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The Problem of Good Conduct among Financial Advisers

Mark Egan, Gregor Matvos, and Amit Seru

The share of US households utilizing financial advisers has increased from 20 percent in 1995 to 30 percent over the past three decades, according to data from the Survey of Consumer Finances. Among households with nonretirement investment accounts, nearly 60 percent reported using a financial adviser in 2019. Despite this growth, a pervasive perception persists that financial advisers—and the broader financial services industry—lack integrity. For the past decade, the financial services sector has consistently ranked among the least trusted industries in the economy, as highlighted by the Edelman Trust Institute (2024). This distrust is not without cause: recent evidence indicates that misconduct within the industry is widespread, not confined to a few high-profile cases. Historically, about one in ten financial advisers in the United States has been involved in misconduct, including criminal or regulatory violations, terminations following allegations, or customer disputes resolved in the client's favor. In this essay, we explore the economic foundations of the financial advisory industry.

Advisers play a crucial role in shaping households' financial decisions, from portfolio allocation to planning for major life events, while also providing emotional

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support and building trust in financial markets. Intuitively, households hire financial advisors because they struggle to distinguish good investment decisions from bad ones. We argue that the same lack of sophistication that drives the demand for financial advice also makes it difficult for households to differentiate between competent and incompetent advisers.

We document that there are approximately 700,000 financial advisers in the United States. This is a high-paying industry (median wage is $95,000), but there is also considerable variation in wages: financial advisers at the top decile of the wage distribution for this industry earn almost four times as much as financial advisers at the bottom decile. In other words, there is substantial demand for financial advisory services, but also substantial heterogeneity among advisers. While this industry is highly regulated, it is far from homogenous. Even the term "financial adviser" lacks a formal legal definition, with many professionals also acting as brokers. This dual role, combined with varied regulatory oversight and certification standards, can create confusion for households and contribute to differing levels of service quality and potential conflicts of interest.

The conflicts of interest are particularly salient in cases of financial adviser misconduct. Previous research has documented significant misconduct in the financial advisory industry. We update those estimates with data until 2024 and find that approximately 6.6 percent of advisers in the United States have a misconduct record as of 2024. Misconduct varies widely across regions and firms, with certain areas and firms showing significantly higher rates. This concentration suggests that misconduct is often a result of firm-adviser sorting, where advisers with misconduct histories tend to cluster in particular firms.

The concern over quality and ethical standards in the financial advisory industry has sparked significant debate in regulatory and policy circles. These proposals range from increased information disclosure to changing the legal obligations of financial advisers. Our findings suggest that a lack of consumer sophistication is the primary friction, making increased disclosure an effective policy response. Using a difference-in-differences approach, we found that the "naming and shaming" of firms with high misconduct rates reduced misconduct by 10 percent, indicating that transparency can improve market efficiency.

The Role of Financial Advisers

Many households lack the financial sophistication needed to make basic decisions (Lusardi and Mitchell 2014). For instance, they often purchase expensive mutual funds despite the availability of cheaper alternatives (Hortaçsu and Syverson 2004; Choi, Laibson, and Madrian 2010; Brown et al. 2023), underparticipate in equity markets (Campbell 2006), and hold undiversified portfolios (Polkovnichenko 2005). As a result, households may seek the assistance of financial advisers to help navigate financial products and identify those with the most suitable characteristics or the lowest costs. In an ideal scenario, financial advisers would offer superior

knowledge—such as a deeper understanding of data, a wider awareness of available products, and insights into optimizing household financial decisions—while households would recognize and use this expertise to make optimal choices. There are two sets of forces that make it difficult to achieve this idealized outcome.

