Discussion of

“Individual Judgment and Trust Formation: An Experimental Investigation of Online Financial Advice”

Agnew, Bateman, Eckert, Iskhakov, Louviere, and Thorp

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Jonathan Reuter
Boston College & NBER
Overview

**Big Question:** Why do individuals trust financial advisers who have been shown to give self-interested advice?

- **Fund level:** Bergstresser, Chalmers, Tufano (2009), Christoffersen, Evans, Musto (2013), Del Guercio and Reuter (2014).

Authors run an “incentivized” online experiment to explore two possible sources of trust formation:

1. Strategic behavior by advisers.
2. Faith in professional credentials.

Empirical evidence is consistent with both possibilities.

**Policy recommendation:** Credentials based on rigorous exams plus advisers as fiduciaries.
Outline of Discussion

- Place paper into broader existing literature
- Possible tweaks to analysis given existing data
- Possible extensions for future iterations of the experiment
- Caveats to policy recommendations?
“Video advice, so hot right now”

• Berg and Zia (2014):
  • Introduce storyline about the pitfalls of high-cost (store) debt into South African soap opera “Scandal!”
  • Those invited to watch “Scandal!” exhibit better borrowing behavior than those invited to watch “control” soap opera.
    • Approach is limited by the number of finance-based storylines that viewers (and advertisers) are willing to tolerate.

• Carlin, Jiang, Spiller (2014):
  • Produce “cartoon in which a TV viewer uses a ‘magic remote’ to uncover hidden messages while watching a credit card commercial”
  • Version showing how to read list of credit card fees associated with better credit card choices (in the experiment)... but less sharing.
    • Inherent tension between education and entertainment?
  • Participants who see through misleading claims are more likely to share. Others exposed to misleading claims are less likely to share.
    • Authors worry that firms can take strategic actions to limit sharing.
“Video advice, so hot right now”

• Lusardi, Samek, Kapteyn, Glinert, Hung, Heinberg (2014):
  • Create four online educational programs to teach participants about risk diversification and evaluate their effectiveness.
  • All programs are effective, but video is more effective than written narrative.
    • *Education is more effective when it is more engaging.*
  • These papers are more closely aligned with literature on financial education than literature on financial advice
    • Tension between education and entertainment—*which I feel every semester*—is missing from this paper.
      • Authors purposefully minimize variation in advice delivery.
    • Authors do not attempt to vary how advice or credentials are perceived by participants
    • Authors do not explore correlation between trustworthiness and learning; trust in adviser may crowd out learning/updating in the same way that defaults may crowd out active choice
“Strong... To Quite Strong?”

**Big Question:** Why do individuals trust financial advisers who have been shown to give self-interested advice?

**Third possibility:** Counterfactual choices would be worse.

- Chalmers and Reuter (2014): For some participants, bad advice is better than no advice.

- Gennaioli, Shleifer, Vishny (2014): Larger the gains from trade with trusted advisers, the higher the observed fees.


- Georgarakos and Inderst (2011): Less literate are more trusting.

**Suggest important interaction between financial literacy and trust formation that is not currently explored in this paper.**
# Range of Experimental Variation

<table>
<thead>
<tr>
<th>Topic</th>
<th>Easy or Hard</th>
<th>Claire Harris Young Female</th>
<th>David Forbes Old Male</th>
<th>Elizabeth Turner Old Female</th>
<th>Michael Adams Young Male</th>
</tr>
</thead>
<tbody>
<tr>
<td>Topic 1</td>
<td>G</td>
<td>B</td>
<td>G</td>
<td>B</td>
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<tr>
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<tr>
<td>Topic 4</td>
<td>G</td>
<td>B</td>
<td>G</td>
<td>B</td>
<td>G</td>
</tr>
</tbody>
</table>

Advice on Topic # can be **Good** or **Bad**
# Example of Advice Received

Both give same quantity of $G$ and $B$ advice, but Claire’s $B$ advice is easier to detect.

