Out of Sight, Out of Mind: Search Frictions and Financial Adviser Misconduct

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Abstract

I examine the impact of FINRA's national advertising campaign promoting BrokerCheck, a free online tool that discloses disciplinary actions against financial advisers. Using a difference-in-differences approach, I demonstrate that the campaign increased clients' awareness of their advisers' past misconduct records. As a result, exposed advisers experienced a significant 9% abnormal decrease in assets under management. Advisers who primarily served less sophisticated clients experienced more severe adverse effects. Clients switched to advisers with clean records. In response, advisers increasingly disciplined employees who engaged in misconduct. These findings highlight the importance of addressing search frictions in combating financial adviser misconduct and improving market efficiency.

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1. Introduction

The investment-advisory industry consists of firms known as "registered investment advisers" (RIAs), which provide investment recommendations, financial planning advice, and transaction services to American households. According to the Survey of Consumer Finances, over 50% of American households seek advice from brokers or financial planners when making decisions about saving and investment (Bhutta et al. (2020)). As of 2019, there were 12,933 federally registered investment advisers, along with 436,256 investment adviser representatives, helping to manage over $30 trillion in assets.

RIAs have a fiduciary duty to their clients and are legally required to report any disciplinary actions taken against them or their affiliates. These reports are publicly available through the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA). In theory, these disciplinary records can help penalize wrongdoers and deter misconduct, as suggested by Klein and Leffler (1981) and Shapiro (1983). Moreover, empirical studies have shown that even indirect exposure to misconduct can erode trust and discourage participation, as noted by Giannetti and Wang (2016) and Gurun et al. (2018). Despite this, RIAs that persistently engage in misconduct are still able to survive in the market (Egan et al. (2019)).

Anecdotal evidence suggests that some investors are unaware of where to find records of misconduct or are unsure whether such records even exist.[1] Consistent with the anecdote, Egan et al. (2019) suggest that this phenomenon may be caused by market segmentation resulting from search frictions associated with client sophistication. In this paper, I investigate this hypothesis by examining FINRA's unprecedented advertising campaign aimed at raising investors' awareness of their financial advisers' misconduct records.

On June 1st, 2015, FINRA launched a national advertising campaign promoting BrokerCheck, a free online tool that discloses disciplinary actions against financial advisers.

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[1]For example, see this report from the Wall Street Journal.

The campaign, which cost \$3.5 million and ran for five weeks on cable channels, relevant websites, and search engines, was unprecedented in its scope and unexpected in its timing. The advertisements featured examples of people who had made mistakes by not conducting background research before choosing a broker.[2] The campaign urged viewers not to make the same leap-before-you-look mistakes and highlighted the importance of using BrokerCheck to make informed decisions. By improving households' awareness of misconduct records, the advertising campaign aimed to reduce search frictions, especially those faced by retail investors, and increase market discipline for RIAs.

I begin by assessing the effectiveness of the advertising campaign in raising investor awareness of BrokerCheck. Previous research has shown that households consider media, such as television, radio, magazines, and newspapers, to be the most effective means of learning about money management Hilgert et al. (2003). Consistent with this finding, Google trends data indicate that the search frequency for the phrase "BrokerCheck" doubled after the campaign, suggesting that the advertising campaign was successful in raising awareness of the tool among investors.

Next, I examine whether the increase in investors' awareness of RIA misconduct affects their investment decisions. To investigate this, I construct a panel of U.S.-based RIA-year observations using Form ADV filings from the SEC. Specifically, I focus on the sample of RIAs that have not engaged in misconduct during the two years prior to the advertising campaign but vary in historical misconduct records that date back to the more distant past. By restricting the sample to RIAs with no recent misconduct records, I ensure that my analysis is not confounded by the mechanical relationship between recent misconduct discoveries and investor responses. This allows me to isolate the impact of the revelation of historical misconduct on future investor decisions. The identifying assumption is that among the RIAs with no recent wrongdoings, misconduct records in the distant past are plausibly exogenous to current clients' investment decisions.

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[2]See Figure A.1 for an example.

To identify the causal effect of the advertising campaign on investor decisions, I implement difference-in-differences tests that exploit the variation in past misconduct among RIAs. I find that after the advertising campaign, RIAs with past misconduct (referred to as "misconduct RIAs") experienced a 9% decrease in assets under management compared to RIAs with clean records. This decline in assets under management is equivalent to roughly $1.04 trillion of assets. To ensure the robustness of my results, I control for unobserved heterogeneity across RIAs and time-variant local economic conditions by employing RIA fixed effects and state-year fixed effects. Overall, my findings suggest that the advertising campaign was effective in increasing investor awareness of RIA misconduct and that investors were less likely to invest with RIAs with a history of misconduct after the campaign.

I then investigate whether my findings are driven by a particular segment of the market. To examine the heterogeneous effects on RIAs with different clientele, I estimate a difference-in-difference-in-differences specification. The results are consistent with the hypothesis that search frictions are higher among less sophisticated investors. Specifically, I find that RIAs that predominantly serve less sophisticated retail customers experienced more severe adverse effects. Misconduct RIAs with assets primarily from retail clients suffered an additional 14.8% decrease in assets under management compared to other misconduct RIAs.

To better understand the effect of reducing search frictions on the persistence of RIA misconduct, I examine whether the advertising campaign encouraged labor market disciplines against the employees who engage in misconduct. Following the campaign, RIAs with prior misconduct are two percentage points more likely to remove records of past misconduct by terminating the employees responsible for the wrongdoings, compared to the pre-treatment average of 2.9% per year.

There is also a positive spillover effect on RIAs without past misconduct, suggesting that investors may be switching to these firms. Clean RIAs with offices in the vicinity of misconduct RIAs experienced positive abnormal growth in assets under management. Instead of depositing money in the bank, as shown in Gurun et al. (2018) when investors

encounter industry-wide reputation shocks, investors appear to transfer their withdrawn assets to clean RIAs. These findings underscore the significance of reducing search frictions to create an effective reputation mechanism, as discussed in Klein and Leffler (1981) and Shapiro (1983).

One concern is that my findings may not be specific to the advertising campaign and may instead be influenced by trends in the financial advisory market. To validate the robustness of my results, I run a series of regressions to determine whether RIAs with and without prior misconduct exhibited distinct behaviors during periods other than the 2015 advertising campaign. These tests show that the RIAs with and without prior misconduct had similar dynamics until the advertising campaign.

My paper contributes to the literature on financial advisor misconduct. Qureshi and Sokobin (2015) examine the traits of financial advisors who engage in misconduct and the predictability of misconduct. Dimmock et al. (2018) study the peer effects in brokerage fraud and find that fraud is contagious across firms through peer networks. Egan et al. (2019) document the economy-wide extent of misconduct among financial advisers and show that advisers that persistently engage in misconduct survive in the market. Charoenwong et al. (2019) show that shifting regulatory jurisdiction from the SEC to state securities regulators leads to deteriorated service and more client complaints citing fiduciary violations, especially among RIAs that primarily serve less sophisticated clients. Taken together, these papers and my findings imply that search frictions due to client sophistication contribute to the persistence of financial advisor misconduct, highlighting the need for government intervention.

My paper also contributes to the literature on how trust in the financial market affects investor behavior and asset allocation. Kostovetsky (2016) shows that a decline in trust causes investors to withdraw from funds that announce ownership changes. Georgarakos and Inderst (2014) show that trust in financial advice affects stock market participation. Giannetti and Wang (2016) and Gurun et al. (2018) show that even indirect exposure to

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misconduct destroys trust and results in nonparticipation. My paper contributes to this literature by highlighting the importance of information awareness in this process.

My paper is linked to the literature on household financial sophistication and financial education interventions.[3] Given the growing complexity of financial markets, many scholars advocate for better information provision through government interventions (Hilgert et al. (2003), Lusardi and Mitchelli (2007), Agarwal et al. (2010), and Van Rooij et al. (2011). However, recent studies have drawn unfavorable conclusions on the effectiveness of financial education interventions. Hastings et al. (2013) contend that "there is at best mixed evidence that financial education leads to improved economic outcomes," and Willis (2011) raises concerns regarding the cost-effectiveness of financial education. Fernandes et al. (2014) conduct a meta-analysis and reveal that interventions account for only 0.1% of the variance in financial behaviors studied, with weaker effects in low-income samples. In my contribution to the literature, I demonstrate that even basic information provision can generate significant economic impacts.

The remainder of the paper is organized as follows. Section 2 discusses details about FINRA's national advertising campaign. In Section 3, I introduce my data and variables. In Section 4, I discuss my empirical methodology and results. Section 5 concludes the paper.