First, because the incentives of advisers are not fully aligned with the households they serve, information asymmetries can lead to inferior financial advice and cause markets to break down. It is well-documented that financial advisers face conflicts of interest, and these incentives significantly affect outcomes. Advisers often earn higher commissions for selling more expensive products that deliver lower risk-adjusted returns for their clients (Egan 2019; Egan, Ge, Tang 2022), and their incentives frequently outweigh those of households in determining which investment products clients purchase. These conflicts extend beyond product choice; for example, a financial adviser might encourage excessive trading to generate additional commissions or engage in other forms of misconduct such as fraud (Egan, Matvos, and Seru 2019). Extensive research highlights the critical role of intermediary incentives and how conflicts of interest can distort households' investment decisions (for example, Bergstresser, Chalmers, and Tufano 2009; Hackethal, Haliassos, and Jappelli 2012; Christoffersen, Evans, and Musto 2013; Anagol, Cole, and Sarkarf 2016; Chalmers and Reuter 2020). In short, misconduct can be profitable for both the adviser and the firm.

One might expect that competition, information, and reputation would tend to drive poor and conflicted financial advice out of the market (Fama 1980; Fama and Jensen 1983). However, empirical evidence suggests that firms and advisers with a history of misconduct can still thrive. For instance, Egan, Matvos, and Seru (2019) illustrate that nearly one-third of advisers with publicly available misconduct records are repeat offenders (as we will discuss in more detail later). Why are these repeat offenders not driven out of the market? A significant part of the explanation lies in the variation in household financial sophistication. Many households struggle to assess and compare financial products effectively ("search and information frictions"), which allows poor advice to persist in equilibrium. For example, survey data show that two-thirds of households mistakenly believe financial advisers have a fiduciary duty to act in their best interest (CFA 2010), and 70 percent incorrectly assume advisers are required to disclose conflicts of interest (Huang et al. 2008).

Here, we highlight the second force that prevents a well-functioning market for financial advice. The same frictions that make it difficult for households to make financial decisions on their own also hinder the seamless provision of financial advice. Just as households struggle to distinguish good investment decisions from bad ones, they also find it hard to differentiate between competent and incompetent advisers. Even after hiring, poor financial outcomes can often be rationalized, allowing subpar advice to persist in the market. If households were better equipped to assess the quality of advice, they could help eliminate low-quality advisers. However, if households could effectively evaluate the quality of financial advice, their need for such advice might diminish significantly.

In other words, financial advice is a "credence good"—a type of good that is difficult for households to evaluate both before and after a transaction (Darby and Karni 1973). Classic examples of credence goods include auto repairs, legal services, and healthcare (Balafoutas and Kerschbamer 2020). The defining characteristic of these goods is that the provider—who holds expertise—has more knowledge about the necessity and quality of the service than the consumer. This information asymmetry makes it challenging for consumers to assess both their need for the service and the quality of what is provided. For instance, a mechanic may recommend replacing an air filter, but the consumer may not know whether (1) the replacement is truly necessary or (2) the mechanic actually performed the task. The same is true in the financial advisory industry: households often do not know what advice they need or how to judge the quality of the advice they receive.

This understanding of the financial advice market suggests that efforts to improve outcomes should focus on addressing either the incentives of financial intermediaries or the information asymmetries between advisers and clients. Before exploring potential solutions, however, we first outline the role of financial advisers, who typically hires them, and key facts about the financial advisory industry.

What Do Financial Advisers Do?

Financial advisers play a vital role in assisting households with investing and financial planning. While much of their work focuses on portfolio allocation—a well-researched area in academic literature—they also guide a range of other financial decisions, including saving, debt management, and planning for major life events such as buying a home, saving for children's education, and retirement. These problems can be complex and dynamic and filled with uncertainty, and thus benefit from specialized expertise. Beyond financial guidance, advisers provide emotional support, helping households navigate the volatility and uncertainty of financial markets (Gennaioli, Shleifer, and Vishny 2015).

