Left Behind: Presidential Cycles and Partisan Gap in Stock Market Participation

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Abstract

Using longitudinal U.S. household data, I document that Democrats are less likely than Republicans to participate in the stock market, controlling for education, income, wealth, and other relevant demographic characteristics. Importantly, the partisan gap in stock market participation widens sharply under Democratic presidencies, precisely when the stock market returns are substantially higher. This pattern accounts for over 40 percent of the discrepancy in wealth accumulation between Democrats and Republicans over presidential cycles. Overall, these findings underscore the interplay between individual ideology, household portfolio choice, and changing economic and political landscape.

1. Introduction

Wealth inequality in the U.S. has been rising over the past decades (e.g., Piketty, 2014; Saez and Zucman, 2016), attracting considerable attention among policymakers and researchers alike. Across demographic groups, substantial wealth gaps remain between whites and blacks (e.g., Blau and Graham, 1990), natives and immigrants (e.g., Cobb-Clark and Hildebrand, 2006), and the educated and less educated (e.g., Barth, Papageorge, and Thom, 2020).

In light of these phenomena, I investigate whether and how households on opposite sides of the political spectrum differ in their wealth accumulation. While this aspect of the wealth distribution in the U.S. has received little attention, my investigation is nevertheless important for at least two reasons. First, the rich participate in politics more than the poor (e.g., Rosenstone, 1982; Winters and Page, 2009; Schlozman, Verba, and Brady, 2012). Any gap in wealth between Democrats and Republicans may therefore translate to a partisan gap in political engagement, affecting not only who serves in the elected office, but also what policies are proposed. Second, inequality spurs conflicts (e.g., Alesina, Michalopoulos, and Papaioannou, 2016; Breza, Kaur, and Shamdasani, 2018; Gimpelson and Treisman, 2018). Wealth inequality between Democrats and Republicans may thus lead to partisan conflicts and ideological polarization, giving rise to political gridlock and reform delays (e.g., Coleman, 1999; Reinhart and Rogoff, 2011; Mian, Sufi, and Trebbi, 2014).

In this paper, I uncover a novel amplifying mechanism for the wealth inequality between Democrats and Republicans by analyzing their stock market participation decisions over presidential cycles. My focus on these financial investment decisions is motivated by recent work on wealth inequality that highlights the role of household stock market participation as an important source of heterogeneous returns to wealth in matching basic features of the wealth distribution (e.g., Guvenen, 2009; Favilukis, 2013). Drawing data from a confidential geocode version of the National Longitudinal Survey of Youth 1979 Cohort (NLSY79), I first document that Democrats are less likely than Republicans to participate in the stock market,

controlling for education, income, wealth, and other relevant demographic characteristics. A closer look at this result reveals the central finding of this paper: the partisan gap in stock market participation widens sharply under Democratic presidencies, on both the extensive and intensive margins.

This dynamic pattern over presidential cycles bears important implications for household wealth accumulation because the stock market returns in the U.S. are substantially higher under Democratic than Republican presidencies (Santa-Clara and Valkanov, 2003). Over the 90-year period from 1927 through 2016, the average excess stock market return under Democratic presidencies is 10.7% per year, compared with only −0.2% under Republican presidencies. The limited stock market participation among Democrats under Democratic presidencies that I document in this paper indicates that Democrats have been missing out on the substantial equity premium, all of which has been earned under Democratic presidencies.

I provide robust evidence of the widening partisan gap in stock market participation under Democratic presidencies. In a difference-in-difference analysis, I focus on years around party-switching elections and find the same pattern, alleviating concerns about confounding events such as oil shocks and the 2008 crisis. My findings are also robust to several alternative measures of party affiliation, and are unlikely to be driven by demographic differences between Democrats and Republicans.

I proceed to evaluate several interpretations of my results. Specifically, I investigate the role of potential partisan differences along the following dimensions: (i) time-varying risk preferences (e.g., Campbell and Cochrane, 1999; Pástor and Verones, 2020); (ii) dynamic hedging motives (e.g., Merton, 1971; Viceira, 2001); (iii) financial sophistication (e.g., Lusardi and Mitchell, 2014; Lusardi, Michaud, and Mitchell, 2017); and (iv) nonfinancial asset ownership (e.g., home and vehicle purchases). I assemble evidence against each one of these interpretations. Further investigation reveals two opposing forces underlying my findings. On one hand, the partisan gap in stock market participation through directly held investment accounts *narrows* under Democratic presidencies, consistent with the well-established finding

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in the political science literature that individuals become more optimistic about the economy when their partisanship matches that of the president (e.g., Bartels, 2002; Gerber and Huber, 2009). On the other hand, this optimism effect is overturned by the widening partisan gap in stock market participation via retirement accounts after a Democrat is elected president, often during or shortly after recessions (e.g., Blinder and Watson, 2016; Pástor and Verones, 2020).

I conclude by gauging the importance of the central finding of this paper — the widening partisan gap in stock market participation under Democratic presidencies — in generating persistent partisan differences in returns to wealth. Specifically, I document a substantial wealth gap between Democrats and Republicans, and further show that the gap widens under Democratic presidencies as well. A back-of-envelope calculation suggests that the widening partisan gap in stock market participation under Democratic presidencies accounts for more than 40% of the discrepancy in wealth accumulation between Democrats and Republicans over presidential cycles.

This paper builds on several strands of literature. Economists have long been interested in understanding economic mechanisms underlying the statistical properties of the wealth distribution. Recent theoretical work has underscored the role of heterogeneity in returns to wealth in matching the thick tail of the wealth distribution (Benhabib and Bisin, 2018). Supporting this claim, empirical evidence reveals that some individuals consistently earn higher returns (e.g., Barth, Papageorge, and Thom, 2020; Fagereng et al., 2020). Related work has also documented substantial wealth gaps across various demographic groups (e.g., Blau and Graham, 1990; Cobb-Clark and Hildebrand, 2006). My contribution to this literature is to examine a novel aspect of the wealth distribution — wealth inequality between Democrats and Republicans — and to uncover an interesting amplifying mechanism for the partisan wealth gap through their stock market participation decisions over presidential cycles.

This paper also connects to the literature that studies the relationship between political party affiliation and financial decision making. Examples include Hong and Kostovetsky

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([2012](#)) documenting that mutual fund managers who donate to the Democratic party tilt their portfolios away from socially irresponsible firms, and Di Giuli and Kostovetsky ([2014](#)) showing that Democratic-learning companies score higher on corporate social responsibility. Using voter registration data, Kempf and Tsoutsoura ([2019](#)) find that credit rating analysts whose partisanship does not match that of the president are more likely to downward-adjust their corporate credit ratings. On the household side, Kaustia and Torstila ([2011](#)) document that left-wing voters in Finland are less likely to invest in stocks. In concurrent work, Meeuwis et al. ([2019](#)) show that U.S. individual investors residing in zip codes with strong support for the Republican party increase the equity share and market beta of their portfolios following the 2016 election.[1] This paper complements this literature by first documenting a partisan gap in stock market participation in the U.S. and then showing that the gap widens sharply under Democratic presidencies, precisely when the stock market returns are substantially higher, with important implications for the wealth inequality between Democrats and Republicans.

This paper relates more broadly to the household finance literature, which focuses largely on the discrepancies between what is prescribed by rational models and how households actually make their financial decisions (Campbell, [2006](#)). The literature attributes such discrepancies primarily to individual-level biases or mistakes (Guiso and Sodini, [2013](#); Beshears et al., [2018](#); Gomes, Haliassos, and Ramadorai, [2020](#)). Yet recent work has shown that social influences such as cultural norms can be important factors (e.g., Hirshleifer, [2015](#); D'Acunto, Prokopczuk, and Weber, [2019](#); Ke, [2020](#)). This paper instead highlights the interplay between individual ideology, household portfolio choice, and changing economic and political landscape, complementing the nascent strand of the literature at the intersection of political economy and household finance (e.g., Akey et al., [2018](#); Akey, Heimer, and Lewellen, [2020](#)).

The remainder of this paper proceeds as follows. Section 2 describes the data. Section 3 presents the findings. Section 4 discusses wealth accumulation implications and concludes.

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[1]Despite similarities, my paper explores the life-cycle investment behavior of Democrats and Republicans and focuses on their discrepancy in wealth accumulation over presidential cycles, with a long-term horizon of more than two decades. By contrast, Meeuwis et al. ([2019](#)) focus on testing classic rational-expectations theories of asset pricing and portfolio choice in a relatively short time window of less than two years.

