Consuming Durable Goods When Stock Markets Jump: a Strategic Asset Allocation Approach

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Abstract:
Agents derive their utilities from consumption over time. In this paper we consider an agent that invests in the financial market and in consumption goods. The agent has an infinite time horizon and a utility that depends on consumption at each point in time, consuming both a durable good and a perishable good. There are costs for transacting the durable good. We show that an agent who does not consider the impact of jumps in the return process of risky assets will make suboptimal decisions, not only regarding the fraction of wealth invested in risky assets will make suboptimal decisions, not only regarding the fraction of wealth invested in the stock market, but also with respect to the timing for trading on the durable good.

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