Much of the existing literature highlights the pivotal role financial advisers play in portfolio allocation decisions. For instance, Foerster et al. (2017) show that financial advisers are instrumental in shaping investors' portfolio choices, with the identity of a household's adviser explaining more variation in portfolio allocation than the household's own characteristics. However, while advisers are influential in this area, evidence regarding their skill is mixed. As mentioned earlier, advisers often face conflicts of interest, and research indicates that clients' portfolios are frequently suboptimal compared to rational, efficient market benchmarks (Chalmers and Reuter 2020). Additionally, studies by Linnainmaa, Melzer, and Previtero (2021) and Andries, Bonelli, and Sraer (2024) suggest that advisers often display the same behavioral biases as their clients. For example, they tend to engage in frequent trading, chase past returns, and underdiversify—even in their own portfolios (Linnainmaa, Melzer, and Previtero 2021).

The role of financial advisers extends beyond portfolio allocation. Evidence from robo-advising shows that even when algorithms manage portfolio decisions, human advisers continue to add significant value for households (Greig et al. 2024).

This added value largely comes from addressing the emotional aspects of money, investing, and retirement planning. Trust, confidence, and emotions are integral to their services. For instance, financial advisers help clients build trust in financial markets (Gennaioli, Shleifer, and Vishney 2015; Gurun, Stoffman, and Yonker 2018) and encourage them to take appropriate risks (Chalmers and Reuter 2020). The critical role of trust also highlights the potential for, and the harmful effects of, fraud and misconduct within the financial advisory industry.

Who Hires Financial Advisers

We use data from the Survey of Consumer Finances to analyze which households hire financial advisers. Panel A of Figure 1 shows the percentage of households reporting the use of a financial adviser from 1995 to 2019. The share of households using a financial adviser increased from 20 percent in 1995 to 30 percent during this time. However, many households do not participate in financial markets. Among those with nonretirement investment accounts, the percentage of households using a financial adviser rose from approximately 45 percent in 1995 to 60 percent in 2019.

Panels B–D of Figure 1 illustrate how the use of financial advisers varies by household characteristics, such as education, financial sophistication, and income levels. Panels B and C of Figure 1 show a positive correlation between education and income levels and the use of financial advice. However, this relationship is largely driven by market participation, as higher-educated and higher-income individuals are more likely to invest. Among those with investment accounts, the majority rely on financial advisers, regardless of education or income. Interestingly, panel C of Figure 1 shows no clear correlation between self-reported financial sophistication and the use of a financial adviser. This suggests that financial advice is not exclusive to wealthy or highly sophisticated investors, nor is it used solely by less experienced investors.

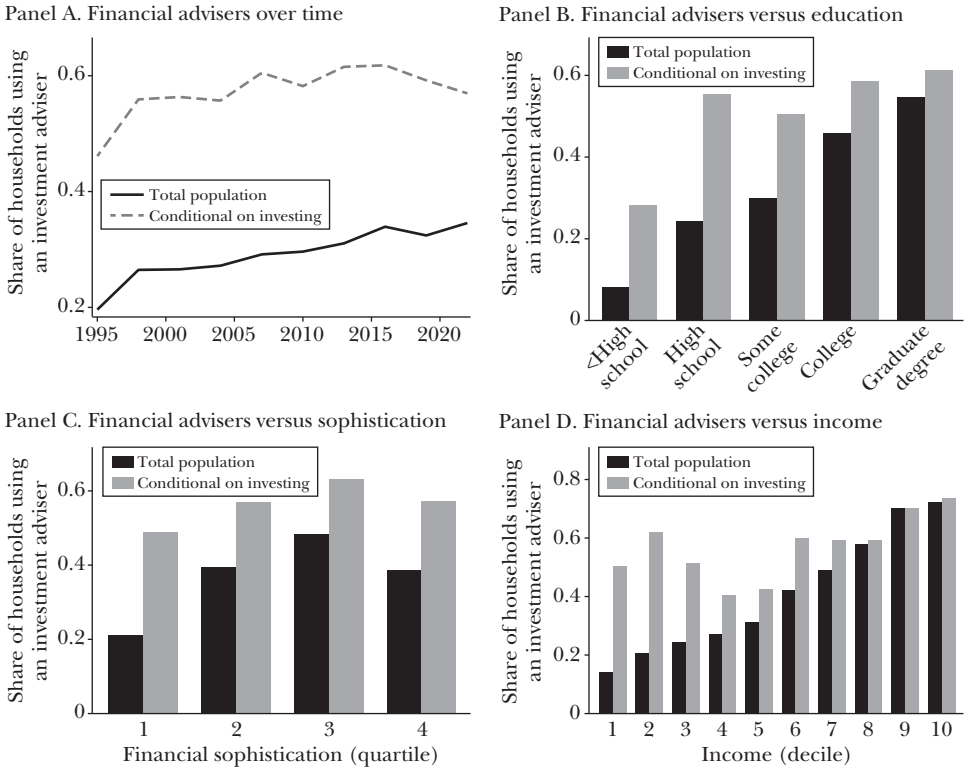
The varying degrees of sophistication among users have important implications for financial regulations, particularly given that financial advice functions primarily as a credence good. This pattern suggests either that individuals with different levels of sophistication receive varying quality of services, or that financial advice is not a substitute for using a financial adviser, at least in terms of broad adoption.