2. Data

2.1   NLSY79

Data are from a confidential geocode version of the NLSY79, which was initiated in 1979 with a nationally representative sample of 12,686 individuals aged between 14 and 22. My sample period starts in 1994, when the NLSY79 began to collect information about retirement accounts that had been lumped with safe assets in previous years, and it stops in 2016, the last year for which the financial asset information is available.[2]

The key feature of the NLSY79, for the purpose of my study, is that respondents report their party affiliations. This self-reported measure is advantageous over alternative ones in the literature. For example, financial contributions to political campaigns are commonly used to infer donors' party affiliations (e.g., Hong and Kostovetsky, 2012; Di Giuli and Kostovetsky, 2014). While this methodology can be useful for high-profile individuals such as money managers and corporate executives, it is poorly suited for a large population of individuals who do not contribute financially to political parties. Although voter registration data cover a significantly larger population (e.g., Kempf and Tsoutsoura, 2019), they disproportionately miss those who are Hispanic, younger, and politically disengaged (Igielnik et al., 2018). Apart from these individual-level measures, party affiliation is sometimes inferred based on zip code of residence under the rationale that those residing in zip codes with stronger support for a party are more likely to be affiliated with that party (e.g., Meeuwis et al., 2019). However, this approach may introduce measurement error bias because Democrats and Republicans hold vastly diverging views on the economy around presidential elections even if they live in the same zip code (Mian, Sufi, and Khoshkhou, 2018).

The NLSY79 also offers several advantages over other survey-based data sources that provide self-reported measures of party affiliation, such as the Michigan Survey of Consumers

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[2]The NLSY79 has collected detailed asset information every other year since 1994 and every four years since 2000.

and the Gallup Daily survey. First, the NLSY79 contains detailed information on household wealth, which is indispensable for my study on wealth inequality between Democrats and Republicans. In addition, household wealth is one of the most important determinants of household stock market participation and failing to control for it could introduce serious omitted variable bias (e.g., Mankiw and Zeldes, 1991; Calvet, Campbell, and Sodini, 2007). Second, the panel structure of the NLSY79 allows me to follow the same individuals over presidential cycles and their characteristics that are time-invariant are unlikely to contaminate my results due to the inclusion of household fixed effects. Third, the NLSY79 also gathers information about risk preference, sector and occupation of employment, financial sophistication, home and vehicle ownership, and employer pension plan coverage as well as union membership, all of which will play important roles in interpreting my findings.

2.2   Variables

To measure party affiliation, I follow Mian, Sufi, and Khoshkhou (2018) and use two questions from the 2008 wave of the NLSY79. One question asks: "Generally speaking, do you usually think of yourself as a Democrat, a Republican, an Independent, or what?" For those who respond neither "Democrat" nor "Republican," a follow-up question asks: "Do you think of yourself as closer to the Democratic party, closer to the Republican party, or equally close to both?" My measure of party affiliation is Democrat if the individual answers "Democrat" to the first question or "closer to the Democratic party" to the follow-up question. The measure is Republican if the individual responds "Republican" to the first question or "closer to the Republican party" to the follow-up question.[3] Collecting answers to these two questions, I construct a sample of 3,918 Democrats and 2,056 Republicans from the NLSY79.

I define stock market participation following Angerer and Lam (2009). On the extensive margin, a household participates in the stock market if the household owns any risky asset. Risky assets include common stocks, preferred stocks, stock options, corporate or government

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[3]In Section 3.2, I show that my findings are robust to: (i) excluding leaning Independents; and (ii) including only those who strongly identify their party affiliations.

bonds, mutual funds, and retirement accounts.[4] On the intensive margin, the risky asset share of a household's portfolio is the value of risky assets scaled by total liquid wealth, which is the total value of risky assets and safe assets. Safe assets include savings and checking accounts, money market funds, certificates of deposit, U.S. savings bonds, and personal loans to others.

Household wealth is measured as the difference in value between total assets and total debts. Total assets are the sum of the value of safe and risky assets defined above, and the value of home, business, vehicles, and other assets such as jewelry and collections. Total debts are the sum of mortgage and other residential debt, business loans, auto loans, credit card debts, and student loans.

2.3   Summary Statistics

Table 1 presents summary statistics by party affiliation and provides preliminary evidence for a partisan gap in stock market participation. Specifically, 45 percent of the Democrats in the sample participate in the stock market. By contrast, almost two-thirds of the Republicans invest in stocks. Their risky asset share follows the same pattern: Democrats on average hold about one-third of their liquid wealth in stocks, whereas Republicans hold 48 percent.

Democrats and Republicans also differ in other dimensions in the sample. For example, single individuals account for more of the sample of Democrats, and white men account for more of the sample of Republicans. In addition, Democrats have low socioeconomic status relative to Republicans. While close to half of the Democrats attend college, 58 percent of the Republicans have a college education or higher. On average, Democrats also earn $34,000 less than Republicans in family income and possess $165,000 less in household wealth, indicating substantial income and wealth inequality between Democrats and Republicans.

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[4]Bonds are categorized as risky assets because they were lumped with stocks and mutual funds in the questionnaires before 2004. Such misclassification due to the questionnaire design is unlikely to be critical because my findings are robust to excluding bondholders from the sample, as shown in Table IA1 in the Internet Appendix.

3. Results

3.1 Baseline

To move beyond the summary statistics, I estimate the difference in stock market partici-
pation between Democrats and Republicans using the following empirical model:

$$y_{it} = \beta \cdot \text{Democrat}_i + \gamma' \mathbf{X}_{it} + \delta_{st} + \varepsilon_{it}, \tag{1}$$

where y is household stock market participation; Democrat indicates whether the respondent
is a Democrat; $\mathbf{X}$ denotes a vector of controls that are important for household stock market
participation decisions, including the sex, age, race, education, and marital status of the
respondent; number of children; family income; and household wealth (Campbell, 2006; Guiso
and Sodini, 2013).

In addition, I include state-by-year fixed effects, captured by δ_{st}, to absorb all unobserved
sources of variation across states over presidential cycles (Gormley and Matsa, 2014). These
fixed effects, made possible by the NLSY79 confidential geocode data, are particularly relevant
for my analysis because Democrats and Republicans tend to disproportionately live in blue
and red states, respectively. Including state-by-year fixed effects ensures that my estimates
are not driven by the changing local economic as well as political environments across states.

β, the coefficient of interest, measures the gap in stock market participation between
Democrats and Republicans, conditional on all the aforementioned controls. I run ordinary
least square regressions due to the inclusion of a large number of fixed effects. Standard
errors are clustered at the household level because a household's stock market participation
is likely to be correlated across years.

The results are presented in Table 2. In Column (1), I find that Democrats are 5.5
percentage points less likely than Republicans to participate in the stock market, controlling
for education, income, wealth, and other relevant demographics in addition to the changing

state-level economic and political environments. Since 45% of the Democrats in the sample participate in the stock market, this implies an economically significant 12 percent difference in stock market participation between Democrats and Republicans.

In Column (2), I consider the intensive margin of stock market participation and find that Democrats on average allocate 4 percent less of their liquid wealth to risky assets than Republicans do. Given that the Democrats in the sample have an average risky asset share of 33 percent, this implies a 12 percent difference again in stock share in liquid wealth between Democrats and Republicans, which is also economically significant.

These first results echo the main finding by Kaustia and Torstila (2011) that in Finland, left-wing voters are less likely to participate in the stock market. They interpret their finding as evidence that personal values shape investment decisions. Specifically, the authors argue that left-wingers hold a generalized antipathy towards capital markets, which leads to their disinclination to invest in stocks.

After documenting a partisan gap in stock market participation in the U.S. setting, I analyze how the gap evolves over presidential cycles by estimating the specification below:

$$y_{it} = \beta \cdot \text{Democrat}_i \times \text{D-president}_t + \theta_i + \gamma' \mathbf{X}_{it} + \delta_{st} + \varepsilon_{it}, \tag{2}$$

where the Democrat dummy in Equation 1 is subsumed by household fixed effects θ_i, which absorb all time-invariant household-specific characteristics that are important for stock market participation decisions, including, among others, sociability, generalized trust, IQ and other genetic endowments, and educational attainment (e.g., Hong, Kubik, and Stein, 2004; Guiso, Sapienza, and Zingales, 2008; Barnea, Cronqvist, and Siegel, 2010; Grinblatt, Keloharju, and Linnainmaa, 2011; Cole, Paulson, and Shastry, 2014). D-president is a dummy equal to one if the president is a Democrat. β, the coefficient of interest, measures the partisan gap in stock market participation under Democratic presidencies in excess of the gap under Republican presidencies, conditional on all the other covariates. Given that Democrats are on average

less likely than Republicans to participate in the stock market, a negative estimate of β would indicate that the partisan gap in stock market participation widens under Democratic presidencies.

