THE FIELDS INSTITUTE
FOR RESEARCH IN MATHEMATICAL SCIENCES

ABSTRACTS 1.2

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Portfolio choice in the presence of personal illiquid projects

Personal projects, such as a private business or the purchase of a home, influence individuals' portfolio choice. We conduct a theoretical analysis of this influence when financial assets are required to provide liquidity to personal projects. Due to this liquidity consideration, individuals behave in a more risk-averse fashion when there is a large penalty for discontinuing or under-investing in the final stages of the projects. In addition, using data from the 1995 Survey of Consumer Finances, we find that households that are saving to invest in their own businesses or in their own homes indeed have significantly safer financial portfolios.