2. FINRA's National Advertising Campaign

On June 1, 2015, the Financial Industry Regulatory Authority (FINRA) announced a national advertising campaign that aimed to promote BrokerCheck (brokercheck.finra.org). The free online tool enables investors to access essential information about brokers, including employment history, licenses, and certifications, as well as regulatory actions, violations, or complaints made against them. The campaign, which was announced and launched on the same day, was unexpected and unprecedented. In a statement, FINRA Chairman and CEO Richard Ketchum explained the motivation behind the campaign, stating that while people

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[3]See Lusardi and Mitchell (2014) for a survey of the literature.

often check online reviews for a \$25 restaurant meal, they frequently neglect to use Bro-kerCheck when entrusting their life savings of \$2,500 or more to an investment professional.[4]

The advertising campaign, aimed at preventing people from choosing brokers without conducting proper background research, consisted of advertisements depicting examples of impulsive decision-making. The \$3.5 million campaign was designed to reach a wider audi-ence and utilized a range of channels, including cable television, websites, and search engines. The campaign aired for five weeks on a variety of cable channels, such as CNBC, Bloomberg, CNN, Fox Business, Fox News, MSNBC, Discovery, ESPN, the History Channel, and HGTV. Additionally, the campaign ran digitally on targeted websites, such as Bloomberg, CNBC, Fortune, Reuters, TubeMogul, the Undertone Network, the Wall Street Journal, and on popular search engines like Google, Yahoo, Bing, and YouTube.

Figure 1 displays the weekly Google search frequency for the term "BrokerCheck" in the United States before and after the national advertising campaign. The graph indicates that search interest in the term doubled after the campaign's launch, implying that investors' awareness of the tool significantly improved. The data demonstrate a statistically significant discontinuity in search frequency, as the 95% confidence intervals from pre- and post-periods do not overlap. Furthermore, state-level data indicate that out of the 38 states where search interest can be reliably estimated, 35 had an increase in search frequency for the phrase "BrokerCheck," accounting for more than 91% of the Registered Investment Advisors (RIAs) in the sample.

[Insert Figure 1]

It should be noted that not all RIAs and their representatives are registered as brokers, and therefore may not be listed on BrokerCheck. However, according to Egan, Matvos, and Seru (2019), 84 percent of active SEC-registered investment adviser representatives are also registered with FINRA as brokers. Additionally, searches for investment advisers who are not

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[4]For details, see the news release from FINRA.

registered as brokers will be redirected to the SEC's Investment Adviser Public Disclosure platform, which contains misconduct records for all investment advisers. As a result, the advertising campaign likely improved the visibility of misconduct records for the majority of RIAs and their representatives.

3. Data

I collect data on Registered Investment Advisers (RIAs) by extracting information from Part 1A of the SEC Form ADV. This form, also known as the Uniform Application for Investment Adviser Registration, is mandated by the Investment Adviser Act of 1940. RIAs are required to file this form during the initial registration, annually in the form of an annual update, and whenever there is a material change to their advisory business. The form and its schedules contain comprehensive details about RIAs, including general information about their advisory business, ownership structure, assets under management (AUM), number of employees, client composition, locations, compensation, services provided, conflicts of interest, and any disciplinary actions taken against the RIA and its affiliates.

To create the sample, I only keep the annual updating amendment filings, which RIAs must submit within 90 days of their fiscal year-end. Although some advisory firms may file multiple updates throughout the year, only the annual amendment requires the disclosure of updated assets under management. I use these filings to construct a panel of U.S.-based RIA-year observations from 2012 to 2017, which covers the period around FINRA's advertising campaign in June 2015. In cases where an RIA submits more than one annual update for a given year, I only include the first one submitted.

To ensure the sample is of high quality, I exclude filings from RIAs whose AUM is missing or does not vary over time. Furthermore, given that not all RIAs manage money, I only include those who have discretionary authority, thereby excluding "pure" financial planners or investment consultants. Additionally, I limit the sample to RIAs that are based in the United States, that existed in 2014, and that survived until at least 2015. I remove outliers by excluding RIAs that experienced growth in AUM greater than the 99th percentile

of all RIA growth in any given year. This helps to ensure that extreme values do not unduly influence the analysis.

In addition to the RIA data, I collect ZIP-code-level demographic data to calculate RIA-level client characteristics. These data are sourced from the 5-year estimates of the American Community Survey conducted by the U.S. Census Bureau as of 2014. The demographic data I use include age, population size, number of individuals aged 65 or older, number of high school and college graduates, gender distribution, ethnic composition, and household income.

After applying the sample screening criteria, I have a final sample of 7,978 unique RIAs with annual observations from 2012 to 2017, totaling 44,652 observations. Panel A in Table 1 presents key summary statistics for the RIAs in my sample. The median RIA in the sample has $405 million in assets under management, operates from one domestic office, has nine non-clerical employees, and serves clients in two states. On average, retail investors (individuals who are not high-net-worth) and high-net-worth individuals make up approximately 14% and 27% of the assets under management, respectively. Approximately 9% of RIAs have records of misconduct on file, and around 2% of RIAs engage in new misconduct each year. In terms of services provided, 39% of RIAs offer financial planning services, 40% advise private funds, 37% take custody of clients' cash or securities, and 37% charge a performance-based fee.

[Insert Table 1]

Table 1 Panel B reports firm-level client demographics for RIAs as of 2014, calculated as the weighted average of demographics in the ZIP codes where an RIA has offices. The median household income in the areas served by RIAs is $82,521, and the average age is 39 years old. White people make up 75% of the potential client base, while high school and college graduates account for 67% and 43%, respectively. Retirees make up 15% of the potential client base.

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4. Methodology and Results

4.1. Impact on Clients' Investment Decisions

I estimate the causal effect of the national advertising campaign on investor behaviors using a difference-in-differences framework. To identify the effect of the advertising campaign, I exploit differences across RIAs in their misconduct records before the campaign was launched. The advertising campaign aimed to improve the visibility of misconduct records for all RIAs. That said, customers of RIAs that had clean records prior to the campaign were less likely to be affected, as they simply reconfirmed the quality of their RIAs. On the contrary, customers of RIAs that had engaged in misconduct prior to the campaign were more likely to be surprised by the true quality of their RIAs and change their behaviors as a result of the campaign, thereby serving as the treatment group in my empirical design. By comparing the behavior of the treatment group to a control group of RIAs with clean records, I estimate the causal effect of the advertising campaign on investor behaviors.

Formally, I employ a panel of RIA-year data and implement the following difference-in-differences design:

$$Y_{i,j,k,t} = \alpha + \beta Post_t \times PastMisconduct_i + \gamma Post_t \times X_i + \theta_i + \delta_{j,k,t} + \epsilon_{i,j,k,t}, \qquad (1)$$

where $Y_{i,j,k,t}$ is the outcome variable of interest for RIA i with its main office in state j and fiscal year-end in month k, in year t. The outcome variable, *log(AUM)*, is the natural logarithm of assets under management for the RIA in a given year. *Post* is a dummy variable that equals one for the years following the advertising campaign in 2015. *PastMisconduct* is a dummy variable that equals one for the RIAs that had misconduct records before the campaign. The coefficient β measures the effect of the advertising campaign. Investors' changing preferences for products and services could affect RIAs differently over time, independent of the treatment. Therefore, I include interaction terms between a number of RIA characteristics and client demographics, denoted by X_i, and *Post* to control for observable heterogeneity across RIAs that could result in differences in my outcome variable before and

after the advertising campaign.

My main specification includes a set of RIA fixed effects, denoted by θ_i, to account for unobserved time-invariant RIA characteristics. However, time-varying heterogeneity across RIAs, such as changing local economic conditions and client demographics, could also affect my outcome variables. Therefore, I include state-year-month fixed effects, denoted by $\delta_{j,k,t}$, in my specification, where month refers to the month of fiscal year-end of the RIA. By including interacted fixed effects, my specification is analogous to that recommended by Gormley and Matsa (2014) to control for unobserved heterogeneity. I cluster standard errors to allow correlation within an RIA.

Table 2 reports the results from these difference-in-differences regressions. The outcome variable is the natural logarithm assets under management for the RIA in a given year. The coefficient on $Post \times PastMisconduct$ captures the effect of the advertising campaign. If the advertising campaign improved investors' awareness of misconduct records and helped them make informed decisions, then the coefficient should be negative, which suggests that customers of RIAs that previously engaged in misconduct abnormally withdrew their investments after the advertising campaign.

[Insert Table 2]

In column (1), I find a 7% decrease in assets under management for RIAs with past misconduct. To address observable heterogeneity across RIAs that could result in differences in my outcome variable before and after the advertising campaign, I include additional controls in columns (2) to (5). Specifically, I include a set of RIA characteristics and client demographics interacted with the variable *Post*. The RIA characteristics include the size of the adviser's business, fee structure, client demographics, and other characteristics. Measures of size include the natural logarithm of one plus the number of domestic offices, the natural logarithm of one plus the number of non-clerical employees, and the natural logarithm of the RIA's beginning assets under management (measured in 2014). Fee structure variables are included as dummy variables indicating how the RIA is compensated, including hourly fees,

commission, percentage of AUM, fixed fees, and performance-based fees. RIA-level client demographics include the average household median income, the average fraction of white people, the average fraction of college graduates, and the average fraction of retirees of the populations in ZIP codes where the RIA has offices. Other characteristics include dummy variables indicating whether more than half of the RIA's AUM are from retail investors, whether the RIA provides financial planning services, whether the RIA advises a private fund, whether the RIA takes custody of cash or securities, and whether the RIA discloses sales interest in client transactions. These controls are measured at the end of 2014, before the advertising campaign, and are only included when interacted with *Post* because I include RIA fixed effects to absorb all time-invariant heterogeneity. Additionally, my specifications include state-year-month fixed effects to control for time-varying heterogeneity across states, such as changing local economic conditions.