Before examining the regression estimates, I show in Figure 1 the stock market participation rates, both on the extensive margin in Panel (A) and on the intensive margin in Panel (B), of Democrats and Republicans over presidential cycles. Over the sample period from 1994 through 2016, Democrats are consistently less likely than Republicans to participate in the stock market. Figure 1 also reveals an interesting pattern of the partisan gap in stock market participation over presidential cycles: it narrows after George W. Bush takes office and widens again following Barack Obama's election. Specifically, Panel (A) shows that on average, 62 percent of the Republicans and 40 percent of the Democrats participate in the stock market under the Clinton administration, indicating a partisan gap in stock market participation of 22 percentage points. The gap narrows to 17 percentage points under the Bush administration, with 72% of the Republicans and 55% of the Democrats investing in stocks. Under the Obama administration, the gap widens again to 20 percentage points, with 67% of the Republicans and 47% of the Democrats participating in the stock market. Panel (B) shows a similar pattern for the intensive margin of stock market participation.

The evolution of the partisan gap in stock market participation over presidential cycles in Figure 1 could reflect many factors. For example, the narrowing and widening of the gap may simply reflect the changing local economic conditions between blue and red states. I further examine this dynamic pattern by estimating equation 2 and the regression results are displayed in Table 3. Column (1) reports evidence for the extensive margin of stock market participation without including household fixed effects. I find a partisan gap in stock market participation of only 1.9 percentage points, which is marginally statistically significant (p-value = 0.091). By contrast, Democrats are 6.8 percentage points less likely than Republicans to participate in the stock market under Democratic presidencies. Given that 42 percent of the Democrats in the sample participate in the stock market under Democratic

presidencies, this implies an economically significant 16 percent difference in stock market participation between Democrats and Republicans under Democratic presidencies. Column (2) shows that if household fixed effects are included in the regression, the partisan gap in stock market participation widens by 5.4 percentage points under Democratic presidencies, with the adjusted R^2 increasing from 0.264 in Column (1) to 0.475 in Column (2).

In the next two columns, I consider the intensive margin of stock market participation. Without including household fixed effects, I find in Column (3) a partisan gap in risky asset share of only 1.8 percentage points under Republican presidencies and the estimate is again marginally statistically significant (p-value $= 0.074$). By contrast, under Democratic presidencies, Democrats on average allocate 4.7 percent less of their liquid wealth to risky assets than Republicans do. Since the Democrats in the sample have an average risky asset share of 30 percent under Democratic presidencies, this implies an economically significant 15 percent difference in stock share in liquid wealth between Democrats and Republicans under Democratic presidencies. Column (4) shows that if household fixed effects are included in the regression, the partisan gap in risky asset share widens by 3.2 percentage points under Democratic presidencies, with the adjusted R^2 almost doubling that in Column (3).

The sharp widening of the partisan gap in stock market participation under Democratic presidencies bears important implications for household wealth accumulation. This is because of the "presidential puzzle" documented by Santa-Clara and Valkanov (2003): the stock market returns in the U.S. are substantially higher under Democratic than Republican presidencies and there seems to be no obvious explanation. In their sample period from 1927 to 1998, the average excess stock market return under Democratic presidencies is 10.5% per year, compared with only 1.1% under Republican presidencies. Importantly, the puzzle survives an out-of-sample assessment and the Democrat-Republican return gap has widened sharply in recent decades (Pástor and Verones, 2020). Therefore, limited stock market participation among Democrats under Democratic presidencies can be detrimental to their wealth accumulation.

3.2 Robustness

In this subsection, I propose several tests to assess the robustness of the widening partisan gap in stock market participation under Democratic presidencies documented in the baseline regressions.

3.2.1 Party-switching elections. One might be concerned that my findings are driven by events other than presidential elections that impact Democrats and Republicans differentially. For example, perhaps Democrats are more vulnerable to oil shocks and less likely to participate in the stock market when the expected return is high. Or one might argue that the widening partisan gap in stock market participation under Democratic presidencies could be driven by the 2008 financial crisis. To address these concerns, I focus exclusively on years around the two party-switching elections in the sample: the 2000 election and the 2008 election. Specifically, I restrict the sample period to the two years closest to each election, one before and one after, effectively performing a difference-in-difference analysis for each party-switching election to examine the evolution of the partisan gap in stock market participation.

Table 4 reports the results. Column (1) shows that around the 2000 election, the partisan gap in stock market participation under the presidency of Bill Clinton is 3.4 percentage points wider than that under the presidency of George W. Bush. Column (2) shows that for the intensive margin of stock market participation, the partisan gap in risky asset share under the presidency of Clinton is 3.2 percent points wider than that under the presidency of Bush. These estimates are both statistically and economically significant. Since the 2008 crisis is excluded from this subperiod, the results from this analysis address an important concern: my findings could be driven entirely by the Great Recession.

In Columns (3) and (4), I focus on the 2008 election. Column (3) shows that the partisan gap in stock market participation under the presidency of Barack Obama is 4.5 percentage points wider than that under the presidency of Bush. Column (4) shows that for the intensive margin of stock market participation, the partisan gap in risky asset share under

the presidency of Obama is 4.4 percentage points wider than that under the presidency of Bush. These estimates are again statistically and economically significant. Given that the dot-com bubble is excluded from this subperiod, the evidence from this analysis addresses another important concern: the widening partisan gap in stock market participation under Democratic presidencies could be explained by the burst of the Tech Bubble, shortly after Bush was elected president.

To further alleviate the aforementioned concerns, I examine whether there is any pretrend before each party-switching election. Specifically, I shift the time window of four years around each party-switching election backward by four years and estimate the following empirical model:

$$y_{it} = \beta \cdot \text{Democrat}_i \times \text{Prior}_t + \theta_i + \gamma' \mathbf{X}_{it} + \delta_{st} + \varepsilon_{it}, \tag{3}$$

where Prior is a dummy equal to one if it is the earlier year between the two and the rest of the specification is the same as in Equation 2. β, the coefficient of interest, measures the difference in the trend of household stock market participation between Democrats and Republicans before the party-switching elections. Table IA2 reports the results. Columns (1) and (2) show that the size of the partisan gap in stock market participation, both on the intensive margin and on the extensive margin, remains largely the same over the four years before the 2000 election. I examine the 2008 election in the next two columns and again find no evidence of pretrend before the election. The absence of any pre-event trend assuages concerns about confounding events.[5]

3.2.2 Alternative measures. I employ two alternative measures of party affiliation and re-estimate the regressions in Table 3 to assess the robustness of the widening partisan gap in stock market participation under Democratic presidencies. To construct the first alternative measure, I exclude leaning Independents from the sample. To construct the second, I use the following question from the 2008 wave of the NLSY79: "Do you think of yourself as a strong

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[5]A caveat of this pretrend analysis is that due to the low frequency of the NLSY79, the analysis is unable to account for potential pretrends immediately before the party-switching elections.

Democrat (Republican) or a not very strong Democrat (Republican)?" This is a follow-up question if the respondent answers "Democrat" or "Republican" to the first question that I use to construct my measure of party affiliation. Only Democrats and Republicans who strongly identify their party affiliations are included in the sample.

Table IA3 presents the regression results. Column (1) shows that the partisan gap in stock market participation widens by 6.1 percentage points under Democratic presidencies in the subsample excluding leaning Independents. The estimate of the widening effect is even larger than that in Table 3. Column (2) shows that for the intensive margin of stock market participation, the partisan gap in risky asset share widens by 4 percentage points under Democratic presidencies in the leaning-Independent-excluded subsample. The estimate of the widening effect is again larger than that in Table 3. In Columns (3) and (4), I focus on the strong-affiliation subsample. Column (3) shows that the partisan gap in stock market participation widens by 6.6 percentage points under Democratic presidencies. Column (4) shows that for the intensive margin of stock market participation, the partisan gap in risky asset share widens by 3.3 percentage points under Democratic presidencies. Both estimates of the widening effect are larger in magnitudes than those in Table 3.

The two subsamples constructed above include individuals who are arguably less likely to change their partisan affiliations over time than those in the main sample. Therefore, these robustness test results alleviate an important concern: party affiliation is measured only once in the NLSY79 and thus my findings could be contaminated by individuals switching their party affiliations over time, despite the ample evidence in the political science literature that political preferences are partially genetically determined and evident since early childhood (e.g., Alwin and Krosnick, 1991; Green, Palmquist, and Schickler, 2002; Alford, Funk, and Hibbing, 2005; Block and Block, 2006).

