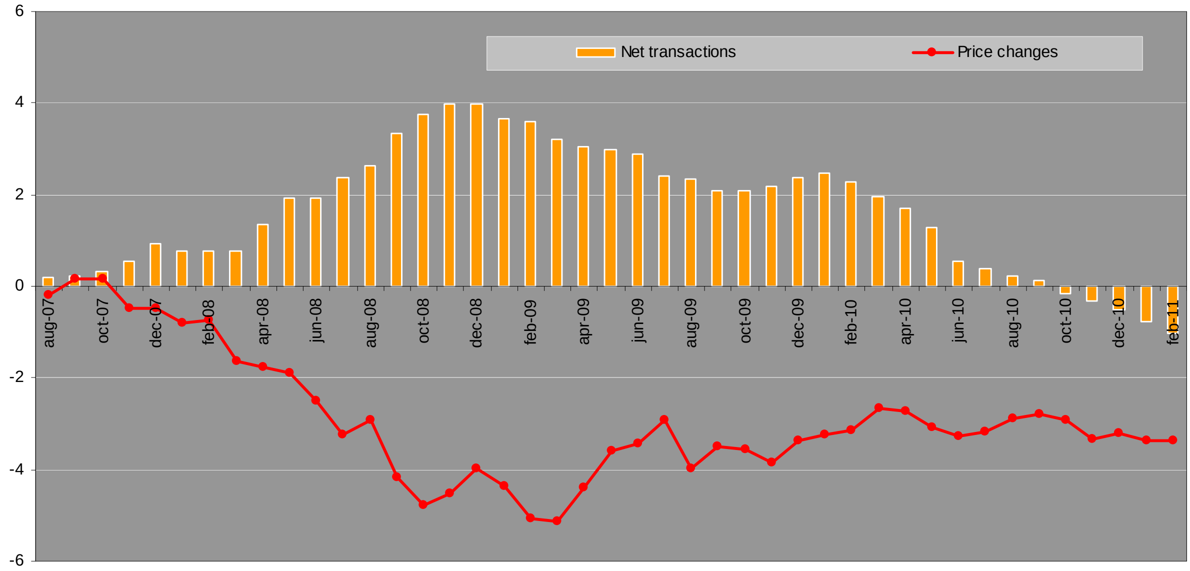
<u>Bonds</u>

Dutch households approximately hold EUR 20 billion in bonds. That is about a fifth of all their investments and around EUR 5.5 billion less than at the start of the liquidity crisis. Almost 75% of debt securities is made up of paper issued by Dutch financial institutions. During the liquidity and solvency crises, households increasingly bought bonds, mainly because of the risen interest in relatively safe products. In this period, which lasted until the beginning of 2009, households purchased almost EUR 4 billion of debt securities. Since the markets recovered, the position in debt securities has been built down again, so much so that measured over the entire period households have sold EUR 1 billion in bonds. Not only sales, but depreciation through price falls, too, contributed to the reduced position of households in debt securities. These paper price losses (on balance EUR 4.5 billion) were the same for bonds and equities alike. During the liquidity and solvency crises, equities sustained severe price losses, which were reasonably offset again in the period that followed. Compared to equities, price falls of bonds during the liquidity and solvency crises, while less drastic, were not restored to the same extent in the period that followed (Figure 7).

Government paper only makes up a small part of investments by households, i.e. just over EUR 3 billion, the greatest part of which was issued by the Dutch State. In 2010, the uncertainty in the market about the sustainability of the public finances of several euro countries (in particular Greece, Ireland, Italy, Portugal and Spain) increased. As a result, trust in these countries' treasuries was damaged. Although the positions are very modest, Dutch households also hold government paper issued by the aforementioned peripheral euro countries (EUR 140 million, representing 4% of the portfolio of government paper held by households), approximately half of which is government paper issued by Ireland.

Figure 7: Investments of households in bonds (in EUR billion, cumulative figures since August 2007)



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[i] DNBulletin dated 7 April 2011 (available at http://www.dnb.nl)