Discussion of
“Investment Skill of the Rich”
Balloch and Vokata (2024)

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Top Wealth Shares in the United States

- Significant rise in wealth and income inequality in the United States (and around the world)

Source: Saez and Zucman (2020)
Wealth Inequality and Asset Prices

- The rise in wealth inequality should, presumably, have an impact on asset prices.

- **Gomez (2024):** a two-way feedback between wealth and asset prices
  - after positive shocks, wealthier investors gain more than others: inequality ↑
  - wealthy households disproportionately invest in the stock market
  - further increase in asset valuations
Wealth Inequality and Asset Prices

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  - after positive shocks, wealthier investors gain more than others: inequality ↑
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- Highlights the importance of understanding...
  - how the rich (and the super rich) invest
  - how changes in asset prices impact different wealth groups differently
This Paper

- Investment behavior and performance of high net worth (HNW) individuals
- Novel data containing the disaggregated equity holdings and returns
- More than 50,000 U.S. HNW individuals.

Main findings:
1. Aggregate underperformance: gross return on the aggregate investor portfolio is 0.9% lower than the market return (2.3% net of transaction costs)
2. Decreasing performance with trading activity: top quintile turnover = 37% & performance = -2%
   bottom quintile turnover < 1% & performance = +1.5%
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2. **decreasing performance with trading activity**:
   - **top quintile**: turnover = 37% & performance = -2%
   - **bottom quintile**: turnover < 1% & performance = +1.5%
Potential Explanations? (Ongoing Work)

- Good performance is maybe a sign of superior information or superior ability (?)
- Bad performance—together with high turnover—sign of overconfidence (?)
Comment 1: Significant Heterogeneity

• The paper’s premise is that HNW individuals are different from the rest
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- But there is significant heterogeneity along that same dimension in the sample

<table>
<thead>
<tr>
<th>Wealth group</th>
<th>U.S. Stocks (USD millions)</th>
<th>All Equity (USD millions)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Median</td>
<td>Mean</td>
</tr>
<tr>
<td>&lt;3 m</td>
<td>0.4</td>
<td>0.2</td>
<td>0.6</td>
</tr>
<tr>
<td>3-10m</td>
<td>1.6</td>
<td>1.1</td>
<td>3.1</td>
</tr>
<tr>
<td>10-30m</td>
<td>4.2</td>
<td>2.9</td>
<td>8.2</td>
</tr>
<tr>
<td>30-100m</td>
<td>11.1</td>
<td>6.7</td>
<td>21.8</td>
</tr>
<tr>
<td>&gt;100 m</td>
<td>65.2</td>
<td>24.2</td>
<td>130.4</td>
</tr>
<tr>
<td>Total</td>
<td>4.5</td>
<td>0.5</td>
<td>6.9</td>
</tr>
</tbody>
</table>
Comment 1: Significant Heterogeneity

\[ \text{flow}_{gt} = \alpha_g + \beta_g r_t^{US} + \epsilon_{gt} \]

- less wealthy households: sell during market downturns
- wealthier households: the opposite

Source: Gabaix, Koijen, Mainardi, Oh, and Yogo (2023)
Comment 1: Significant Heterogeneity

• Maybe not that big of a difference between households in the 50th and 60th percentiles.

• But reasonable to expect there is a big difference between someone with $5M and $1B in assets

• For most questions, hard to argue that one should bunch these households together.
Financial Advisors: Significant Heterogeneity (and Sorting)

Source: Gabaix, Koijen, Mainardi, Oh, and Yogo (2023)
Comment 2

- Is the paper documenting patterns about the “investment skills of the rich” or facts about the asset management industry?
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• Fundamental identification problem
  ▶ HNW individuals are different among many dimensions from retail investors and from one another
  ▶ But also rely on very different agents/wealth managers
Comment 2

• Is the paper documenting patterns about the “investment skills of the rich” or facts about the asset management industry?

• Fundamental identification problem
  ▶ HNW individuals are different among many dimensions from retail investors and from one another
  ▶ But also rely on very different agents/wealth managers
  ▶ also face different tax incentives!

• I am not sure how one can separate the effect of one from the other
• One can only identify the combined effect
Even More Heterogeneity

Source: Gabaix, Koijen, Mainardi, Oh, and Yogo (2023)
Comment 3

• Households with different levels of wealth allocate their assets quite differently.

• Their portfolios are different
  ▶ different preferences?
  ▶ tax considerations?
  ▶ hedging needs?

• Differences in performance and trading behavior in the equity cannot be simply attributed to
  ▶ behavioral issues
  ▶ superior information
  ▶ or superior skills.
Summary

• Very interesting piece of work based on an amazing data set → high upside potential

• At the minimum:
  • helps with understanding how HNW individuals invest and how they differ from others.

• Upside potential:
  • sharpens our understanding of the dynamics wealth inequality
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• At the minimum:
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• Upside potential:
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• Either way, cannot ignore the significant heterogeneity, especially at the right tail of the distribution

• Either way, need to be clearer about the purpose of the study. For example, even if a summary statistic exercise, is this an exercise to understand “individuals” or “advisors”?

• Depending on the question, presumably the analysis would be very different.