I further address the concern about the time-invariance of my party affiliation measure by leveraging the Child and Young Adult panel of the NLSY79, a panel of biological children of the women in the NLSY79. In its 2006 wave, one question asks: "When you were growing

up, did you mother think of herself mostly as a Democrat, a Republican, an Independent, or what?" Collecting answers to this question and linking the children to their mother in the NLSY79, I re-estimate the baseline regressions in Table 3 based on the subsample of female respondents whose party affiliations are reported by their children.

Table IA4 presents the regression results. Column (1) shows that the partisan gap in stock market participation widens by 9.2 percentage points under Democratic presidencies in this subsample. The estimate of the widening effect is both statistically and economically significant, and substantially larger in magnitude than that in Table 3. Column (2) shows a similar pattern for the extensive margin of stock market participation: the partisan gap in risky asset share widens by 7.8 percentage points under Democratic presidencies, which is again statistically and economically significant.

3.2.3   Demographic differences. As shown in Table 1, there are many dimensions to partisan differences. To alleviate the concern that the widening partisan gap in stock market participation under Democratic presidencies is simply driven by demographic differences between Democrats and Republicans, I perform two additional robustness checks. First, I replace state-by-year fixed effects with state-by-urban-by-year fixed effects in the specification and re-run the baseline regressions in Table 3. This replacement is motivated by the fact that even within the same state, the urban-rural divide can still be strong and substantial heterogeneity may remain across the political spectrum.

Table IA5 reports the regression results. Column (1) shows that the partisan gap in stock market participation widens by 5.4 percentage points under Democratic presidencies. Column (2) shows a similar pattern for the intensive margin of stock market participation. Specifically, the partisan gap in risky asset share widens by 3.3 percentage points under Democratic presidencies. These estimates of the widening effect are almost identical in magnitude to those in Table 3.

Second, to further assuage the concern that my findings merely reflect interactions between

demographic characteristics and other time-varying factors, I interact all the demographic controls with year dummy variables in the specification and re-estimate the baseline regressions in 3. Results are displayed in Table IA6. Column (1) shows that the partisan gap in stock market participation widens by 4 percentage points under Democratic presidencies. Column (2) shows that for the intensive margin of stock market participation, the partisan gap in risky asset share widens by 2 percentage points under Democratic presidencies. These estimates of the widening effect remain both statistically and economically significant.

3.3 Interpretations

In this subsection, I evaluate several interpretations of the central finding of this paper: the widening partisan gap in stock market participation under Democratic presidencies.

3.3.1 Time-varying risk aversion. One potential explanation is that the widening partisan gap in stock market participation under Democratic presidencies is driven by time-varying risk aversion (e.g., Campbell and Cochrane, 1999), a key feature in the political cycle model proposed by Pástor and Verones (2020) to solve the "presidential puzzle." In their model, Democrats tend to get elected when risk aversion is high and so is the expected stock return. By contrast, Republicans tend to get elected when risk aversion is low and so is the expected stock return.

However, it is empirically unclear whether and how the risk preferences of Democrats and Republicans would vary differentially over presidential cycles. To examine the role of time-varying risk aversion in explaining my findings, I use the hypothetical income gamble questions from the 1993 and 2004 waves of the NLSY79 (e.g., Kimball, Sahm, and Shapiro, 2009). Specifically, respondents are asked whether they would take a job that could, with equal probability, either double their family income or cut it by half, by third, or by 20%. Those who would not take the least risky gamble among the three are defined to be risk averse. The sample period for this analysis is around the presidential election of 2000 as in the first

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two columns of Table 4. Since the income gamble question is asked in the presidencies of both Clinton and Bush, every respondent has one measure of risk preference for each presidency.

Table 5 reports the regression results. Column (1) shows that if anything, Democrats become less risk averse relative to Republicans under Democratic presidencies and the estimate is statistically insignificant (p-value $= 0.586$). This result suggests that taking time-varying risk aversion into account would in fact work against identifying the widening partisan gap in stock market participation under Democratic presidencies. My findings are therefore unlikely to be explained by time-varying risk preferences.

Columns (2) to (5) confirm this idea. Specifically, Column (2) re-estimates the regression in the first column of Table 4 and shows that the partisan gap in stock market participation widens by 3.8 percentage points under Democratic presidencies. After I include time-varying risk aversion as a control in the regression in Column (3), I find that the widening effect remains the same, as expected. I consider the intensive margin of stock market participation in the next two columns. Column (5) re-estimates the regression in the second column of Table 4 and shows that the partisan gap in risky asset share widens by 3.5 percentage points under Democratic presidencies. Column (6) shows that the widening effect remains to be 3.5 percentage points after time-varying risk aversion is included in the specification.

3.3.2 Dynamic hedging motives. Another interpretation of my findings is that the widening partisan gap in stock market participation under Democratic presidencies is driven by dynamic hedging motives of Democrats and Republicans over presidential cycles. Specifically, Democratic presidents may favor industries and occupations in which disproportionately more Democrats are employed, resulting in higher correlation between the labor income of Democratic workers and stock market returns and thus lower stock market participation because of hedging motives (e.g., Merton, 1971; Viceira, 2001).

To assess the above hypothesis, I include sector-by-occupation-by-year fixed effects in the regression specification to absorb all sources of variation across sector-occupation cells over

presidential cycles. Sectors are based on the SIC divisions and occupations are grouped into broad categories following Acemoglu and Autor (2011).[6] Results are presented in Table 6, with Columns (1) and (3) re-presenting the estimates in Table 3 for comparison. Column (2) shows that after sector-by-occupation-by-year fixed effects are included in the regression specification, the partisan gap in stock market participation widens by 4.8 percentage points under Democratic presidencies. The estimate is only slightly lower than that in Column (1) and still statistically and economically significant. Column (4) shows that for the intensive margin of stock market participation, the partisan gap in risky asset share widens by 2.8 percentage points after sector-by-occupation-by-year fixed effects are included in the specification. The widening effect again remains both statistically and economically significant. These results indicate that dynamic hedging motives are unlikely to explain the widening partisan gap in stock market participation under Democratic presidencies.

3.3.3 Market timing ability.

Another potential explanation is that Republicans may simply on average be better than Democrats at timing their entry in the stock market. To evaluate this possibility, I re-run the baseline regressions in Table 3 on the subsamples of the financially unsophisticated and sophisticated, separately, to ensure the homogeneity of market timing ability across the political spectrum. To measure financial sophistication, I collect answers to the five basic finance questions asked in the 2012 and 2014 waves of the NLSY79. These questions are designed to test respondents' understanding of diversification, inflation, compounding interests, time value of money, and relation between bond price and interest rate (Lusardi and Mitchell, 2014). Those who can answer all the questions correctly are financially sophisticated. Otherwise, they are financially unsophisticated.

Table 7 reports the regression results. Column (1) shows that among financially unsophis-

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[6]Specifically, sectors are classified into the following categories: agriculture, forestry, and fishing; mining; construction; manufacturing; transportation, communications, electric, gas, and sanitary services; wholesale trade; retail trade; finance, insurance, and real estate; services; and public administration. Occupations are grouped into the following groups: agriculture; food preparation, buildings and grounds, and cleaning; managers; office and administration; operators, fabricators, and laborers; personal care and services; production, craft, and repair; professionals; protective service; sales; and technicians.

ticated individuals, the partisan gap in stock market participation widens by 3.8 percentage points under Democratic presidencies and the estimate of the widening effect is both statistically and economically significant. In Column (3), I consider the intensive margin of stock market participation and find a similar pattern: the gap in risky asset share between Democrats and Republicans widens by 1.6 percentage points under Democratic presidencies, although the estimate is statistically insignificant.

Table 7 also reports evidence from financially sophisticated individuals. Column (2) shows that in this subsample, the partisan gap in stock market participation widens by 4.8 percentage points under Democratic presidencies. Column (4) shows that for the intensive margin of stock market participation, the partisan gap in risky asset share widens by 4.6 percentage points under Democratic presidencies. These estimates of the widening effect are both statistically and economically significant, and interestingly, larger in magnitudes than those reported in Columns (1) and (3).

The subsample analysis on the financially sophisticated can address concerns related to behavioral biases that financially sophisticated individuals are less subject to. For example, market participants tend to experience macroeconomic shocks before Democratic presidents are elected (e.g., Blinder and Watson, 2016; Pástor and Verones, 2020). One might argue that Democrats could be on average more subject to the behavioral bias induced by their personal experiences of macroeconomic shocks and therefore participate less in the stock market under Democratic presidencies (e.g., Malmendier and Nagel, 2011). In this case, we should expect the widening effect to be weaker among financially sophisticated individuals. Yet, the partisan gap in stock market participation still widens sharply under Democratic presidencies among the financially sophisticated. More generally, results in Table 7 indicate that the amplifying mechanism for wealth inequality between Democrats and Republicans that I uncover in this paper is distinct from the one proposed by Lusardi, Michaud, and Mitchell (2017), who argue that an important source of the heterogeneity in returns to wealth arises from financial knowledge.

