

The Research on Asset Allocation Strategies of Chinese Families

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Abstract. With the development of the social economy, household expenditures are playing a more significant role in the financial market. However, there are still many issues in the asset allocation of Chinese families. If Chinese families do not adopt scientific and reasonable strategies, it will result in severe economic losses. This study aims to examine the current state of Chinese family asset allocation, as well as potential issues and improvement strategies that can help increase family wealth and promote financial market stability. The research employs a review research method to synthesise and analyse the current literature on asset allocation strategies of Chinese families. It summarises the different stages of the evolution of family asset allocation strategies. In conclusion, the strategy for family asset allocation is gradually becoming more diverse, providing individuals with a broader range of investment options. At the same time, certain social factors also influence investment strategies. This study emphasises that people should engage in digital financial investment, and targeted strategies should be developed based on different family characteristics in the future.

Keywords: Asset allocation; improvement strategies; household economy.

1. Introduction

With the rapid advancement of China's social economy and the continuous improvement of its financial market system, families, being the foundation of economic activities, their asset allocation behaviour is increasingly crucial to the stability of the national economy and financial markets. Household asset allocation not only impacts residents' wealth but is also significantly related to high-quality economic growth. In recent years, the scale of household wealth in China has consistently increased; however, the asset structure still faces challenges, including a lack of diversity in financial assets and a limited awareness of risk. Moreover, the rationality of household asset allocation plays a direct role in the well-being of each family. As financial products continue to diversify, families are presented with a broader range of asset allocation options, which consequently increases their risks. Mindless investment decisions can lead to inefficient asset allocation and may even result in economic losses. Therefore, exploring strategies to optimise household asset allocation in China not only enhances family wealth management but also establishes a solid foundation for the development of the financial market.

The aims of this study are to analyse the current state of asset allocation among Chinese households, identify existing issues, and propose targeted optimisation strategies. Specifically, the study aims to investigate the theoretical foundation for exploring household asset distribution, abstract the structural characteristics, comparisons, and trends within Chinese household asset allocation to reveal potential patterns, and examine the limitations and factors influencing the current asset allocation model. By achieving these objectives, this study aims to provide scientific and logical recommendations for asset allocation to Chinese families, while fostering both theoretical and practical innovation in the field of household finance. In terms of methodology, this study employs a review approach, analysing both traditional theories and emerging findings related to household asset allocation to outline the evolutionary development phases and trends in China's asset allocation policies. Furthermore, this study incorporates real data from Chinese households to explore the current circumstances and challenges related to asset allocation.

The structure of this study is organised as follows: Part One introduces the theoretical foundation by presenting the traditional model of household asset allocation and illustrating its formation process. The second part analyses the current state of household asset allocation in China, focusing on its structural characteristics, differences, and emerging trends. The third part highlights the limitations of existing asset allocation models. The fourth part proposes ways to improve them, offering personalised recommendations tailored to households with varying characteristics. Through this study design, the article seeks to systematically and comprehensively reveal the entire profile of Chinese household asset allocation, providing valuable insights for both practical applications and future studies.

2. Literature Review

2.1. Core Principles of Modern Portfolio Theory

Modern Portfolio Theory (MPT) was proposed by Markowitz in 1952. It laid down the scientific principles for the optimal asset allocation in three breakthrough contributions. Firstly, MPT illustrated the advantage of diversification based on covariance analysis. Established that the risk of a portfolio is not because of the variance of individual assets, but it critically depends on the relationships between various assets [1]. This observation fundamentally altered the measurement of risk in investment practice. Secondly, the theory introduced the concept of the efficient frontier, which represents the set of portfolios that offer the best expected returns for a given level of risk. As Markowitz noted: "The rule states that the investor does (or should) diversify his funds among all those securities which give maximum expected return [1]." This laid the foundation for mean-variance optimisation theory. Thirdly, MPT constructs a systematic risk-return trade-off framework, raising investment decision-making from intuitive judgment to quantitative analysis. The theory divides the portfolio construction process into distinct stages (expected return estimation, covariance analysis, and optimisation), providing a rigorous methodological framework for investment management.