Adding control variables does not substantially affect the estimated treatment effect. In particular, the estimated decline in assets under management ranges from 9% to 11% across the specifications in columns (2) to (5). These estimates are statistically significant at the 1% level and are economically substantial compared to the median growth rate in AUM of 8% in my sample. The results suggest that investors reacted strongly to the advertising campaign and withdrew a significant amount of assets from RIAs with past misconduct. Based on the estimates in column (5), investors withdrew approximately $1.04 trillion of assets from these RIAs, which is equivalent to around 3.3% of the total assets under management for all RIAs in 2014.

An important assumption underlying my empirical strategy is that the difference in outcomes between the treatment and control groups would have remained constant over time in the absence of the treatment. The challenge is that RIAs with a history of misconduct may differ from those with clean records in numerous ways, such as observable characteristics like compensation, services provided, locations, client base, and unobservable characteristics like investment strategies and returns. Because I include RIA fixed effects in my specification, this

should not be a major concern unless one believes that there exists unobserved time-variant heterogeneity across RIAs, which instead of the advertising campaign caused investors to respond differently.

If the unobserved time-variant heterogeneity did lead to differential responses, I would expect to see similar effects in other time periods. To assess the validity of this parallel trends assumption, I plotted the average cumulative change in the natural logarithm of the assets under management for the treatment and control groups in Figure 2. The figure indicates that the records of past misconduct did not affect the change in an RIA's assets under management until after the advertising campaign, which supports the validity of the parallel trends assumption in my analysis. To further support this assumption empirically, in Section 4.5, I examine the dynamics of the treatment effect through a series of regressions in which I interact the treatment variable with year indicator variables. To the extent that there is no time-variant heterogeneity across RIAs that coincides with the advertising campaign, my results are robust.

[Insert Figure 2]

Another challenge in my empirical setup is that RIAs with past misconduct records are more likely to engage in new misconduct (Egan et al. (2019)), which could complicate the analysis by introducing a potential backlash effect that is not related to the advertising campaign or past misconduct. To address this issue, I exclude RIAs that engaged in new misconduct in either the year before treatment (2014) or the treatment year (2015). This assumes that investors who were aware of the misconduct records, as well as the RIAs themselves, had already responded to the records prior to 2015. Thus, any treatment effect observed in 2015 can be attributed solely to the advertising campaign. However, it is worth noting that my results are stronger if I include these RIAs in my sample.

Last but not least, I use an RIA's assets under management as a proxy for investment flows into and out of the RIA. A challenge to this proxy is that changes in assets under management are a function of both asset flows and investment returns. Note that I include

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RIA fixed effects and state-year-month fixed effects in my regression specifications. The RIA fixed effects control for time-invariant RIA-specific investment styles and return patterns, while the state-year-month fixed effects capture the average investment return of RIAs in each filing period. Recall in Figure 2, there is no treatment effect until after the advertising campaign. Therefore, for investment returns to confound my results, RIAs with misconduct records would have implemented investment strategies and earned returns in and only in 2015 (the year of the advertising campaign) that were systematically different from those of RIAs with clean records. To the extent that this is not the case, my results are robust.

4.2. Heterogeneous Effects among RIAs

Certain demographic and socioeconomic groups of investors may be more susceptible to financial adviser misconduct (Egan et al. (2019)). Meanwhile, RIAs that provide certain services may be able to build greater trust with their clients (Gurun et al. (2018)). In addition, conflicts of interest and custody of assets may exacerbate the impact of the advertising campaign. To investigate how these RIA characteristics affect the adverse effect following the revelation of past misconduct records, I utilize the detailed information on various aspects of RIAs provided in the Form ADV data. In Tables 3 and 4, I present the results from difference-in-difference-in-differences regressions featuring the interaction of the post-period indicator, the past misconduct indicator, and the RIA characteristics. The coefficient estimate on the triple interaction term indicates the extent to which the characteristic mitigates or exacerbates the effect of the advertising campaign. Specifically, I examine how client composition, fee structure, services provided, conflicts of interest, and custody of assets affect the adverse effect of the advertising campaign.

Egan et al. (2019) show that retail investment advisers (RIAs) who serve retail customers, charge hourly, or charge a commission are more likely to employ advisers who have a history of misconduct. They also found that counties with a smaller percentage of college graduates and a larger share of retirees experience more misconduct and hire more advisers with past misconduct records. The authors suggest that there is market segmentation based

on misconduct, which primarily affects unsophisticated retail investors. If their argument holds, and retail investors are less aware of advisers' misconduct records, then the advertising campaign should have a greater impact on RIAs that specialize in misconduct and serve unsophisticated retail investors than on those that do not.

In Table 3, I show evidence consistent with the hypothesis that retail investors are less aware of advisers' misconduct records. The estimates suggest that conditional on having misconduct records prior to the advertising campaign, RIAs that mainly serve retail investors, RIAs that charge hourly, and RIAs that charge a commission saw a sharper decline in assets under management after their past misconduct records were revealed during the advertising campaign. Similarly, RIAs located in areas with a high proportion of retirees also suffered more severe consequences. While the coefficient on the triple interaction between post-period, misconduct, and more college graduates has the expected sign, it is not statistically significant. On the contrary, RIAs advising private funds, including hedge funds, private equity funds, and venture capital funds, experienced fewer withdrawals after the campaign, possibly because their investors were more financially savvy and were already aware of the advisers' past misconduct. Overall, these findings suggest that retail investors reacted more strongly to the advertising campaign than other investors, consistent with the hypothesis that they were not previously aware of the advisers' misconduct records.

[Insert Table 3]

According to Gennaioli and Shleifer (2015), trust in RIAs can stem from their expertise and dependability. Similarly, Gurun et al. (2018) show that RIAs that provided financial planning services were insulated from industry-wide reputation shocks sparked by the Madoff Ponzi scheme. However, these findings may not hold when investors are made aware of their own RIA's past misconduct and are directly exposed to misconduct. On the one hand, pre-existing trust built through repeated services may alleviate the adverse effects of the revelation of past misconduct. On the other hand, despite U.S. security laws and the fact that RIAs owe a fiduciary duty, investors may value safety more than anything (Guiso et al.

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(2004), Guiso et al. (2008), Georgarakos and Inderst (2014)).

[Insert Table 4]

In column (1) of Table 4, I present evidence supporting the second hypothesis. The co-efficient estimate on the triple interaction between the post-period dummy, past misconduct dummy, and financial planning dummy is -13% and is statistically significant at the 10% level. This result suggests that RIAs that offer financial planning services experienced a more significant decrease in assets under management following the revelation of past misconduct, contrary to the idea that their reputation would insulate them from reputation shocks. Rather than mitigating the negative impact of the misconduct, the trust established through financial planning services seemed to have backfired for these RIAs.

There may be other characteristics of RIAs that could either mitigate or exacerbate the impact of the advertising campaign. Next, I focus on whether the RIA takes custody of clients' assets and whether the RIA discloses any sales interest in client transactions and acts as a broker-dealer. It should be noted that the sales interest being referred to is different from commission-based fees that an RIA may charge. The sales interest refers to the potential conflict of interest that may arise from being a broker-dealer and selling products to clients.

Taking custody of clients' assets or acting as a broker-dealer rewarded by sales commissions may make it easier for RIAs to financially exploit their clients. However, the fact that clients allow these RIAs to take custody and/or have a potential conflict of interest suggests that the clients may have a higher level of trust in these RIAs, which could mitigate the adverse effects of the advertising campaign. I test these hypotheses and report the results in columns (2) and (3) of Table 4. The findings suggest that conditional on having misconduct records, RIAs that took custody of assets or disclosed conflict of interests experienced fewer withdrawals in the post period. In either case, the coefficient estimate on the triple interaction term is positive and statistically significant, with a magnitude that almost eliminates the effects of the revelation of misconduct records on asset outflows.

4.3. Impact on RIA Labor Market Disciplines

RIAs are required to disclose any disciplinary actions taken against them or their employees in their Form ADV filings. However, an RIA can remove disclosure reporting pages, which contain information on misconduct records, from its Form ADV filings if the advisory affiliate who engaged in misconduct is no longer associated with the RIA.

As discussed earlier, the advertising campaign made it easier for investors to access disciplinary records, thereby increasing the cost for RIAs to engage in misconduct or hire advisers with past misconduct records. As a result, there is an incentive for RIAs to remove misconduct records by firing advisers who engaged in misconduct. In this section, I examine whether treated RIAs are more likely to remove misconduct records by firing advisers who engaged in misconduct. To test this hypothesis, I replicate the analysis in Table 2 using a different outcome variable, namely the annual probability of removing a disclosure reporting page due to job separation. The results are presented in Table 5, which shows the difference-in-differences regression estimates.

[Insert Table 5]

The results in Table 5 provide strong evidence that treated RIAs were encouraged to ramp up labor market disciplines against wrongdoing advisers. The estimates suggest an increase in the annual probability of removing a disclosure reporting page (misconduct) due to job separation of 1.9 to 2.4 percentage points, with statistically significant results across all specifications. These estimates are economically significant, considering that the average probability of doing so was only 2.9% in the treatment group before the advertising campaign. Overall, these findings suggest that the advertising campaign not only made it more costly for RIAs to engage in misconduct but also incentivized them to clean up their past by removing misconduct records.

