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How to Get Richer? What Machine Learning Can Reveal About Individual Wealth Accumulation

Abstract:

This paper analyzes drivers of individual wealth accumulation using machine learning methods. Wealth accumulation is measured as the absolute difference in individual wealth recorded in two consecutive wealth surveys of the German Socio-Economic Panel (SOEP) in the years 2002, 2007, 2012 and 2017. Random Forests are employed to select and order the most important drivers from a long list of potential channels, like socio-demographics, labor market outcomes, and savings and investment behavior. To gain a more fine-grained understanding of wealth dynamics, different types of wealth holders are defined and their asset-specific wealth growth is analyzed separately. The analyses reveal that while commonly identified drivers of wealth growth (such as income and inheritances) are important, lesser-known factors, such as financial risk-preferences and personality traits, are also found to be influential.