2.2. MPT as a Guiding Principle for Chinese Household Asset Allocation

Modern portfolio theory provides Chinese families with a scientific framework to optimise their asset allocation strategies. The most essential characteristic of the theory is that the benefits of diversification are based on the correlation between assets, rather than individual risk [1], which can be interpreted as directly challenging the widespread approach of excessive asset concentration in property and bank deposits. For the majority of middle-income families, their real estate investment constitutes the most significant portion of their assets [2]. Still, this approach fails to mitigate systemic risk, as real estate markets are highly susceptible to correlated downturns during economic contractions. The mathematical foundation of Markowitz's portfolio theory suggests that the optimal investment portfolio should strike a quantitative balance between risk and return, rather than prioritising high returns [1]. This is particularly important in China's emerging financial markets. Practical applications demonstrate that appropriately diversified portfolios encompassing different asset classes can generate enhanced risk-adjusted returns [3]. However, implementing the principles of Markowitz's investment theory in China requires adjustments tailored to local conditions. Factors such as capital controls and regulatory environments need to be addressed. Today, online wealth management services offer families a simplified application of these principles through user-friendly tools that automatically optimise portfolios, considering the characteristics of the Chinese market. These developments are helping to bridge the gap between financial theory and household investment practices.

While modern portfolio theory develops a theory for asset allocation, but current research is still far from ideal in influencing Chinese families' behaviors. One of the major shortcomings is that most literature remains theoretical, with few comprehensive studies incorporating financial literacy education, investment channel diversification expansion, and technological innovation regulation.

More significantly, particularly in the Chinese context, key issues like how to correct behavioral biases through finance education, how to guide long-term investing through pension system reform, and how to manage innovation while controlling risks through regulatory technology have not been adequately explored. Existing research tends to overlook the interactive connections between policies and market mechanisms. For instance, although broadening international investment channels can help diversify risk, very few studies have examined how to implement this effectively under persistent capital account controls. Similarly, in the emerging field of digital financial literacy education, the academic community has not yet developed an appropriate educational model or implementation pathway that fits the characteristics of Chinese households. This study aims to address these deficiencies by establishing an integrated framework that incorporates financial literacy, channel expansion, and regulatory technology. It not only deepens the theoretical basis of the localized application of MPT but also provides policymakers and financial institutions with practical references, which is conducive to the healthy development of the family wealth management industry.

3. The Current Situation of Chinese Family Asset Allocation

3.1. Chinese Household Asset Allocation Structure Features

The household asset allocation in China has been a case study of its own in global financial markets, driven by the dynamics involved in interacting with conventional preferences and the financialization process. Most noticeably, real estate enjoys an extreme status. The estimates based on the China Household Finance Survey suggest that this asset accounts for almost 70% of total assets [4]. The resulting heavy participation in one non-liquid asset sector, however, brings significant systemic risk. It exposes household balance sheets to risky adjustments in the property market, as seen in the last few years, where prices in secondary markets in large cities dropped by 15-20% [5]. Consequently, while bank deposits remain the primary type of financial asset [4], there is a growing recognition of the need for greater diversification into other financial products like funds and insurance to build more resilient and balanced portfolios, reflecting a financial deepening process [6] refers to the continuous expansion of the relative scale of financial intermediaries (such as banks, stock markets, bond markets) in the economy, financial services become more diversified and efficient, and can create more diverse financial instruments. This directly provides the possibility for investors to make diversified investments.

3.2. Asset Allocation Differences among Households

Significant asset allocation differences exist among different household groups, as wealthier families tend to be more knowledgeable in finance and often diversify their holdings through stocks and shares, while low-income households with limited investment experience typically rely on savings and property investments [7]. Urban residents, especially in developed regions, show greater adoption of diversified wealth management strategies compared to rural households, who have fewer opportunities for such services, reflecting uneven access to financial tools in China. Meanwhile, with the continuous development of financial technology, a gradual shift toward digitalization and diversified investment is emerging, as digital platforms improve accessibility to a wider range of financial products and encourage the younger generation to engage with digital assets. Nevertheless, this trend carries risks due to insufficient investor education, even though a slow but steady movement away from traditional, concentrated portfolios remains clearly observable across household types.

