We all have a stake in the stock market, right? Guess again

By Patricia Cohen
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Take a deep breath and relax.

The riotous market swings that have whipped up frothy peaks of anxiety over the last week — bringing the major indexes down more than 10 percent from their high — have virtually no impact on the income or wealth of most families. The reason: They own little or no stock.

A whopping 84 percent of all stocks owned by Americans belong to the wealthiest 10 percent of households. And that includes everyone's stakes in pension plans, 401(k)'s and individual retirement accounts, as well as trust funds, mutual funds and college savings programs like 529 plans.

"For the vast majority of Americans, fluctuations in the stock market have relatively little effect on their wealth, or well-being, for that matter," said Edward N. Wolff, an economist at New York University who recently published new research on the topic.

Both Republicans and Democrats have promoted the idea that a rising stock market broadly lifts Americans' fortunes. When there was a parade of market rallies, President Trump asked, "How's your 401(k) doing?"

There was a move toward democratizing stock ownership in the 1980s and 1990s, with the advent of individual retirement accounts, but the busts of 2001 and 2007 scared off some middle-class investors.

Of course, any financial loss can be scary and painful. Indeed, the less you have, the more each dollar counts. And market gyrations could foreshadow deeper problems that signal the end of a nine-year boom and short-circuit the economic recovery.

But the day-to-day impact on most people's overall wealth is minimal.

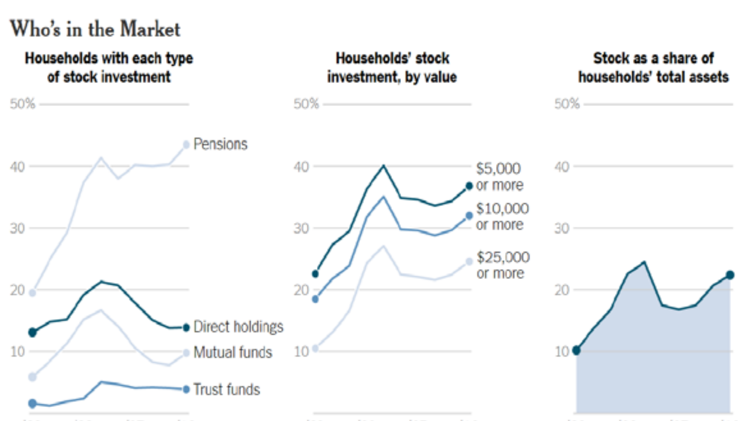
"It's far from where you think that it would be, given the rhetoric," said Ray Boshara, director of the Center for Household Financial Stability at the Federal Reserve Bank of St. Louis.

A look at some fundamentals may provide a clearer perspective.

Stock ownership is the exception

Roughly half of all households don't have a cent invested in stocks, whether through a 401(k) account or shares in General Electric. That leaves half the population with some exposure to financial market whims, but as Mr. Boshara said, "some exposure can be 100 bucks."

"If you look at where the money is really held, it's among the top 10 percent," he said. "And if you break it down by age, race and education and parental education, you'll see the disparities are even larger." Parents who lack a four-year degree and, later on, their children are much less likely to have a direct stake in the stock market than college graduates; blacks and Hispanics are much less likely than whites.



"It's too bad such a small percentage of the population has any real or meaningful ownership stake in equities, given their historic and current growth," Mr. Boshara said.

Most households had less than $5,000 in total holdings in 2016, the most recent year analyzed by Mr. Wolff. Despite the slow recovery in housing prices, the wealth of middle-class Americans is still concentrated in their homes, which remain their single most valuable asset.

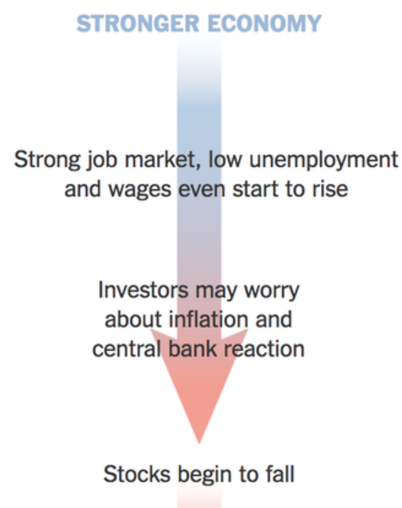
For 9 out of 10 households, even a shift in value of 10 percent — enough to qualify as a "market correction" — would "at most, have a 1 or 2 percent impact on their wealth holdings," Mr. Wolff said.

If anything, foreign multinational and other investors would feel more of a pinch, since they own 35 percent of all United States corporate stock, up from 10 percent in 1982. That share of the pie exceeds the single slice owned by taxable American shareholders, defined benefit plans, defined contribution plans, or nonprofit institutions, said Steven M. Rosenthal, a senior fellow at the nonpartisan Urban-Brookings Tax Policy Center.

Don't confuse the Dow with the economy

The stock market and the underlying economy are distinct. The two interact, but they do not proceed in lock step or even respond to each other in predictable ways. Certainly, market instability can undermine both consumer and business confidence and restrain spending and investment. And market bubbles, swelled by overextended borrowing, can explode, wreaking losses and stalling growth.

Still, valuations of assets and the country's economic health — as determined by productivity, employment, investment, spending, housing values, production capacity, growth and more — are two different kettles.



"If all that happens is the stock market decreases or increases in value, but no real fundamentals change," C. Eugene Steuerle, an economist at the Urban Institute who served in the Reagan administration, said, "then there are actually a lot of winners, not just losers."

"Older people can buy less stock," and fewer goods and services, because they are living off their investments rather than accumulating them, Mr. Steuerle said. But younger people can better afford to buy stock while it is cheap, which sets them up for bigger gains down the road.

"Attention, discount shoppers," Michelle Singletary, a personal financial columnist for The Washington Post, advised on Thursday. "The recent stock market dive is like a holiday weekend sale."

The economy still seems solid

When it comes to evaluating the economy's fundamentals, assessments come in a Revlon rack of shades. Economists warn that mounting debt, as a result of the costly $1.5 trillion tax package, threatens economic stability over the longer run, as private investment is crowded out and interest payments balloon. Productivity growth is anemic and labor participation rates are low by historical standards.

Still, the signs of strength — at least for the next couple of years — are impressive.

Unemployment is near record lows, total output is rising at a faster rate, bond yields are up, oil prices have increased, and consumer and business confidence remain high. Every major economy around the world is growing in concert, simultaneously propelling and reinforcing a positive cycle.

After all, one of those indicators — a January jobs report that showed healthy payroll expansion and a jump in yearly wage growth — is what helped set off the stock market tumult last Friday.