4.4. Spillover Effects

The primary goal of the advertising campaign is to inform investors about the quality of Registered Investment Advisors (RIAs) and help them make better investment decisions.

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The campaign is aimed at enhancing investor welfare by promoting transparency and trust in the financial industry. However, previous research indicates that even indirect exposure to misconduct can destroy trust and lead to nonparticipation by investors (Giannetti and Wang (2016), Gurun et al. (2018)). If the advertising campaign were to reveal past misconduct and erode investor trust to the extent that it caused widespread nonparticipation, it would raise questions about whether the campaign was truly enhancing investor welfare. In this section, we aim to investigate whether the advertising campaign led to better-informed investors switching to RIAs with clean records (referred to as "clean RIAs"), thereby creating a positive spillover effect.

To estimate the spillover effect of the advertising campaign on clean RIAs, I employ a difference-in-differences model that is similar to the specification in Table 2. Specifically, I leverage the differences across clean RIAs in their proximity to RIAs with a history of misconduct (referred to as "misconduct RIAs"). Clean RIAs that were located in neighborhoods with misconduct RIAs were more visible to investors who were searching for new RIAs, and as a result, were more exposed to the spillover effect of the advertising campaign. By comparing the changes in the outcomes of interest for clean RIAs located in close proximity to misconduct RIAs to those located further away, I can estimate the causal effect of the advertising campaign on the uptake of clean RIAs by investors.

I estimate regressions of the following form:

$$Y_{i,j,k,t} = \alpha + \beta Post_t \times SpilloverExposure_i + \gamma Post_t \times X_i + \theta_i + \delta_{j,k,t} + \epsilon_{i,j,k,t}, \qquad (2)$$

where the variables are defined similarly to those in Equation 1. I construct three measures to capture an RIA's exposure to investors who may have been shocked by their advisers' past misconduct. The first measure is an indicator variable that takes a value of one if at least one of the clean RIA's offices is located in the same ZIP code area as a misconduct RIA. The second measure is the fraction of the clean RIA's offices that are located in the same ZIP code area as a misconduct RIA. The third measure is the natural logarithm of one plus the

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average number of misconduct RIA offices in the same ZIP code area as each office of the clean RIA. These measures enable me to capture different aspects of the level of exposure of clean RIAs to investors who may have been negatively affected by past misconduct by their advisers. In Table 6, I present the regression results.

[Insert Table 6]

The results in Table 6 consistently demonstrate that clean RIAs located in the neighborhoods of misconduct RIAs experienced greater increases in assets under management following the advertising campaign. The estimates are statistically significant at the 5% level across all specifications. In column (1), the coefficient estimate indicates that clean RIAs exposed to the influx of investors experienced an additional 4.9% increase in assets under management. When using continuous measures of spillover exposure, column (2) shows that a one-standard-deviation increase in the fraction of exposed offices leads to a 2.3% increase in assets under management. Similarly, column (3) shows that a one-standard-deviation increase in the log average number of misconduct RIA offices per clean RIA office results in a 3.1% increase in assets under management. These coefficient estimates are economically significant, given that the median growth rate in assets under management in my sample is 8%. Overall, the results provide evidence of a positive spillover effect of the advertising campaign on the uptake of clean RIAs by investors who were previously exposed to misconduct RIAs.

4.5. Dynamics of Treatment Effects

In this section, I conduct tests to address the concern that time-variant heterogeneity across RIAs, rather than the advertising campaign, caused the differential outcomes that I document. Specifically, I investigate whether different RIAs behaved differently during other periods, which could indicate that the treatment effects in 2015 were due to unobserved time-variant heterogeneity, such as systematically different investment strategies and returns, rather than the advertising campaign. If I observe similar effects in other periods, then the differences in 2015 may be attributed to factors other than the advertising campaign.

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I replace $Post \times PastMisconduct$ with interaction terms between indicator variables for each year and the treatment variable and repeat the tests in column (4) of Table 2, column (4) of Table 5, and column (3) of Table 6. Note that the year before the advertising campaign, 2014, is used as the benchmark year for comparison. In particular, I estimate regressions of the following form:

$$
\begin{aligned}
Y_{i,j,k,t} = {} & \alpha + \beta_{2012} Year2012_t \times Treatment_i + \beta_{2013} Year2013_t \times Treatment_i \\
& + \beta_{2015} Year2015_t \times Treatment_i + \beta_{2016} Year2016_t \times Treatment_i \\
& + \beta_{2017} Year2017_t \times Treatment_i + \gamma Post_t \times X_i + \theta_i + \delta_{j,k,t} + \epsilon_{i,j,k,t} \,,
\end{aligned}
\tag{3}
$$

where $Year2012$ is an indicator variable that takes the value of one when the year is 2012, $Treatment$ is the variable measuring the exposure to the advertising campaign in the corresponding original model, and the remaining variables are defined similarly to those in Equation 1. I present the regression results in Table 7.

[Insert Table 7]

All three tests revealed no abnormal changes in the outcome variable for misconduct RIAs in the years preceding the advertising campaign. The coefficient estimates for the year 2015 were statistically significant at the 5% level, and their magnitude was similar to the estimates obtained using classic difference-in-differences regressions. Additionally, my findings indicate that the impact of the advertising campaign persisted over time. These placebo tests provide evidence that the observed results were not due to unobserved time-variant heterogeneity across RIAs.

5. Conclusion

In conclusion, this paper investigates the effects of FINRA's national advertising campaign aimed at raising investor awareness of BrokerCheck and reducing search frictions in the investment advisory market. The campaign successfully raised awareness of BrokerCheck, as evidenced by the doubling of search frequency for the phrase "BrokerCheck" after the

campaign. Using a panel of U.S.-based RIA-year observations, the paper finds that the advertising campaign was effective in reducing investors' willingness to invest with RIAs with a history of misconduct, with misconduct RIAs experiencing a 9% abnormal decrease in assets under management after the campaign. This decline in assets under management is equivalent to roughly $1.04 trillion of assets. Consistent with the hypothesis that search frictions are higher among less sophisticated investors, misconduct RIAs with assets primarily from retail clients suffered an additional 14.8% decrease in assets under management compared to other misconduct RIAs. Following the campaign, RIAs with prior misconduct are two percentage points more likely to remove records of past misconduct by terminating the employees responsible for the wrongdoings, compared to the pre-treatment average of 2.9% per year. There is also a positive spillover effect on RIAs without past misconduct, suggesting that investors may be switching to these firms.

The findings suggest that reducing search frictions can help increase market discipline for RIAs, especially among those that serve less sophisticated retail customers. These findings highlight the importance of improving investor education and awareness to promote a more transparent and efficient market for investment advice and facilitate informed investment decisions. Furthermore, FINRA's approach of using advertising campaigns as a policy tool to increase market discipline and reduce search frictions can be applicable in other areas of financial regulation.

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Figure 1: Google Search Frequency for "BrokerCheck"

This figure shows the weekly index of Google search frequency for the phrase "BrokerCheck" in the U.S. from February 2015 to September 2015, which straddles the advertising campaign. The index is scaled based on the highest level of search frequency during this period, which occurred in the week of June 21st, 2015. The red lines are the fitted values using quadratic equations. Shaded areas represent the 95% confidence intervals of the fitted quadratic equations.
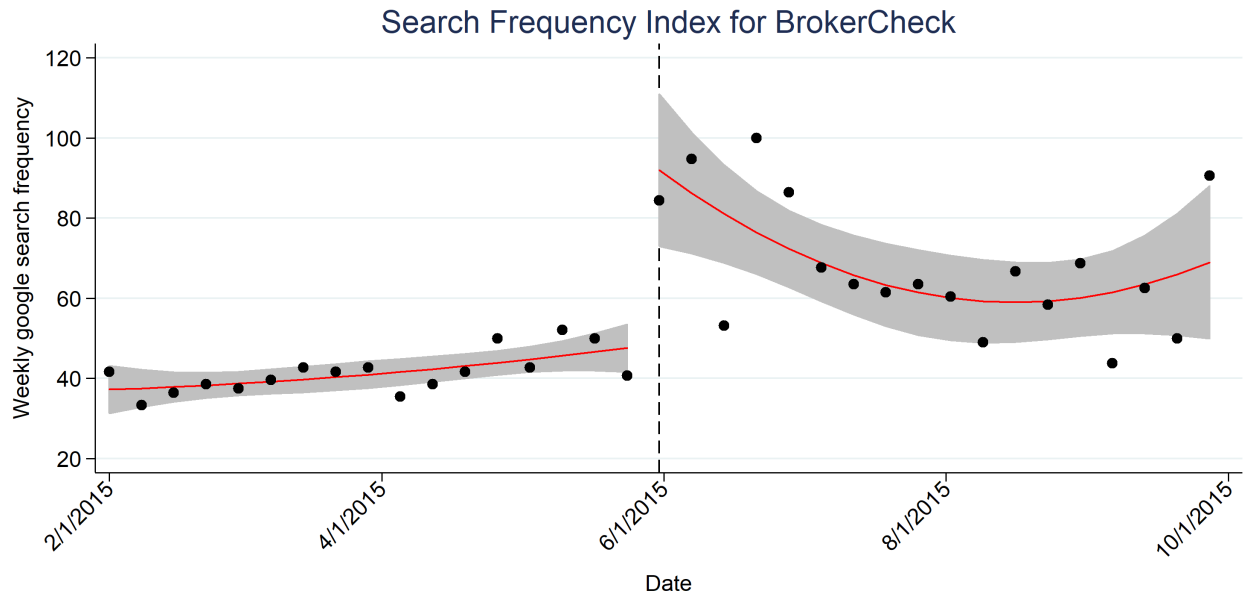
Figure 2: Cumulative change in RIA log(AUM)

