Discussion of

Beyond Performance: Mutual Funds, Non-Alpha Services, and the Value of Financial Advisors

Alessandro Previtero & Ran Xing

by Jonathan Reuter
Boston College & NBER

AFA Annual Meeting
January 5, 2026

My Goals for this Discussion

1. Describe how (I think) the paper fits into literature on value of financial advice
2. Comment on a few of the many empirical specifications
3. Encourage the authors to consider additional measures of “non-alpha” services
4. Encourage the authors to engage with literature on advisor misconduct

Value of Financial Advice?

- Value of financial advice depends on what financial advisor recommends **and** client's counterfactual behavior
- Counterfactual behavior includes
  - Investment products you would have otherwise chosen
  - How much you would have otherwise saved
  - Frequency with which you would have adjusted your portfolio and reasons for doing so (e.g., tax loss harvesting)
- Measuring value of financial advice is further complicated when advisor recommendations internalize counterfactuals
  - *... because every recommended portfolio... no matter how bad... is better than some set of counterfactual choices*

Value of Financial Advice? *(cont.)*

- If you take revealed preference **plus rational participation** seriously, observed quality of client portfolios tell us more about counterfactuals than conflicts of interest
- Even with gains from trade, worse counterfactual portfolios give rise to lower-quality recommended portfolios
- Regulation has potential to limit cross-sectional dispersion in observed quality of client portfolios...
- - ... but attempts to increase quality may decrease supply of advice, such that relunctantly self-directed individuals are worse off

Source: Reuter and Schoar (ARFE 2024)

Where Does this Paper Fit?

- Revisits research question from Gruber (2006), Bergstresser, Chalmers, Tufano (2009), Del Guercio & Reuter (2014), etc.
- "Why do households continue to invest in underperforming actively managed mutual funds?"
- Puzzle previously broken into two pieces
  - Significant fraction of households rely on brokers to manage their (non-retirement) portfolios...
  - ... despite fact brokers recommend active broker-sold funds which have been shown to underperform active direct-sold funds and passive broker-sold funds

How is this an Equilibrium?

1. Investors who seek out brokers don't realize they invest in lower-quality funds... because of low financial literacy

2. Investors who seek out brokers underperform relative to classic benchmarks but benefit relative to counterfactuals
   - *Money Doctors:* Invest in (expensive) equity rather than bonds...
   - ... or maybe brokers prevent clients from day trading options
   - **Generalization: E[utility] is higher investing through advisors**

3. **THIS PAPER:** Investors receive additional "non-alpha" services which compensate for well-documented negative alphas
   - **Advisors overcome low alphas through financial planning and are rewarded over time with more clients and AUM per client**

Empirical Strategy

- **Fundamentally, paper wants to show:**
  1. Funds with lower alphas offer higher non-alpha services as compenation
  2. Advisors offering higher non-alpha services rewarded by lower client exit rates and more AUM per existing client

- Analyze **account-level** data from Canada, 1999 – 2012
  - 3,000+ advisors and 500,000+ clients
  - *Earlier papers based on these data highlight negative alphas and lack of customized investment advice*

Empirical Findings

- **Fund-level:** larger funds distributed by more advisors, have more clients, lower AUM/client, and lower alphas
  - The authors spend more of the paper that I would have analyzing fund-level statistics calculated from their account-level data
  - Yes, motivating literature focused on fund-level statistics, but that was because we lacked authors' amazing account-level data!
  - Calculating fund-level statistics using data from two advisory firms that collectively manage 5% of Canadian mutual fund AUM raises questions about noisiness of fund-level statistics
    - For example, what fraction of a fund's AUM is coming from advisors in your sample versus advisors outside your sample versus self-directed investors?
  - *More significantly, as I discuss below and authors clearly recognize, non-alpha services are provided by advisors who are compensated by funds rather than by funds themselves*

Empirical Findings *(cont.)*

- **Advisor-level:** Dollar fees increasing in plans/client, number of clients, client age, salary, and net worth
  - **plans/client is authors' most direct proxy for non-alpha services but I would like to see them estimate residual plans/clients at client-year level and focus on advisor-level average residual**
  - ***Advisors earning higher α on own portfolio earn lower revenues!***
  - Slight caveat: Authors observe various fees clients pay but not the fraction of those fees paid to the advisor
- **Advisors** with most AUM are less likely to exit (**1.1%**) and have lower client exit rates (**7.9%**) despite far more clients
  - Unconditional client exit rate is **8.8%** per year
  - Unconditional advisor exit rate is **6.1%** per year

Model of Non-α Services

- Utility(α, non-α services) → market segmentation → funds with lower α must offer higher non-α services
- **Model:** Provision of non-alpha services increases fees
- **Practice:** Advisor-sold funds pay explicit distribution fees, thereby charging higher overall fees
- Unlike in model, **non-α services provided by advisors operating independently of funds** → implicit assumption that funds paying higher commissions attract advisors seeking to provide more non-α services
- I understand equilibrium argument... assuming rational participation... but higher fees could also reflect greater agency conflicts (Christoffersen, Evans, and Musto (2013))

More Tests for Non-α Services?

- **Ideal:** Construct direct measures of non-α services and relate these (non-fee) measures to client α, level of client fees, and likelihood of client turnover
- Additional proxies for non-α services?
  - Asset allocation that aligns with risk preferences *(unlikely given earlier papers using these data...)*
  - Saving rates and saving account types that align with client age, income, and family structure *(requires choice of benchmark)*
  - Tax-loss selling in taxable accounts? *(Cici, Kempf, Sorhage 2007)*
- **Author's unique opportunity?** Do more to document when/how advisor actions predict client turnover
  - Value of non-α services should increase as family structure changes and decrease as retirement nears

Advisor Misconduct?

- Strongest signal of low advisor quality? Advisor misconduct
- Influential papers documenting advisor misconduct in the US (e.g. Egan, Matvos, Seru (2019)) were unable to study how clients responded to accusations or what actions advisors took that triggered the accusations
- Authors' data allows them to shed new light here
- If authors can obtain data on alleged misconduct from regulators, they can explore changes in portfolios before allegations were made and client exit rates
- Regardless, authors can predict which advisor actions (or inactions) best predict client turnover and ask how these plausibly relate to provision of non-alpha services