3.3.4 Nonfinancial assets. Another possibility is that my findings can be explained by purchases of nonfinancial assets by Democrats under Democratic presidencies. For example, Democrats might find the housing market more attractive than the stock market under Democratic presidencies and therefore purchase houses instead of stocks. To evaluate this possibility, I examine difference in home ownership between Democrats and Republicans over presidential cycles. The regression results are reported in the first two columns of Table 8. Column (1) shows that Democrats are 4.2 percentage points less likely than Republicans to own their home, controlling for education, income, wealth, and other relevant demographic characteristics in addition to the changing local economic as well as political environments. Column (2) further shows that the partisan gap in home ownership widens by 2.3 percentage points under Democratic presidencies. The widening partisan gap in home ownership under Democratic presidencies suggests that alternative investment in owner-occupied housing by Democrats under Democratic presidencies is unlikely to drive my findings.

A related possibility is that instead of buying stocks, Democrats are more likely than Republicans to purchase vehicles under Democratic presidencies. To assess this possibility, I investigate difference in vehicle ownership between Democrats and Republicans over presidential cycles. The regression results are displayed in the next two columns of Table 8. Column (3) shows that Democrats are no less likely than Republicans to own vehicles, controlling for education, income, wealth, and other relevant characteristics. However, I find in Column (4) a widening partisan gap in vehicle ownership under Democratic presidencies, which is against me finding the widening partisan gap in stock market participation under Democratic presidencies.

3.3.5 Retirement accounts. I proceed to examine the evolution of the partisan gap in stock market participation through directly held investment accounts and retirement accounts over presidential cycles, separately. The first column of Table 9 reports evidence for the extensive margin of stock market participation through directly held investment accounts.

Surprisingly, the partisan gap in stock market participation *narrows* by 4.1 percentage points under Democratic presidencies. Given that 14 percent of the Democrats and 28 percent of the Republicans in the sample participate in the stock market through directly held investment accounts (i.e., a partisan gap of 14 percentage points), this implies an economically significant narrowing effect of 28 percent. In Column (2), I consider the intensive margin of stock market participation through directly held investment accounts and find a similar pattern: the partisan gap in risky asset share narrows by 1.7 percentage points, which is again both statistically and economically significant.

In the next two columns, I consider stock market participation through retirement accounts. Column (3) shows that on the extensive margin, the partisan gap in stock market participation through retirement accounts widens by 6.2 percentage points. Since 42 percent of the Democrats and 60 percent of the Republicans in the sample participate in the stock market through retirement accounts (i.e., a partisan gap of 18 percentage points), this implies an economically significant widening effect of 33 percent. Column (4) shows a similar pattern for the intensive margin of stock market participation through retirement accounts: the partisan gap in risky asset share widens by 4.9 percentage points and the estimate of the widening effect is again both statistically and economically significant.

To summarize, underlying my findings are two opposing forces. Specifically, the narrowing of the partisan gap in stock market participation through directly held investment accounts under Democratic presidencies is consistent with the well-documented finding in the political science literature that individuals are more likely to hold a rosy view of the economy when their partisanship matches that of the president (e.g., Bartels, 2002; Gerber and Huber, 2009). However, this optimism effect is overturned by the widening partisan gap in stock market participation through retirement accounts under Democratic presidencies.

4. Discussion and Conclusion

In this paper, I document a sizable partisan gap in stock market participation in the U.S. setting and uncover that the gap widens sharply under Democratic presidencies, precisely when the stock market returns are substantially higher. This dynamic pattern over presidential cycles is unlikely to be driven by partisan differences in time-varying risk preferences, dynamic hedging motives, market timing ability, or nonfinancial asset investments.

I further show that the widening gap in stock market participation under Democratic presidencies is driven by participation through retirement accounts rather than directly held investment accounts. My investigation is, however, constrained by the limited information on retirement accounts available in the NLSY79. Nevertheless, I provide suggestive evidence in Table IA7 in the Internet Appendix that relative to Republicans, Democrats are less likely to be covered by employer pension plans and to be a union member under Democratic than Republican presidencies. This evidence is by no means conclusive and further investigation into the underlying mechanism merits future research.

Regardless of the exact channel, the widening partisan gap in stock market participation under Democratic presidencies should bear important wealth accumulation implications, given the substantial Democrat-Republican return gap in the U.S. stock market. As shown in the first two columns of Table 10, there exists a substantial wealth gap between Democrats and Republicans and the gap widens under Democratic presidencies as well. In Column (3), I include the stock market participation dummy as an explanatory variable in the regression specification and find that the estimate of the interaction term, Democrat × D-president, is no longer statistically significant. This finding suggests that the widening gap in stock market participation under Democratic presidencies can, as expected, explain a substantial portion of the widening partisan gap in wealth accumulation under Democratic presidencies. Based on a back-of-envelope calculation, the direct effect of the interaction term on the partisan gap in wealth accumulation over presidential cycles is -0.058, and the indirect effect on this gap

through stock market participation is -0.051 ($= -0.055 \times 0.786$), which is about 43 percent of the total effect on the partisan gap in wealth accumulation over presidential cycles.[7]

Despite the important wealth accumulation implications demonstrated above, two features of my analysis merit clarification. First, the NLSY79 tracks only one cohort of individuals and due to this data limitation, it is difficult to assess how general my findings in this paper are. One source of the difficulty is the fact that individual experiences shape attitudes towards risk (e.g., Malmendier and Nagel, 2011). Therefore, different generations are likely to be exposed to a different set of political events, which in turn could impact their tendency to participate in the stock market differentially. Second, I do not claim to estimate the causal impact of presidential cycles on the stock market participation decisions made by households on opposite sides of the political spectrum, which is extremely difficult to achieve given the limited variation in administrations. Instead, I explore in this paper the life-cycle investment behavior of Democrats and Republicans, with a focus on the differential evolution of wealth and portfolio outcomes over presidential cycles. Further investigation into the interplay between attitudes towards capital markets, policy preferences, and political ideology is a promising direction for future work.

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[7]In Column (4), I re-estimate the specification in Table 3 without controlling for household wealth to facilitate the calculation of the indirect effect.

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Table 1. Summary Statistics

This table reports summary statistics for a sample of Democrats and Republicans from the National Longitudinal Survey of Youth 1979 Cohort. The sample period is from 1994 to 2016. The party affiliation measure is based on two questions. One asks: "Generally speaking, do you usually think of yourself as a Democrat, a Republican, an Independent, or what?" For those who do not respond "Democrat" or "Republican," a follow-up question asks: "Do you think of yourself as closer to the Democratic party, closer to the Republican party, or equally close to both?" Democrats are those who answer "Democrat" to the first question or "closer to the Democratic party" to the follow-up question. Republicans are those who respond "Republican" to the first question "closer to the Republican party" to the follow-up question. Risky asset invest is a dummy equal to one if the household owns any risky asset. Risky assets include stocks, government or corporate bonds, mutual funds, and retirement accounts. Risky asset share is the value of risky assets scaled by total liquid wealth, which is the total value of risky assets and safe assets. Safe assets include savings and checking accounts, money market funds, certificates of deposit, U.S. savings bonds, and personal loans to others. Family income and net worth are deflated in 2010 dollars by the price index for personal consumption expenditures.

	Democrats (N = 3,918)		Republicans (N = 2,056)	
	Mean	SD	Mean	SD
Risky asset invest	45.28%	49.78%	65.56%	47.52%
Risky asset share	33.40%	41.01%	47.65%	40.92%
Male	44.98%	49.75%	55.17%	49.73%
Age	41.80	7.63	41.61	7.58
White	37.68%	48.46%	78.25%	41.25%
College	49.79%	50.00%	58.69%	49.24%
Married	48.42%	49.98%	72.09%	44.86%
Number of children	1.16	1.23	1.37	1.25
Home ownership	54.73%	49.78%	75.63%	42.94%
Family income (in thousands)	62.33	80.48	95.96	116.40
Net worth (in thousands)	156.62	427.50	321.72	619.90
Observations	22,650		12,743	

Table 2. Partisan Gap in Stock Market Participation

This table reports regression results for the partisan gap in stock market participation. Risky asset invest is a dummy equal to one if the household owns any risky asset. Risky assets include stocks, government or corporate bonds, mutual funds, and retirement accounts. Risky asset share is the value of risky assets scaled by total liquid wealth, which is the total value of risky assets and safe assets. Safe assets include savings and checking accounts, money market funds, certificates of deposit, U.S. savings bonds, and personal loans to others. Democrat indicates whether the respondent is a Democrat. Standard errors are clustered at the household level and levels of significance are denoted as follows: * if $p < 0.10$; ** if $p < 0.05$; *** if $p < 0.01$.