This figure shows the average change in the natural logarithm of the assets under management for RIAs in the treatment and control groups. RIAs that had misconduct records prior to the advertising campaign are considered the treatment group. All other RIAs are labeled the control group.
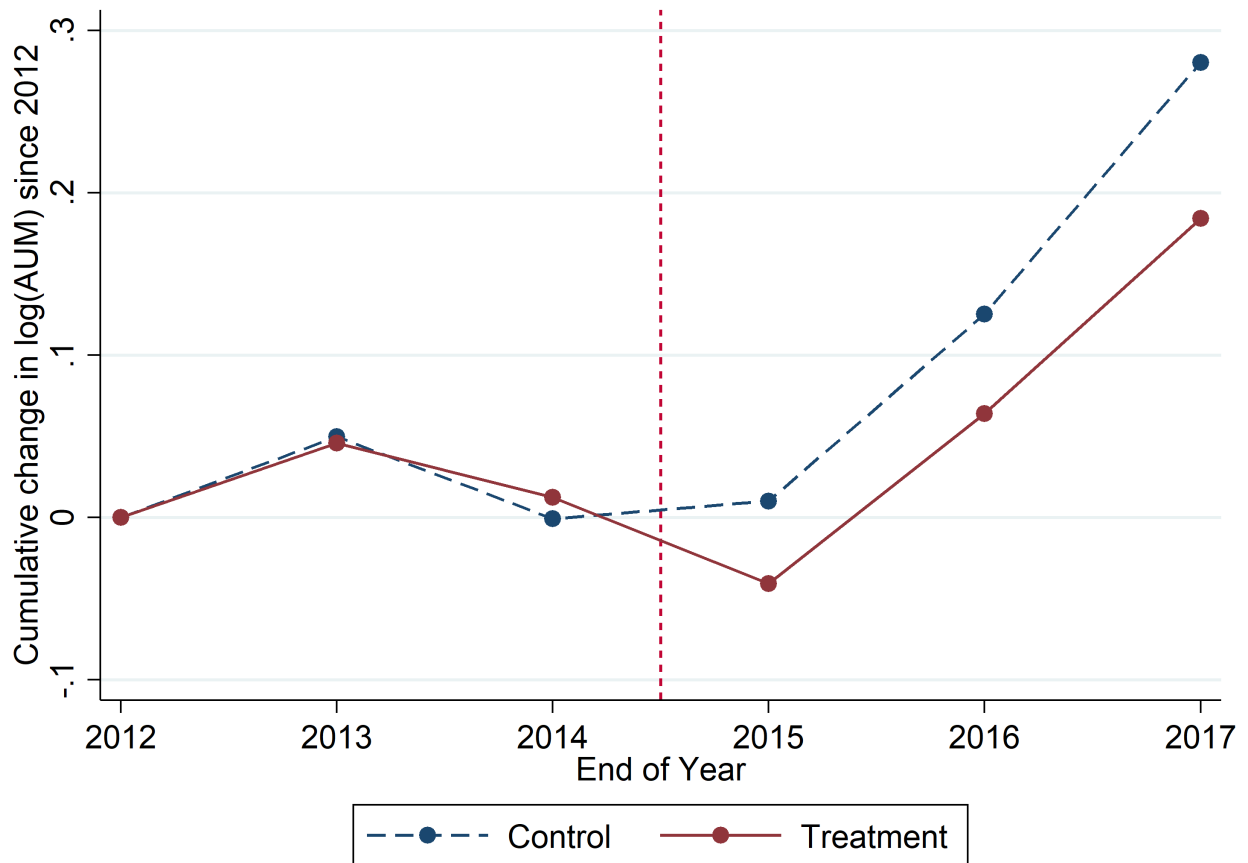
Table 1: Summary Statistics

Panel A of this table presents the summary statistics for the registered investment adviser data. The sample includes data for 7,978 unique RIAs from 2012 to 2017. Panel B of this table presents firm-level client demographics for the 7,978 advisory firms as of 2014. The firm-level aggregate is computed as the weighted average of demographics in the ZIP codes where an RIA has offices. RIA characteristics and office locations are from annual amendments to SEC form ADV. ZIP-code-level demographics are the 5-year estimates from American Community Survey by the U.S. Census Bureau. See Section 3 for descriptions of the data.

Panel A: Registered Investment Adviser Characteristics

	N	Mean	Median	Std. Dev.
AUM (millions)	44652	4165.83	405.14	23921.63
Log(AUM)	44652	20.11	19.82	1.80
Number of accounts	44652	1421.90	180.00	20700.68
Number of client states	44652	7.24	2.00	11.96
Number of domestic offices	44652	1.88	1.00	3.38
Number of non-clerical employees	44652	35.24	9.00	267.00
Share of AUM (%), retial	44652	14.23	12.50	20.36
Share of AUM (%), high net worth individuals	44652	26.98	12.50	30.69
Indicator, percentage fees	44652	0.98	1.00	0.14
Indicator, hourly fees	44652	0.30	0.00	0.46
Indicator, fixed fees	44652	0.43	0.00	0.50
Indicator, commission-based fees	44652	0.04	0.00	0.19
Indicator, performance-based fees	44652	0.37	0.00	0.48
Indicator, financial planning services	44652	0.39	0.00	0.49
Indicator, private fund adviser	44652	0.40	0.00	0.49
Indicator, custody of cash	44652	0.37	0.00	0.48
Indicator, sales interest	44652	0.36	0.00	0.66
Indicator, have misconduct records	44652	0.09	0.00	0.29
Indicator, engage in new misconduct	44652	0.02	0.00	0.14
Indicator, record removal due to job separation	44652	0.01	0.00	0.07
Number of misconduct records (stock)	44652	0.28	0.00	2.60
Number of misconduct records (flow in 1 year)	44652	0.04	0.00	0.50

Panel B: Client Demographics

	N	Mean	Median	Std. Dev.
Median household income	7978	82.52	81.28	34.46
Average age	7978	38.87	39.55	7.90
Male	7978	0.48	0.49	0.09
White	7978	0.75	0.79	0.18
High school graduates	7978	0.67	0.68	0.15
College graduates	7978	0.43	0.43	0.17
Age 65 or up	7978	0.15	0.15	0.07

Table 2: Impact on Clients' Investment Decisions

This table presents difference-in-differences estimation results examining the impact of the advertising campaign on client investment decisions. The sample is a panel of RIA-year data for 7,978 unique RIAs from 2012 to 2017. I estimate Equation 1 where the outcome variable is the natural logarithm of assets under management for an RIA. *Post* is a dummy variable that equals one for the years following the advertising campaign in 2015. *PastMisconduct* is a dummy variable that equals one for the RIAs that had misconduct records before the campaign. I include a set of RIA fixed effects, denoted by θ_i, and a set of state by year by filing month fixed effects, denoted by $\delta_{j,k,t}$. In columns (2) to (5), I interact a number of RIA characteristics and client demographics with *Post*, including size, fee structure, client demographics, and other characteristics. See Section 4.1 for a detailed discussion of the additional control variables. Coefficient estimates for the additional control variables are reported in Table A.1 of the Appendix. Robust standard errors are adjusted for clustering at the RIA level and are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

	Log(AUM)				
	(1)	(2)	(3)	(4)	(5)
Post × Past misconduct	-0.071***	-0.108***	-0.099***	-0.093***	-0.092***
	(0.025)	(0.031)	(0.031)	(0.031)	(0.031)
Post × RIA size		Yes	Yes	Yes	Yes
Post × Fee structure			Yes	Yes	Yes
Post × Other characteristics				Yes	Yes
Post × Client demographics					Yes
RIA FE	Yes	Yes	Yes	Yes	Yes
State × Year × Filing Month FE	Yes	Yes	Yes	Yes	Yes
Observations	44652	44652	44652	44652	44652
Adjusted R^2	0.870	0.881	0.881	0.882	0.882

Table 3: Heterogeneous Effects by Client Base

This table presents difference-in-difference-in-differences estimation results examining the heterogeneous impact of the advertising campaign by client base. The sample is a panel of RIA-year data for 7,978 unique RIAs from 2012 to 2017. The outcome variable is the natural logarithm of assets under management for an RIA. *Post* is a dummy variable that equals one for the years following the advertising campaign in 2015. *PastMisconduct* is a dummy variable that equals one for the RIAs that had misconduct records before the campaign. The triple interaction terms include *Retail investors*, which equals one if more than half of the RIA's AUM are from retail investors (individuals that are not high-net-worth), *Hourly fees*, which equals one if the RIA charges an hourly fee, *Commission*, which equals one if the RIA charges a commission, *More college graduates*, which equals one if the RIA's clients are in the top quintile in terms of fraction of college graduates as of 2014, *More retirees*, which equals one if the RIA's clients are in the top quintile in terms of fraction of retirees as of 2014, and *Private fund adviser*, which equals one if the RIA advises a private fund. I include a set of RIA fixed effects, denoted by θ_i, and a set of state by year by filing month fixed effects, denoted by $\delta_{j,k,t}$. I interact a number of RIA characteristics and client demographics with *Post*, including size, fee structure, client demographics, and other characteristics. See Section 4.1 for a detailed discussion of the additional control variables. Coefficient estimates for the additional control variables are reported in Table A.2 of the Appendix. Robust standard errors are adjusted for clustering at the RIA level and are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