<table>
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<th>Michael Adams Young Male</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt</td>
<td>E</td>
<td>G</td>
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<tr>
<td>Diversification</td>
<td>H</td>
<td>G</td>
<td>G</td>
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<tr>
<td>Fees</td>
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<td>G</td>
<td>G</td>
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<td>Consolidation</td>
<td>E</td>
<td>G</td>
<td>G</td>
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</tr>
</tbody>
</table>
1st Set of Findings: Credentials

• After each set of videos, participants are asked to pick the advisor who offered the better advice to them.
  • 4.5 pp more likely when labeled “Certified Financial Planner”.
  • 62.7 pp less likely when advisor gives bad advice.
    • Effect should vary across Easy and Hard topics.
  • 4.3 pp less likely when above median financial literacy... but only significant at 10-percent level and there are more than 10 participant characteristics.
  • Interactions between adviser and participant characteristics?
  • Evidence in Table D.2 that same advisor chosen across topics ➔ Differential effect depending on whether initial advice was good (or good and easy)? Good 1st impression limit updating?
  • Weight placed on credentials decrease from 1st to 4th topic?
  • Effects stronger for subset most likely to seek out adviser in real life?
2nd Set of Findings: Strategy

- After all four sets of videos, participants are asked to choose which advisor is more trustworthy, competent, attractive, etc.
- Figure 3 exploits variation in sequencing of Good versus Bad advice interacted with sequencing of Easy and Hard topics.
- Holding advice sequence constant, better for advisers to give G initial advice on E topic and B initial advice on a H topic:
  \[
  \begin{bmatrix}
  \text{GBBG} \\
  \text{EHHE}
  \end{bmatrix}
  \geq
  \begin{bmatrix}
  \text{GBBG} \\
  \text{HEEH}
  \end{bmatrix}
  \quad \&
  \begin{bmatrix}
  \text{BGGB} \\
  \text{HEEH}
  \end{bmatrix}
  \geq
  \begin{bmatrix}
  \text{BGGB} \\
  \text{EHHE}
  \end{bmatrix}
  \]

- Implication that when advisers give good advice on easy topics, they can give bad advice on hard topics without damaging trust
  - Strategic behavior consistent with Mullainathan et al (2012)
  - Expect weaker effects for participants who correctly answer literacy questions about diversification (Hard topic)?
  - Caveat: Pr(Correct) >> 50% for all topics in pre-test.
Limitations & Extensions

There are significant differences between short, online interactions and longer, face-to-face interactions

• Limited opportunities for—or analysis of—learning.
• No portfolio outcomes that might reveal bad advice.
• No opportunities for advisers to increase trust through good listening skills or birthday cards.

Simple Extensions:

• Does explaining “Certified Financial Planner” certificate to random subset of participants increase its impact?
• Does showing an advertisement that is implicitly giving bad advice (Putnam: “Mercedes Benz of Funds”) benefit advisers giving the same bad advice?
Policy Implications

Finding:
1. Clients are more likely to listen to advisers with credentials
2. Trust not harmed when advisers give bad advice on hard topics

Leads authors to recommend:
1. Rigorous exams to become certified financial adviser
2. Advisers held to fiduciary standard

Caveats:
- Ignores potential strategic responses.
- DOL proposal to apply fiduciary standards to IRA rollovers strongly opposed by industry. One or more claims that they could not serve small accounts as fiduciaries.
- Pre-testing implies “Master Financial Planner” (fictitious) almost as trustworthy as “Certified Financial Planner” (actual).
Conclusion

• Very interesting and creative paper on an important topic.

• Experiment variation in advice quality may be the only practical way to study the impact of advice quality on perceived trustworthiness.
  • No one is willing to let me experiment on actual investors!

• Findings are completely believable.

• I look forward to seeing how the authors extend the experiment in future papers.