



Finance Recruiting Seminar

Alberta School of Business
Department of Finance

Presents:

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Topic:

Advertising Mutual Funds: New Evidence from 401(k)
Investment Allocations

Friday, January 14, 2022

3:30pm – 5:00pm

Zoom details located in the calendar invite.

If you are not a member of the Finance department and would like to attend, please contact Beth Boison (boison@ualberta.ca) for the Zoom meeting details.

ABSTRACT

This paper studies the role of advertising in the mutual fund industry. I use comprehensive advertising data along with hand-collected data on the menu of investment options offered to 401(k) plan participants to disentangle the informative and persuasive roles of advertising. I first establish that advertising significantly increases investor flows at the family and individual fund levels. To alleviate endogeneity concerns, I use ads placed by the parent company of each mutual fund family and ads by political campaigns as exogenous shocks to advertising. I further provide evidence for persuasive advertising in this market: First, fund family advertising is not affected by the family's lagged performance. Thus, it is not the case that when fund families perform well, they advertise more. Second, higher quantities of advertising are not associated with higher post-advertising performance, which indicates that higher quantities of advertising do not

signal higher unobservable fund manager ability. Finally, advertising affects flows even if investors have a limited set of investment options where historical returns and fees are disclosed in a standardized format. I develop and estimate a structural demand model and show that demand is 55% less sensitive to expense ratio and 48% less sensitive to past returns when a fund family advertises, suggesting that persuasion is an important reason why mutual fund families advertise. Misguided financial decisions caused by persuasive advertising are particularly important in this market as they can have long-term consequences such as lower wealth during retirement.