Are Financial Advisors Money Doctors or Charlatans? 
Evidence on Trust, Advice, and Risk Taking in Delegated Asset Management

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Introduction
Much research found that individuals keep seeking low quality advice. Financial study suggests that the trusted advice enables individuals to be more audacious than they would be otherwise, thus enabling them to take more risk, irrespective of the advisor’s actual performance.

Findings:
1. Advisors enable individuals take more risk.
2. Individuals favor to follow trusted advisors.
3. Individuals favor to follow risky advice.
4. Trust allows advisors charge more but still keep the customers.

General method
• Decision from experience (repeated choice)
• Advice is free of charge (except from Experiment 3)
• Two alternatives are risky and conservative (Unbeknownst to the participants) investment products

Experiment 1
• Do trusted advisors enable investors take more risk?
• How the macro-economic environment influences advice following?

Experiment design (between-subject):
3 (environment) x 2 (advice type) x 2 (control)

Results:
1. Risky advice enables investors take more risk.
2. Asymmetric effect: Investors are more likely to follow risky advice.
3. Asymmetric effect is robust in all micro-economic environments
   • Bullish: 0.63 (SE = 0.23, z = 2.73, p < .01)
   • Neutral: 0.77 (SE = 0.23, z = 3.36, p < .001)
   • Bearish: 0.53 (SE = 0.20, z = 2.62, p < .01)

Experiment 2
• Are investors more likely follow the trusted advisor?

Experiment design:
Between-subject: 2 (justification) x 2 (advice type) x 2 (control)

Results:
• Asymmetric effect: Investors are more likely to follow risky advice.

Experiment 3
• Further test on the question of Experiment 2 (directly manipulating trust).
• Does trust allow advisors charge more but still keep their customers?

Experiment design:
2 (high vs. low trust, within) X 2 (same price vs. different price, between)

Results:
First research question:
• Yes, $\chi^2(1) = 43.75, p < .001$

Second research question:
• Yes, between different price groups
  $\chi^2(1) = 43.75, p < .001$ (high: 44; low trust: 13)

Selected References