

The Market for Financial Advice: An Audit Study

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ABSTRACT

A growing literature shows that households are prone to behavioral biases in choosing portfolios. Yet a large market for advice exists which can potentially insulate households from these biases. Advisers may efficiently mitigate these biases, especially given the competition between them. But advisers' self interest – and individuals' insufficiently correcting for it – may also lead to them giving faulty advice. We use an audit study methodology with four treatments to document the quality of the advice in the retail market. The results suggest that the advice market, if anything, likely exaggerates existing biases. Advisers encourage chasing returns, push for actively managed funds, and even actively push them on auditors who begin with a well-diversified low fee portfolio.