4. Limitations and Influence Factors of Chinese Household Asset Allocation

An extreme and risky concentration in real estate characterises the asset allocation model of Chinese households. This lack of diversification became acutely apparent during the 2022 market correction, which severely eroded household net worth [5]. This contradicts the core principle of modern portfolio theory [1]. Furthermore, financial asset allocation is underdeveloped, with a strong

preference for bank deposits and strikingly low participation in equity markets compared to advanced economies [8].

Several key factors hinder optimisation. Inadequate pension coverage forces households to rely on real estate as a primary store of value [9]. This structural problem is exacerbated by low levels of financial literacy, which is a primary driver of simplistic portfolio choices globally [10]. Finally, while digital solutions like robot advisors are emerging, they can sometimes promote new patterns of "digital herding" rather than proper personalised optimisation.

5. Improvement Strategies for Chinese Household Asset Allocation

5.1. Enhancing Financial Education and Financial Literacy

Improving Chinese household asset allocation requires comprehensive financial education. Evidence confirms that financially literate households are significantly more likely to participate in capital markets and maintain diversified portfolios [11]. In China, such education must first address fundamental concepts, such as trade-offs between risk and return, given the low public understanding of these principles. Second, promoting digital financial literacy is particularly urgent, as many mobile payment users lack knowledge of algorithm-driven investment products. Ultimately, incorporating behavioural finance can help counter cognitive biases, such as loss aversion, which resulted in excessive concentration of investment in real estate.

5.2. Expanding Diversified Investment Channels

When China establishes a pension system, drawing existing household savings into long-term investments would be a promising plan, as it has been in other emerging economies. Improved global diversification can be achieved by relaxing quotas on international investment programs, which have been found to reduce portfolio volatility significantly. It is also essential to expand access to professional advisory services, which are currently available only to urban elites, to increase the involvement of cooperative partners.

5.3. Regulation and Technological Innovation

Technology and policy need to interplay. Complete structures of investor protection within the regulated reforms should be initiated to harmonise the demands on risk portfolios, a provision that has been tested in prevailing investment markets. At the same time, regulatory technology can improve monitoring by contributing to the goal of diversification, rather than creating new risks through innovations.

6. Conclusion

This study systematically analyses the pattern of asset allocation among Chinese households. It shows that not only has there been an improvement in how people manage their wealth, but the struggle remains constant. The study has shown that, despite China's currently advanced and mature financial market, households have overemphasised real estate and bank deposits, making the foundations of their household portfolios systematically vulnerable, as was demonstrated in recent market corrections. The discussion highlights those behavioural biases, institutional limitations, and financial literacy gaps are barriers to optimal diversification. The proposed improvement strategies are tightly aligned with the best international practices. The improvement efforts should include enhanced financial education, restructuring of the pension system, and innovative regulations, while also adapting to China's specific socioeconomic environment.

A few limitations are worth mentioning. Firstly, the approach to reviewing can overlook trends in the rapidly shifting financial environment of the Chinese market. Second, this study focuses on and analyses urban households, which are likely to represent rural financial behaviour to a certain extent.

The behaviour to a certain extent. The recommendations assume a step-by-step implementation of the policies, but unexpected macroeconomic shocks may require further consideration.

Future work should examine: (1) the vertical impact of adopting digital finance on portfolio diversification, (2) other influences on risk perception besides the home bias, and (3) how effective advisory tools enabled by AI can mitigate behavioural biases. As China further liberalises its financial system, consideration of household portfolio adjustments will be important both in academic studies and policymaking as it is further implemented. This paper lays the groundwork for studying household finance in China, demonstrating that evaluating solutions in varying scenarios is necessary to strike a balance between financial innovation and stability.

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