	Risky Asset Invest	Risky Asset Share
	(1)	(2)
Democrat	−0.055***	−0.040***
	(0.008)	(0.007)
Male	−0.012*	−0.009
	(0.007)	(0.006)
Age	−0.002	−0.002
	(0.002)	(0.001)
White	0.073***	0.043***
	(0.009)	(0.008)
College	0.149***	0.109***
	(0.008)	(0.007)
Married	0.135***	0.103***
	(0.008)	(0.007)
Number of children	−0.028***	−0.013***
	(0.003)	(0.002)
Home ownership	0.200***	0.136***
	(0.008)	(0.006)
Family income	0.495***	0.326***
	(0.038)	(0.032)
Net worth	0.105***	0.080***
	(0.006)	(0.006)
State × Year FE	Yes	Yes
Observations	35,393	35,393
Adj. R^2	0.263	0.214

Table 3. Partisan Gap in Stock Market Participation over Presidential Cycles

This table reports regression results for the partisan gap in stock market participation over presidential cycles. Risky asset invest is a dummy equal to one if the household owns any risky asset. Risky assets include stocks, government or corporate bonds, mutual funds, and retirement accounts. Risky asset share is the value of risky assets scaled by total liquid wealth, which is the total value of risky assets and safe assets. Safe assets include savings and checking accounts, money market funds, certificates of deposit, U.S. savings bonds, and personal loans to others. Democrat indicates whether the respondent is a Democrat and D-president indicates whether the president is a Democrat. Controls in Table 2 are included and standard errors are clustered at the household level. Levels of significance are denoted as follows: * if $p < 0.10$; ** if $p < 0.05$; *** if $p < 0.01$.

	Risky Asset Invest		Risky Asset Share	
	(1)	(2)	(3)	(4)
Democrat × D-president	−0.049***	−0.054***	−0.029***	−0.032***
	(0.010)	(0.010)	(0.009)	(0.009)
Democrat	−0.019*		−0.018*	
	(0.011)		(0.010)	
Controls	Yes	Yes	Yes	Yes
State × Year FE	Yes	Yes	Yes	Yes
Household FE	No	Yes	No	Yes
Observations	35,393	35,256	35,393	35,256
Adj. R^2	0.264	0.475	0.215	0.425

Table 4. Party-Switching Elections: Difference-in-Difference Analysis

This table reports regression results for the partisan gap in stock market participation around party-switching elections in a difference-in-difference framework. Risky asset invest is a dummy equal to one if the household owns any risky asset. Risky assets include stocks, government or corporate bonds, mutual funds, and retirement accounts. Risky asset share is the value of risky assets scaled by total liquid wealth, which is the total value of risky assets and safe assets. Safe assets include savings and checking accounts, money market funds, certificates of deposit, U.S. savings bonds, and personal loans to others. Democrat indicates whether the respondent is a Democrat and D-president indicates whether the president is a Democrat. Controls in Table 2 are included and standard errors are clustered at the household level. Levels of significance are denoted as follows: * if $p < 0.10$; ** if $p < 0.05$; *** if $p < 0.01$.

	Bush II (2000 vs. 2004)		Obama (2008 vs. 2012)	
	Risky Asset Invest	Risky Asset Share	Risky Asset Invest	Risky Asset Share
	(1)	(2)	(3)	(4)
Democrat × D-president	−0.034**	−0.032**	−0.045***	−0.044***
	(0.017)	(0.016)	(0.016)	(0.015)
Controls	Yes	Yes	Yes	Yes
State × Year FE	Yes	Yes	Yes	Yes
Household FE	Yes	Yes	Yes	Yes
Observations	6,992	6,992	7,152	7,152
Adj. R^2	0.478	0.423	0.521	0.475

Table 5. Time-Varying Risk Aversion

This table analyzes the effect of time-varying risk aversion around the presidential election of 2000. In each presidency, a hypothetical gamble question is asked. Risk aversion is a dummy equal to one if the respondent would not take a job that could, with equal probability, either double the family income or cut it by 20%. Risky asset invest is a dummy equal to one if the household owns any risky asset. Risky assets include stocks, government or corporate bonds, mutual funds, and retirement accounts. Risky asset share is the value of risky assets scaled by total liquid wealth, which is the total value of risky assets and safe assets. Safe assets include savings and checking accounts, money market funds, certificates of deposit, U.S. savings bonds, and personal loans to others. Democrat indicates whether the respondent is a Democrat and D-president indicates whether the president is a Democrat. Controls in Table 2 are included and standard errors are clustered at the household level. Levels of significance are denoted as follows: * if $p < 0.10$; ** if $p < 0.05$; *** if $p < 0.01$.

	Risk Aversion	Risky Asset Invest		Risky Asset Share	
	(1)	(2)	(3)	(4)	(5)
Democrat × D-president	−0.012	−0.038**	−0.038**	−0.035**	−0.035**
	(0.023)	(0.017)	(0.017)	(0.016)	(0.016)
Risky aversion			−0.009		−0.012
			(0.014)		(0.013)
Controls	Yes	Yes	Yes	Yes	Yes
State × Year FE	Yes	Yes	Yes	Yes	Yes
Household FE	Yes	Yes	Yes	Yes	Yes
Observations	6,868	6,868	6,868	6,868	6,868
Adj. R^2	0.176	0.478	0.478	0.419	0.419

Table 6. Dynamic Hedging Motives

This table analyzes the effect of dynamic hedging motives. Risky asset invest is a dummy equal to one if the household owns any risky asset. Risky assets include stocks, government or corporate bonds, mutual funds, and retirement accounts. Risky asset share is the value of risky assets scaled by total liquid wealth, which is the total value of risky assets and safe assets. Safe assets include savings and checking accounts, money market funds, certificates of deposit, U.S. savings bonds, and personal loans to others. Democrat indicates whether the respondent is a Democrat and D-president indicates whether the president is a Democrat. Controls in Table 2 are included and standard errors are clustered at the household level. Sectors are based on the SIC divisions and occupations are grouped into broad categories following Acemoglu and Autor (2011). Levels of significance are denoted as follows: * if $p < 0.10$; ** if $p < 0.05$; *** if $p < 0.01$.

	Risky Asset Invest		Risky Asset Share	
	(1)	(2)	(3)	(4)
Democrat × D-president	−0.054***	−0.048***	−0.032***	−0.028***
	(0.010)	(0.011)	(0.009)	(0.009)
Controls	Yes	Yes	Yes	Yes
State × Year FE	Yes	Yes	Yes	Yes
Household FE	Yes	Yes	Yes	Yes
Sector × Occupation × Year FE	No	Yes	No	Yes
Observations	35,147	35,147	35,147	35,147
Adj. R^2	0.476	0.480	0.426	0.430

Table 7. Market Timing Ability

This table analyzes the effect of market timing ability. Risky asset invest is a dummy equal to one if the household owns any risky asset. Risky assets include stocks, government or corporate bonds, mutual funds, and retirement accounts. Risky asset share is the value of risky assets scaled by total liquid wealth, which is the total value of risky assets and safe assets. Safe assets include savings and checking accounts, money market funds, certificates of deposit, U.S. savings bonds, and personal loans to others. Sophistication indicates whether the respondent can answer correctly all the five questions that test understanding of diversification, inflation, compounding interests, time value of money, and relation between bond price and interest rate. Otherwise, the respondent is unsophisticated. Democrat indicates whether the respondent is a Democrat and D-president indicates whether the president is a Democrat. Controls in Table 2 are included and standard errors are clustered at the household level. Levels of significance are denoted as follows: * if $p < 0.10$; ** if $p < 0.05$; *** if $p < 0.01$.