	Log(AUM)					
	(1)	(2)	(3)	(4)	(5)	(6)
Post × Past misconduct	-0.064*	-0.053	-0.079**	-0.101***	-0.054*	-0.136***
	(0.036)	(0.041)	(0.033)	(0.034)	(0.031)	(0.040)
Post × Past misconduct × Retail investors	-0.148**					
	(0.072)					
Post × Past misconduct × Hourly fees		-0.123*				
		(0.063)				
Post × Past misconduct × Commission-based fees			-0.117*			
			(0.070)			
Post × Past misconduct × More college graduates				0.055		
				(0.079)		
Post × Past misconduct × More retirees					-0.196**	
					(0.095)	
Post × Past misconduct × Private fund adviser						0.109*
						(0.066)
Post × Control Variables	Yes	Yes	Yes	Yes	Yes	Yes
RIA FE	Yes	Yes	Yes	Yes	Yes	Yes
State × Year × Filing Month FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	44652	44652	44652	44652	44652	44652
Adjusted R^2	0.882	0.882	0.882	0.882	0.882	0.882

Table 4: Heterogeneous Effects by Service Type

This table presents difference-in-difference-in-differences estimation results examining the heterogeneous impact of the advertising campaign by service type. The sample is a panel of RIA-year data for 7,978 unique RIAs from 2012 to 2017. The outcome variable is the natural logarithm of assets under management for an RIA. *Post* is a dummy variable that equals one for the years following the advertising campaign in 2015. *PastMisconduct* is a dummy variable that equals one for the RIAs that had misconduct records before the campaign. The triple interaction terms include *Financial planning service*, which equals one if the RIA provides financial planning service, *Custody of cash*, which equals one if the RIA takes custody of clients' cash or securities, and *Sales interest*, which equals one if the RIA also acts as a broker-dealer and discloses sales interest in client transactions. I include a set of RIA fixed effects, denoted by θ_i, and a set of state by year by filing month fixed effects, denoted by $\delta_{j,k,t}$. I interact a number of RIA characteristics and client demographics with *Post*, including size, fee structure, client demographics, and other characteristics. See Section 4.1 for a detailed discussion of the additional control variables. Coefficient estimates for the additional control variables are reported in Table A.3 of the Appendix. Robust standard errors are adjusted for clustering at the RIA level and are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

	Log(AUM)		
	(1)	(2)	(3)
Post × Past misconduct	-0.043	-0.144***	-0.136***
	(0.046)	(0.042)	(0.040)
Post × Past misconduct × Financial planning service	-0.126*		
	(0.066)		
Post × Past misconduct × Custody of cash		0.136**	
		(0.063)	
Post × Past misconduct × Sales interest			0.105*
			(0.062)
Post × Control Variables	Yes	Yes	Yes
RIA FE	Yes	Yes	Yes
State × Year × Filing Month FE	Yes	Yes	Yes
Observations	44652	44652	44652
Adjusted R^2	0.882	0.882	0.882

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Table 5: Impact on RIA Labor Market Disciplines

This table presents difference-in-differences estimation results examining the impact of the advertising campaign on RIA labor market disciplines. The sample is a panel of RIA-year data for 7,978 unique RIAs from 2012 to 2017. I estimate Equation 1 where the outcome variable is an indicator variable that equals one if the RIA removes a misconduct record from its Form ADV filing due to job separation. *Post* is a dummy variable that equals one for the years following the advertising campaign in 2015. *PastMisconduct* is a dummy variable that equals one for the RIAs that had misconduct records before the campaign. I include a set of RIA fixed effects, denoted by θ_i, and a set of state by year by filing month fixed effects, denoted by $\delta_{j,k,t}$. In columns (2) to (5), I interact a number of RIA characteristics and client demographics with *Post*, including size, fee structure, client demographics, and other characteristics. See Section 4.1 for a detailed discussion of the additional control variables. Coefficient estimates for the additional control variables are reported in Table A.4 of the Appendix. Robust standard errors are adjusted for clustering at the RIA level and are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

	Record Removal Due to Job Separation				
	(1)	(2)	(3)	(4)	(5)
Post × Past misconduct	0.019***	0.022***	0.023***	0.023***	0.024***
	(0.006)	(0.005)	(0.005)	(0.005)	(0.005)
Post × RIA size		Yes	Yes	Yes	Yes
Post × Fee structure			Yes	Yes	Yes
Post × Other characteristics				Yes	Yes
Post × Client demographics					Yes
RIA FE	Yes	Yes	Yes	Yes	Yes
State × Year × Filing Month FE	Yes	Yes	Yes	Yes	Yes
Observations	44652	44652	44652	44652	44652
Adjusted R^2	0.148	0.149	0.149	0.149	0.149

Table 6: Spillover Effects

This table presents difference-in-differences estimation results examining the impact of the advertising campaign on the uptake of clean RIAs by clients. The sample is a panel of RIA-year data for 7,978 unique RIAs from 2012 to 2017. I estimate Equation 2 where the outcome variable is the natural logarithm of assets under management for an RIA. *Post* is a dummy variable that equals one for the years following the advertising campaign in 2015. *Exposure indicator* is an indicator variable that takes a value of one if at least one of the clean RIA's offices is located in the same ZIP code area as a misconduct RIA. *Fraction of offices exposed* is the fraction of the clean RIA's offices that are located in the same ZIP code area as a misconduct RIA. *Log(Number of nearby misconduct RIA offices)* is the natural logarithm of one plus the average number of misconduct RIA offices in the same ZIP code area as each office of the clean RIA. I include a set of RIA fixed effects, denoted by θ_i, and a set of state by year by filing month fixed effects, denoted by $\delta_{j,k,t}$. I interact a number of RIA characteristics and client demographics with *Post*, including size, fee structure, client demographics, and other characteristics. See Section 4.1 for a detailed discussion of the additional control variables. Coefficient estimates for the additional control variables are reported in Table A.5 of the Appendix. Robust standard errors are adjusted for clustering at the RIA level and are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

	Log(AUM)		
	(1)	(2)	(3)
Post × Exposure indicator	0.049**		
	(0.025)		
Post × Fraction of offices exposed		0.057**	
		(0.025)	
Post × Log(Number of nearby misconduct RIA offices)			0.025**
			(0.011)
Post × Control Variables	Yes	Yes	Yes
RIA FE	Yes	Yes	Yes
State × Year × Filing Month FE	Yes	Yes	Yes
Observations	40938	40938	40938
Adjusted R^2	0.869	0.869	0.869

Table 7: Dynamics of Treatment Effects

This table presents regression results examining the dynamics of treatment effects of the advertising campaign. The sample is a panel of RIA-year data for 7,978 unique RIAs from 2012 to 2017. I repeat the tests in column (4) of Table 2, column (4) of Table 5, and column (3) of Table 6 and estimate Equation 3 where the outcome variables are the natural logarithm of assets under management for an RIA and an indicator variable that equals one if the RIA removes a misconduct record from its Form ADV filing due to job separation. *Year 2012* is a dummy variable that equals one if the year is 2012. *Year 2013*, *Year 2015*, *Year 2016*, and *Year 2012* are defined similarly. *Treatment* is the variable measuring the exposure to the advertising campaign in the corresponding original model. I include a set of RIA fixed effects, denoted by θ_i, and a set of state by year by filing month fixed effects, denoted by $\delta_{j,k,t}$. I interact a number of RIA characteristics and client demographics with *Post*, including size, fee structure, client demographics, and other characteristics. See Section 4.1 for a detailed discussion of the additional control variables. Coefficient estimates for the additional control variables are reported in Table A.6 of the Appendix. Robust standard errors are adjusted for clustering at the RIA level and are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

Model	Column (4) of Table 2 Log(AUM)	Column (4) of Table 5 Record Removal	Column (3) of Table 6 Log(AUM)
	(1)	(2)	(3)
Year 2012 × Treatment	0.024	-0.010	-0.010
	(0.024)	(0.008)	(0.009)
Year 2013 × Treatment	0.010	-0.001	-0.010
	(0.018)	(0.007)	(0.010)
Year 2015 × Treatment	-0.062**	0.025***	0.027**
	(0.026)	(0.009)	(0.012)
Year 2016 × Treatment	-0.072**	0.016*	0.014
	(0.029)	(0.009)	(0.012)
Year 2017 × Treatment	-0.113**	0.018*	0.009
	(0.047)	(0.010)	(0.013)
Post × Control Variables	Yes	Yes	Yes
RIA FE	Yes	Yes	Yes
State × Year × Filing Month FE	Yes	Yes	Yes
Observations	44652	44652	40938
Adjusted R^2	0.882	0.149	0.869

Appendix to
Out of Sight, Out of Mind: Search Frictions and Financial Adviser Misconduct

Figure A.1: Example of Advertisements

This figure shows an example of the advertisements from the campaign. This particular piece can be found in the print and digital versions of *The Wall Street Journal* published during the campaign period. The advertisement depicts examples of impulsive decision-making in an effort to prevent people from choosing brokers without conducting proper background research.