	Risky Asset Invest		Risky Asset Share	
	Unsophisticated	Sophisticated	Unsophisticated	Sophisticated
	(1)	(2)	(3)	(4)
Democrat × D-president	−0.038***	−0.048**	−0.016	−0.046**
	(0.014)	(0.023)	(0.013)	(0.022)
Controls	Yes	Yes	Yes	Yes
State × Year FE	Yes	Yes	Yes	Yes
Household FE	Yes	Yes	Yes	Yes
Observations	19,098	5,261	19,098	5,261
Adj. R^2	0.449	0.431	0.393	0.432

Table 8. Nonfinancial Assets

This table analyzes the effect of nonfinancial assets. Own home is a dummy equal to one if the household owns the living unit. Own vehicle is a dummy equal to one if the household owns any vehicle. Democrat indicates whether the respondent is a Democrat and D-president indicates whether the president is a Democrat. Controls in Table 2 are included except for home ownership in Columns (1) and (2). Standard errors are clustered at the household level and levels of significance are denoted as follows: * if $p < 0.10$; ** if $p < 0.05$; *** if $p < 0.01$.

	Own Home		Own Vehicle	
	(1)	(2)	(3)	(4)
Democrat	−0.042***		0.006	
	(0.009)		(0.005)	
Democrat × D-president		−0.023***		−0.017***
		(0.009)		(0.006)
Controls	Yes	Yes	Yes	Yes
State × Year FE	Yes	Yes	Yes	Yes
Household FE	No	Yes	No	Yes
Observations	35,393	35,256	35,389	35,252
Adj. R^2	0.291	0.592	0.198	0.516

Table 9. Non-Retirement and Retirement Investments

This table analyzes non-retirement and retirement investments over presidential cycles. The extensive margin of non-retirement investment is a dummy equal to one if the household owns any stock, government or corporate bond, or mutual fund. The intensive margin of non-retirement investment is the value of stocks, government or corporate bonds, and mutual funds scaled by total liquid wealth, which is the total value of non-retirement investment, retirement investment, and safe assets. Safe assets include savings and checking accounts, money market funds, certificates of deposit, U.S. savings bonds, and personal loans to others. The extensive margin of retirement investment is a dummy equal to one if the household owns any retirement account. The intensive margin of retirement investment is the value of retirement accounts scaled by total liquid wealth. Democrat indicates whether the respondent is a Democrat and D-president indicates whether the president is a Democrat. Controls in Table 2 are included and standard errors are clustered at the household level. Levels of significance are denoted as follows: * if $p < 0.10$; ** if $p < 0.05$; *** if $p < 0.01$.

|	Non-Retirement Investment		Retirement Investment	
	Extensive Margin	Intensive Margin	Extensive Margin	Intensive Margin
	(1)	(2)	(3)	(4)
Democrat × D-president	0.041***	0.017***	−0.062***	−0.049***
	(0.009)	(0.005)	(0.011)	(0.009)
Controls	Yes	Yes	Yes	Yes
State × Year FE	Yes	Yes	Yes	Yes
Household FE	Yes	Yes	Yes	Yes
Observations	35,256	35,256	35,256	35,256
Adj. R^2	0.435	0.305	0.448	0.368

Table 10. Partisan Gap in Wealth Accumulation over Presidential Cycles

This table analyzes partisan gap in wealth accumulation over presidential cycles. Risky asset invest is a dummy equal to one if the household owns any risky asset. Risky assets include stocks, government or corporate bonds, mutual funds, and retirement accounts. Risky asset share is the value of risky assets scaled by total liquid wealth, which is the total value of risky assets and safe assets. Safe assets include savings and checking accounts, money market funds, certificates of deposit, U.S. savings bonds, and personal loans to others. Democrat indicates whether the respondent is a Democrat and D-president indicates whether the president is a Democrat. Controls in Table 2 except for household wealth are included and standard errors are clustered at the household level. Levels of significance are denoted as follows: * if $p < 0.10$; ** if $p < 0.05$; *** if $p < 0.01$.

	Log Household Wealth			Risky Asset Invest
	(1)	(2)	(3)	(4)
Democrat × D-president		−0.101**	−0.058	−0.055***
		(0.043)	(0.042)	(0.010)
Democrat	−0.181***			
	(0.042)			
Risky asset invest			0.786***	
			(0.027)	
Controls	Yes	Yes	Yes	Yes
State × Year FE	Yes	Yes	Yes	Yes
Household FE	No	Yes	Yes	Yes
Observations	32,030	31,821	31,821	31,821
Adj. R^2	0.481	0.723	0.731	0.476

Figure 1. Partisan Gap in Stock Market Participation over Presidential Cycles

This figure plots the stock market participation rates, both on the extensive margin in Panel (A) and on the intensive margin in Panel (B), of Democrats and Republicans over presidential cycles. Risky asset invest is a dummy equal to one if the household owns any risky asset. Risky assets include stocks, government or corporate bonds, mutual funds, and retirement accounts. Risky asset share is the value of risky assets scaled by total liquid wealth, which is the total value of risky assets and safe assets. Safe assets include savings and checking accounts, money market funds, certificates of deposit, U.S. savings bonds, and personal loans to others.
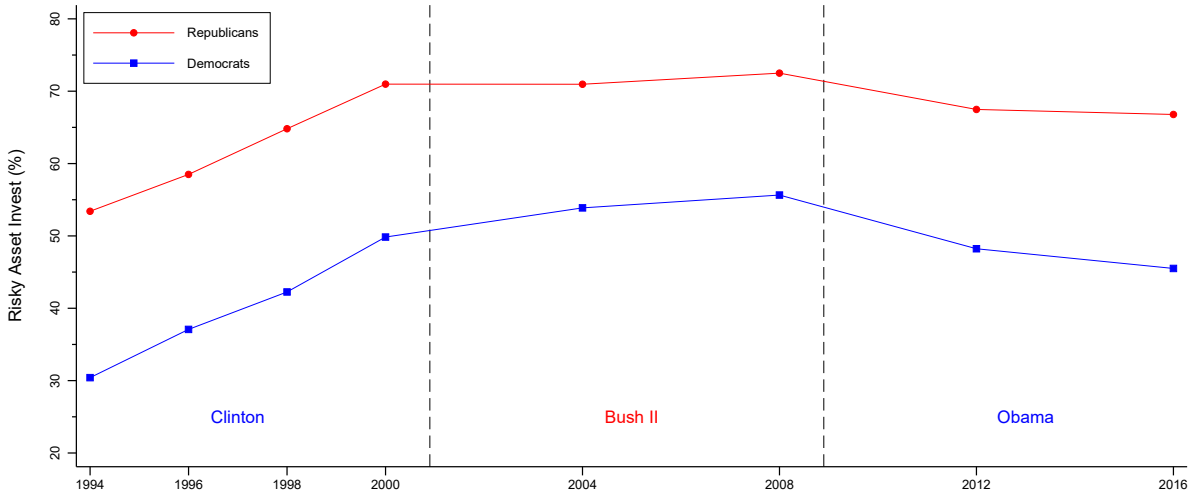
Panel (A): Extensive Margin
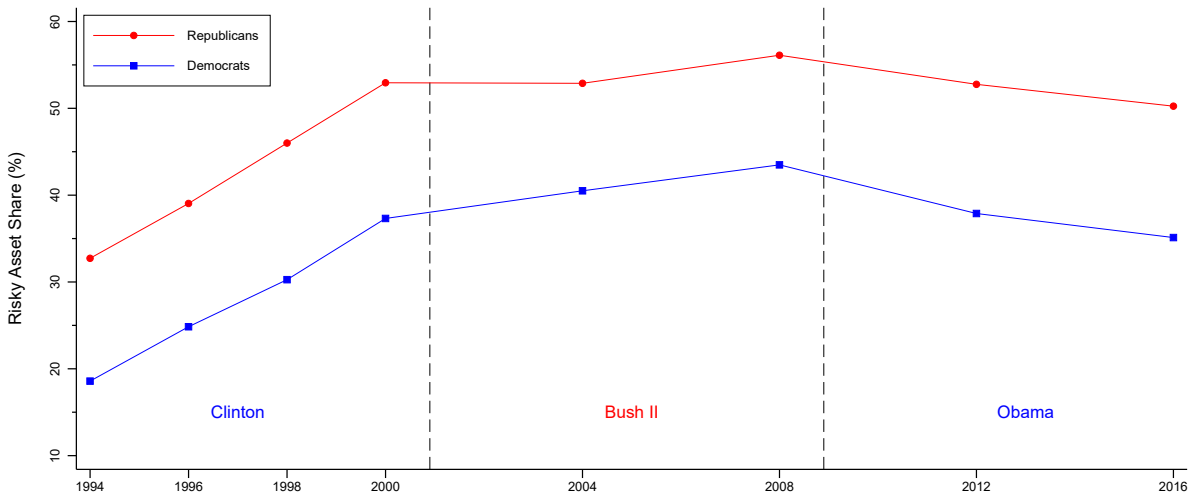
Panel (B): Intensive Margin

Table IA1. Robustness: Excluding Bondholders

This table excludes bondholders from the main sample and re-estimates the baseline regressions in Table 3. Bondholders are those who ever invest in government or corporate bonds during the period from 2004 through 2016. Risky asset invest is a dummy equal to one if the household owns any risky asset. Risky assets include stocks, government or corporate bonds, mutual funds, and retirement accounts. Risky asset share is the value of risky assets scaled by total liquid wealth, which is the total value of risky assets and safe assets. Safe assets include savings and checking accounts, money market funds, certificates of deposit, U.S. savings bonds, and personal loans to others. Democrat indicates whether the respondent is a Democrat and D-president indicates whether the president is a Democrat. Standard errors are clustered at the household level and levels of significance are denoted as follows: * if $p < 0.10$; ** if $p < 0.05$; *** if $p < 0.01$.