Table A.1: Impact on Clients' Investment Decisions

This table presents difference-in-differences estimation results examining the impact of the advertising campaign on client investment decisions. The table presents coefficient estimates on the hidden control variables. See Table 2 for details. Robust standard errors are adjusted for clustering at the RIA level and are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

	Log(AUM)				
	(1)	(2)	(3)	(4)	(5)
Post × Past misconduct	-0.071***	-0.108***	-0.099***	-0.093***	-0.092***
	(0.025)	(0.031)	(0.031)	(0.031)	(0.031)
Post × Number of domestic offices		-0.013	-0.009	-0.000	0.009
		(0.022)	(0.019)	(0.019)	(0.019)
Post × Log(Number of non-clerical employees)		0.315***	0.321***	0.326***	0.324***
		(0.052)	(0.051)	(0.052)	(0.052)
Post × Log(Beginning AUM)		-0.271***	-0.275***	-0.280***	-0.281***
		(0.045)	(0.047)	(0.048)	(0.048)
Post × Hourly fees			-0.086***	-0.072**	-0.067**
			(0.031)	(0.028)	(0.028)
Post × Commission			-0.164***	-0.149***	-0.145***
			(0.036)	(0.033)	(0.033)
Post × Percentage of AUM			-0.043	-0.040	-0.040
			(0.064)	(0.064)	(0.064)
Post × Fixed fees			0.073***	0.070***	0.072***
			(0.019)	(0.020)	(0.021)
Post × Performance-based fees			-0.040*	-0.053*	-0.056*
			(0.023)	(0.031)	(0.031)
Post × Retail investors				-0.148***	-0.140***
				(0.039)	(0.038)
Post × Financial planning service				0.000	0.004
				(0.029)	(0.029)
Post × Private fund				-0.013	-0.020
				(0.033)	(0.033)
Post × Custody of cash				0.012	0.011
				(0.021)	(0.021)
Post × Sales interest				-0.000	-0.001
				(0.026)	(0.026)
Post × Median household income					-0.000
					(0.000)
Post × Percent white					-0.108
					(0.088)
Post × Percent college graduates					0.232**
					(0.091)
Post × Percent age 65 and up					0.041
					(0.166)
RIA FE	Yes	Yes	Yes	Yes	Yes
State × Year × Filing Month FE	Yes	Yes	Yes	Yes	Yes
Observations	44652	44652	44652	44652	44652
Adjusted R^2	0.870	0.881	0.881	0.882	0.882

Table A.2: Heterogeneous Effects by Client Base

This table presents difference-in-difference-in-differences estimation results examining the heterogeneous impact of the advertising campaign by client base. The table presents coefficient estimates on the hidden control variables. See Table 3 for details. Robust standard errors are adjusted for clustering at the RIA level and are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

	Log(AUM)					
	(1)	(2)	(3)	(4)	(5)	(6)
Post × Past misconduct	-0.064*	-0.053	-0.079**	-0.101***	-0.054*	-0.136***
	(0.036)	(0.041)	(0.033)	(0.034)	(0.031)	(0.040)
Post × Past misconduct × Retail investors	-0.148**					
	(0.072)					
Post × Past misconduct × Hourly fees		-0.123*				
		(0.063)				
Post × Past misconduct × Commission-based fees			-0.117*			
			(0.070)			
Post × Past misconduct × More college graduates				0.055		
				(0.079)		
Post × Past misconduct × More retirees					-0.196**	
					(0.095)	
Post × Past misconduct × Private fund adviser						0.109*
						(0.066)
Post × Number of domestic offices	0.009	0.010	0.008	0.008	0.007	0.009
	(0.019)	(0.019)	(0.019)	(0.019)	(0.019)	(0.019)
Post × Log(Number of non-clerical employees)	0.324***	0.324***	0.323***	0.323***	0.322***	0.323***
	(0.052)	(0.052)	(0.052)	(0.052)	(0.052)	(0.052)
Post × Log(Beginning AUM)	-0.282***	-0.282***	-0.281***	-0.281***	-0.281***	-0.281***
	(0.048)	(0.048)	(0.048)	(0.048)	(0.048)	(0.048)
Post × Hourly fees	-0.066**	-0.057**	-0.066**	-0.066**	-0.065**	-0.066**
	(0.028)	(0.028)	(0.028)	(0.028)	(0.028)	(0.028)
Post × Commission	-0.142***	-0.141***	-0.120***	-0.146***	-0.146***	-0.141***
	(0.032)	(0.032)	(0.031)	(0.033)	(0.033)	(0.032)
Post × Percentage of AUM	-0.047	-0.046	-0.046	-0.046	-0.043	-0.045
	(0.065)	(0.065)	(0.065)	(0.065)	(0.065)	(0.065)
Post × Fixed fees	0.075***	0.076***	0.075***	0.075***	0.075***	0.074***
	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)
Post × Retail investors	-0.124***	-0.138***	-0.139***	-0.139***	-0.139***	-0.137***
	(0.036)	(0.038)	(0.038)	(0.038)	(0.038)	(0.038)
Post × Financial planning service	0.010	0.009	0.009	0.010	0.009	0.009
	(0.028)	(0.028)	(0.028)	(0.028)	(0.028)	(0.028)
Post × Private fund	-0.051*	-0.050*	-0.052*	-0.052*	-0.050*	-0.061**
	(0.028)	(0.028)	(0.028)	(0.028)	(0.028)	(0.028)
Post × Median household income	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Post × Percent white	-0.104	-0.102	-0.101	-0.102	-0.100	-0.104
	(0.088)	(0.088)	(0.088)	(0.088)	(0.088)	(0.088)
Post × Percent college graduates	0.109	0.111	0.111	0.111	0.111	0.111
	(0.101)	(0.101)	(0.101)	(0.101)	(0.101)	(0.101)
Post × Percent age 65 and up	0.221	0.214	0.211	0.217	0.202	0.218
	(0.214)	(0.214)	(0.214)	(0.215)	(0.213)	(0.214)
Post × Custody of cash	0.008	0.007	0.008	0.008	0.008	0.008
	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)
Post × Sales interest	-0.002	-0.002	-0.001	-0.001	-0.001	-0.000
	(0.026)	(0.026)	(0.026)	(0.026)	(0.026)	(0.026)
Post × More college graduates	0.071**	0.071**	0.071**	0.066*	0.070*	0.070*
	(0.036)	(0.036)	(0.036)	(0.036)	(0.036)	(0.036)
Post × More retirees	-0.044	-0.043	-0.043	-0.044	-0.028	-0.044
	(0.030)	(0.030)	(0.030)	(0.030)	(0.030)	(0.030)
RIA FE	Yes	Yes	Yes	Yes	Yes	Yes
State × Year × Filing Month FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	44652	44652	44652	44652	44652	44652
Adjusted R^2	0.882	0.882	0.882	0.882	0.882	0.882

Table A.3: Heterogeneous Effects by Service Type

This table presents difference-in-difference-in-differences estimation results examining the heterogeneous impact of the advertising campaign by service type. The table presents coefficient estimates on the hidden control variables. See Table 4 for details. Robust standard errors are adjusted for clustering at the RIA level and are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

	Log(AUM)		
	(1)	(2)	(3)
Post × Past misconduct	-0.043	-0.144***	-0.136***
	(0.046)	(0.042)	(0.040)
Post × Past misconduct × Financial planning service	-0.126*		
	(0.066)		
Post × Past misconduct × Custody of cash		0.136**	
		(0.063)	
Post × Past misconduct × Sales interest			0.105*
			(0.062)
Post × Number of domestic offices	0.009	0.008	0.009
	(0.019)	(0.019)	(0.019)
Post × Log(Number of non-clerical employees)	0.324***	0.323***	0.321***
	(0.052)	(0.052)	(0.052)
Post × Log(Beginning AUM)	-0.282***	-0.281***	-0.281***
	(0.048)	(0.048)	(0.048)
Post × Hourly fees	-0.066**	-0.066**	-0.066**
	(0.028)	(0.028)	(0.028)
Post × Commission	-0.140***	-0.142***	-0.148***
	(0.031)	(0.032)	(0.033)
Post × Percentage of AUM	-0.046	-0.044	-0.046
	(0.065)	(0.065)	(0.065)
Post × Fixed fees	0.076***	0.074***	0.075***
	(0.021)	(0.021)	(0.021)
Post × Retail investors	-0.137***	-0.138***	-0.137***
	(0.038)	(0.038)	(0.038)
Post × Financial planning service	0.018	0.010	0.010
	(0.028)	(0.028)	(0.028)
Post × Private fund	-0.049*	-0.052*	-0.048*
	(0.028)	(0.028)	(0.028)
Post × Median household income	-0.000	-0.000	-0.000
	(0.000)	(0.000)	(0.000)
Post × Percent white	-0.102	-0.103	-0.103
	(0.088)	(0.088)	(0.088)
Post × Percent college graduates	0.108	0.112	0.110
	(0.101)	(0.101)	(0.101)
Post × Percent age 65 and up	0.219	0.221	0.218
	(0.214)	(0.214)	(0.214)
Post × Custody of cash	0.007	-0.004	0.008
	(0.021)	(0.022)	(0.021)
Post × Sales interest	-0.002	-0.000	-0.012
	(0.026)	(0.026)	(0.027)
Post × More college graduates	0.071**	0.070*	0.071**
	(0.036)	(0.036)	(0.036)
Post × More retirees	-0.044	-0.044	-0.044
	(0.030)	(0.030)	(0.030)
RIA FE	Yes	Yes	Yes
State × Year × Filing Month FE	Yes	Yes	Yes
Observations	44652	44652	44652
Adjusted R^2	0.882	0.882	0.882