	Risky Asset Invest	Risky Asset Share
	(1)	(2)
Democrat × D-president	−0.052***	−0.034***
	(0.011)	(0.010)
Controls	Yes	Yes
State × Year FE	Yes	Yes
Household FE	Yes	Yes
Observations	27,129	27,129
Adj. R^2	0.451	0.408

Table IA2. Party-Switching Elections: Pretrends

This table reports the trend of partisan gap in stock market participation before party-switching elections. Risky asset invest is a dummy equal to one if the household owns any risky asset. Risky assets include stocks, government or corporate bonds, mutual funds, and retirement accounts. Risky asset share is the value of risky assets scaled by total liquid wealth, which is the total value of risky assets and safe assets. Safe assets include savings and checking accounts, money market funds, certificates of deposit, U.S. savings bonds, and personal loans to others. Democrat indicates whether the respondent is a Democrat. Prior indicates whether it is the earlier year in the subsample. Controls in Table 2 are included and standard errors are clustered at the household level. Levels of significance are denoted as follows: * if $p < 0.10$; ** if $p < 0.05$; *** if $p < 0.01$.

	Pre-Bush II (1996 vs. 2000)		Pre-Obama (2004 vs. 2008)	
	Risky Asset Invest	Risky Asset Share	Risky Asset Invest	Risky Asset Share
	(1)	(2)	(3)	(4)
Democrat × Prior	−0.005	0.010	−0.006	−0.008
	(0.017)	(0.014)	(0.017)	(0.015)
Controls	Yes	Yes	Yes	Yes
State × Year FE	Yes	Yes	Yes	Yes
Household FE	Yes	Yes	Yes	Yes
Observations	7,592	7,592	7,208	7,208
Adj. R^2	0.513	0.475	0.483	0.445

Table IA3. Robustness: Alternative Measures of Party Affiliation

This table re-estimates the baseline regressions in Table 3 using alternative measures of party affiliation. The leaning-Independent-excluded sample excludes Democratic-leaning and Republican-leaning Independents from the main sample. The strong-affiliation sample includes only respondents who strongly identify their party affiliations. Risky asset invest is a dummy equal to one if the household owns any risky asset. Risky assets include stocks, government or corporate bonds, mutual funds, and retirement accounts. Risky asset share is the value of risky assets scaled by total liquid wealth, which is the total value of risky assets and safe assets. Safe assets include savings and checking accounts, money market funds, certificates of deposit, U.S. savings bonds, and personal loans to others. Democrat indicates whether the respondent is a Democrat and D-president indicates whether the president is a Democrat. Standard errors are clustered at the household level and levels of significance are denoted as follows: * if $p < 0.10$; ** if $p < 0.05$; *** if $p < 0.01$.

	Leaning-Independent-Excluded		Strong Affiliation	
	Risky Asset Invest	Risky Asset Share	Risky Asset Invest	Risky Asset Share
	(1)	(2)	(3)	(4)
Democrat × D-president	−0.061***	−0.040***	−0.066***	−0.033**
	(0.011)	(0.010)	(0.015)	(0.014)
Controls	Yes	Yes	Yes	Yes
State × Year FE	Yes	Yes	Yes	Yes
Household FE	Yes	Yes	Yes	Yes
Observations	29,650	29,650	17,168	17,168
Adj. R^2	0.468	0.418	0.466	0.420

Table IA4. Robustness: Evidence from the Child & Young Adult Panel

This table re-estimates the baseline regressions in Table 3 based on the subsample of female respondents linked to the NLSY79 Child & Young Adult panel. The party affiliations of these female respondents are reported by their children in the 2006 wave of the Child & Young Adult panel. Risky asset invest is a dummy equal to one if the household owns any risky asset. Risky assets include stocks, government or corporate bonds, mutual funds, and retirement accounts. Risky asset share is the value of risky assets scaled by total liquid wealth, which is the total value of risky assets and safe assets. Safe assets include savings and checking accounts, money market funds, certificates of deposit, U.S. savings bonds, and personal loans to others. Democrat indicates whether the respondent is a Democrat and D-president indicates whether the president is a Democrat. Standard errors are clustered at the household level and levels of significance are denoted as follows: * if $p < 0.10$; ** if $p < 0.05$; *** if $p < 0.01$.

	Risky Asset Invest	Risky Asset Share
	(1)	(2)
Democrat × D-president	−0.092***	−0.078***
	(0.028)	(0.027)
Controls	Yes	Yes
State × Year FE	Yes	Yes
Household FE	Yes	Yes
Observations	5,755	5,755
Adj. R^2	0.449	0.399

Table IA5. Robustness: Urban-Rural Divide

This table analyzes the effect of urban-rural divide. Risky asset invest is a dummy equal to one if the household owns any risky asset. Risky assets include stocks, government or corporate bonds, mutual funds, and retirement accounts. Risky asset share is the value of risky assets scaled by total liquid wealth, which is the total value of risky assets and safe assets. Safe assets include savings and checking accounts, money market funds, certificates of deposit, U.S. savings bonds, and personal loans to others. Democrat indicates whether the respondent is a Democrat and D-president indicates whether the president is a Democrat. Urban indicates whether the respondent resides in an urban area and controls in Table 2 are included. Standard errors are clustered at the household level and levels of significance are denoted as follows: * if $p < 0.10$; ** if $p < 0.05$; *** if $p < 0.01$.

	Risky Asset Invest	Risky Asset Share
	(1)	(2)
Democrat $\times$ D-president	-0.054***	-0.033***
	(0.011)	(0.010)
Controls	Yes	Yes
State $\times$ Urban $\times$ Year FE	Yes	Yes
Household FE	Yes	Yes
Observations	34,255	34,255
Adj. R^2	0.479	0.428

Table IA6. Robustness: Interactions between Demographics and Time

This table fully interacts the demographic controls with year dummies and re-estimates the baseline regressions in Table 3. Risky asset invest is a dummy equal to one if the household owns any risky asset. Risky assets include stocks, government or corporate bonds, mutual funds, and retirement accounts. Risky asset share is the value of risky assets scaled by total liquid wealth, which is the total value of risky assets and safe assets. Safe assets include savings and checking accounts, money market funds, certificates of deposit, U.S. savings bonds, and personal loans to others. Democrat indicates whether the respondent is a Democrat and D-president indicates whether the president is a Democrat. Standard errors are clustered at the household level and levels of significance are denoted as follows: * if $p < 0.10$; ** if $p < 0.05$; *** if $p < 0.01$.

	Risky Asset Invest	Risky Asset Share
	(1)	(2)
Democrat $\times$ D-president	-0.040***	-0.020**
	(0.011)	(0.010)
Controls $\times$ Year dummies	Yes	Yes
State $\times$ Year FE	Yes	Yes
Household FE	Yes	Yes
Observations	35,256	35,256
Adj. R^2	0.480	0.430

Table IA7. Employer Pension Plan Coverage and Union Membership

This table analyzes the effects of employer pension plan coverage and union membership. Democrat indicates whether the respondent is a Democrat and D-president indicates whether the president is a Democrat. Controls in Table 2 are included and standard errors are clustered at the household level. Levels of significance are denoted as follows: * if $p < 0.10$; ** if $p < 0.05$; *** if $p < 0.01$.

	Employer Pension Plan Coverage		Union Membership	
	(1)	(2)	(3)	(4)
Democrat	0.011		0.065***	
	(0.010)		(0.009)	
Democrat × D-president		−0.032***		−0.018***
		(0.012)		(0.006)
Controls	Yes	Yes	Yes	Yes
State × Year FE	Yes	Yes	Yes	Yes
Household FE	No	Yes	No	Yes
Observations	35,393	35,256	35,393	35,256
Adj. R^2	0.080	0.399	0.067	0.538