Table A.4: Impact on RIA Labor Market Disciplines

This table presents difference-in-differences estimation results examining the impact of the advertising campaign on RIA labor market disciplines. The table presents coefficient estimates on the hidden control variables. See Table 5 for details. Robust standard errors are adjusted for clustering at the RIA level and are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

	Record Removal Due to Job Separation				
	(1)	(2)	(3)	(4)	(5)
Post × Past misconduct	0.019***	0.022***	0.023***	0.023***	0.024***
	(0.006)	(0.005)	(0.005)	(0.005)	(0.005)
Post × Number of domestic offices		0.001	0.001	0.001	0.001
		(0.002)	(0.002)	(0.002)	(0.002)
Post × Log(Number of non-clerical employees)		-0.003**	-0.004**	-0.003**	-0.003**
		(0.002)	(0.002)	(0.002)	(0.002)
Post × Log(Beginning AUM)		-0.001	-0.001	-0.001	-0.001
		(0.001)	(0.001)	(0.001)	(0.001)
Post × Hourly fees			0.002	-0.000	-0.000
			(0.002)	(0.002)	(0.002)
Post × Commission			-0.006	-0.006	-0.006
			(0.006)	(0.006)	(0.006)
Post × Percentage of AUM			-0.003	-0.003	-0.004
			(0.003)	(0.003)	(0.003)
Post × Fixed fees			0.000	-0.001	-0.001
			(0.001)	(0.002)	(0.002)
Post × Performance-based fees			0.003*	0.005**	0.005**
			(0.002)	(0.002)	(0.002)
Post × Retail investors				-0.000	-0.000
				(0.003)	(0.003)
Post × Financial planning service				0.004**	0.004**
				(0.002)	(0.002)
Post × Private fund				-0.002	-0.002
				(0.003)	(0.003)
Post × Custody of cash				0.003	0.003
				(0.002)	(0.002)
Post × Sales interest				-0.003	-0.003
				(0.002)	(0.002)
Post × Median household income					-0.000
					(0.000)
Post × Percent white					0.000
					(0.005)
Post × Percent college graduates					0.002
					(0.005)
Post × Percent age 65 and up					0.006
					(0.009)
RIA FE	Yes	Yes	Yes	Yes	Yes
State × Year × Filing Month FE	Yes	Yes	Yes	Yes	Yes
Observations	44652	44652	44652	44652	44652
Adjusted R^2	0.148	0.149	0.149	0.149	0.149

Table A.5: Spillover Effects

This table presents difference-in-differences estimation results examining the impact of the advertising campaign on the uptake of clean RIAs by clients. The table presents coefficient estimates on the hidden control variables. See Table 6 for details. Robust standard errors are adjusted for clustering at the RIA level and are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

	Log(AUM)		
	(1)	(2)	(3)
Post × Exposure indicator	0.049**		
	(0.025)		
Post × Fraction of offices exposed		0.057**	
		(0.025)	
Post × Log(Number of nearby misconduct RIA offices)			0.025**
			(0.011)
Post × Number of domestic offices	-0.009	0.002	-0.005
	(0.021)	(0.021)	(0.021)
Post × Log(Number of non-clerical employees)	0.365***	0.365***	0.364***
	(0.057)	(0.057)	(0.057)
Post × Log(Beginning AUM)	-0.316***	-0.316***	-0.317***
	(0.051)	(0.051)	(0.051)
Post × Hourly fees	-0.069**	-0.068**	-0.067**
	(0.029)	(0.029)	(0.029)
Post × Commission	-0.131***	-0.131***	-0.131***
	(0.033)	(0.032)	(0.032)
Post × Percentage of AUM	-0.075	-0.075	-0.074
	(0.071)	(0.071)	(0.070)
Post × Fixed fees	0.074***	0.074***	0.074***
	(0.022)	(0.022)	(0.022)
Post × Performance-based fees	-0.051	-0.051	-0.053
	(0.034)	(0.034)	(0.034)
Post × Retail investors	-0.142***	-0.141***	-0.141***
	(0.038)	(0.038)	(0.038)
Post × Financial planning service	0.001	0.002	0.003
	(0.030)	(0.030)	(0.030)
Post × Private fund	-0.013	-0.013	-0.015
	(0.036)	(0.036)	(0.036)
Post × Custody of cash	0.002	0.001	0.000
	(0.022)	(0.022)	(0.022)
Post × Sales interest	-0.005	-0.005	-0.005
	(0.029)	(0.029)	(0.029)
Post × More college graduates	0.085**	0.083**	0.064*
	(0.034)	(0.034)	(0.036)
Post × Median household income	-0.000	-0.000	-0.000
	(0.000)	(0.000)	(0.000)
Post × Percent white	-0.054	-0.052	-0.049
	(0.092)	(0.092)	(0.092)
Post × Percent age 65 and up	0.056	0.057	0.013
	(0.178)	(0.178)	(0.176)
RIA FE	Yes	Yes	Yes
State × Year × Filing Month FE	Yes	Yes	Yes
Observations	40938	40938	40938
Adjusted R^2	0.869	0.869	0.869

Table A.6: Dynamics of Treatment Effects

This table presents regression results examining the dynamics of treatment effects of the advertising campaign. The table presents coefficient estimates on the hidden control variables. See Table 7 for details. Robust standard errors are adjusted for clustering at the RIA level and are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

Model	Column (4) of Table 2 Log(AUM)	Column (4) of Table 5 Record Removal	Column (3) of Table 6 Log(AUM)
	(1)	(2)	(3)
Year 2012 × Treatment	0.024	-0.010	-0.010
	(0.024)	(0.008)	(0.009)
Year 2013 × Treatment	0.010	-0.001	-0.010
	(0.018)	(0.007)	(0.010)
Year 2015 × Treatment	-0.062**	0.025***	0.027**
	(0.026)	(0.009)	(0.012)
Year 2016 × Treatment	-0.072**	0.016*	0.014
	(0.029)	(0.009)	(0.012)
Year 2017 × Treatment	-0.113**	0.018*	0.009
	(0.047)	(0.010)	(0.013)
Post × Number of domestic offices	0.009	0.001	-0.005
	(0.019)	(0.002)	(0.021)
Post × Log(Number of non-clerical employees)	0.324***	-0.003**	0.364***
	(0.052)	(0.002)	(0.057)
Post × Log(Beginning AUM)	-0.281***	-0.001	-0.317***
	(0.048)	(0.001)	(0.051)
Post × Hourly fees	-0.067**	-0.000	-0.067**
	(0.028)	(0.002)	(0.029)
Post × Commission	-0.147***	-0.006	-0.131***
	(0.033)	(0.006)	(0.033)
Post × Percentage of AUM	-0.040	-0.003	-0.075
	(0.064)	(0.003)	(0.070)
Post × Fixed fees	0.072***	-0.001	0.074***
	(0.021)	(0.002)	(0.022)
Post × Performance-based fees	-0.057*	0.005**	-0.053
	(0.031)	(0.002)	(0.034)
Post × Retail investors	-0.141***	-0.000	-0.140***
	(0.038)	(0.003)	(0.038)
Post × Financial planning service	0.005	0.004**	0.003
	(0.029)	(0.002)	(0.030)
Post × Private fund	-0.018	-0.002	-0.015
	(0.033)	(0.003)	(0.036)
Post × Custody of cash	0.010	0.003	0.000
	(0.021)	(0.002)	(0.022)
Post × Sales interest	0.001	-0.003	-0.005
	(0.026)	(0.002)	(0.029)
Post × More college graduates	0.072**	0.002	0.058
	(0.036)	(0.002)	(0.038)
Post × More retirees	-0.043	-0.001	-0.022
	(0.030)	(0.002)	(0.031)
Post × Median household income	-0.000	-0.000	-0.000
	(0.000)	(0.000)	(0.000)
Post × Percent white	-0.106	0.001	-0.065
	(0.088)	(0.005)	(0.093)
Post × Percent college graduates	0.112	-0.000	0.047
	(0.101)	(0.007)	(0.122)
Post × Percent age 65 and up	0.208	0.009	0.106
	(0.214)	(0.013)	(0.224)
RIA FE	Yes	Yes	Yes
State × Year × Filing Month FE	Yes	Yes	Yes
Observations	44652	44652	40938
Adjusted R^2	0.882	0.149	0.869