Facts about Financial Advisers

There are approximately 700,000 financial advisers in the United States, representing around 10 percent of total employment in the financial sector (NAICS 52). This share rises to 20 percent when excluding insurers and a significant 75 percent when further excluding commercial banks, according to data from "Industries by Supersector and NAICS Code" produced by the Bureau of Labor Statistics.

However, the title "financial adviser" lacks a formal legal definition, and many professionals use the label. This fact has practical implications, because it means

Figure 1
Share of Households Using a Financial Adviser



Source: Figure 1 shows the share of households reporting the use of a financial adviser in the Survey of Consumer Finances.
Note: Panel A presents this share over time, while panels B–D display the share as of 2019, categorized by education, reported financial sophistication, and income. Results are shown for the total population and for those who invest (that is, have at least one nonretirement investment account).

not all financial advisers are subject to the same regulatory oversight. From a regulatory perspective, most individuals identifying as financial advisers are actually brokers registered with the Financial Industry Regulatory Authority (FINRA), a self-regulatory organization overseen by the Securities and Exchange Commission and, ultimately, Congress.

Brokers primarily offer transaction services to clients and can only provide investment advice as an ancillary part of their business. Importantly, they cannot charge a fee for independent investment advice. While brokers are governed by FINRA rules, they are not held to a "fiduciary duty," meaning they are not legally required to act in their clients' best financial interests. Instead, brokers have historically adhered to a lower "suitability standard," which requires them to recommend products that are "suitable" for clients based on factors like age, financial goals,

and risk tolerance.[1] In response to concerns over conflicts of interest, the Securities and Exchange Commission (2019) introduced Regulation Best Interest (Reg BI) in 2020. Reg BI seeks to align the obligations of broker-dealers more closely with fiduciary responsibilities by requiring them to establish and maintain "policies and procedures reasonably designed to identify and fully and fairly disclose material facts about conflicts of interest, and in instances where we have determined that disclosure is insufficient to reasonably address the conflict, to mitigate or, in certain instances, eliminate the conflict."

Another group of professionals, known as Investment Adviser Representatives, also identify as financial advisers. Employed by investment advisory firms, these Investment Adviser Representatives provide investment advice to households and are regulated by the Securities and Exchange Commission at the federal level, as well as by state authorities. Unlike brokers, Investment Adviser Representatives are held to a fiduciary standard, meaning they are legally required to act in their clients' best financial interests.

What complicates the industry further is that many Investment Adviser Representatives are dual-registered as brokers with the Financial Industry Regulatory Authority, meaning that with the same client, a dual-registered adviser may act as a broker in some instances and as an Investment Adviser Representative in others. This dual role can create confusion for households, as the adviser's legal obligations change depending on whether they are operating as a broker or an Investment Adviser Representative. Research suggests that most households do not fully understand the distinction between these two roles (Scholl and Hung 2018).

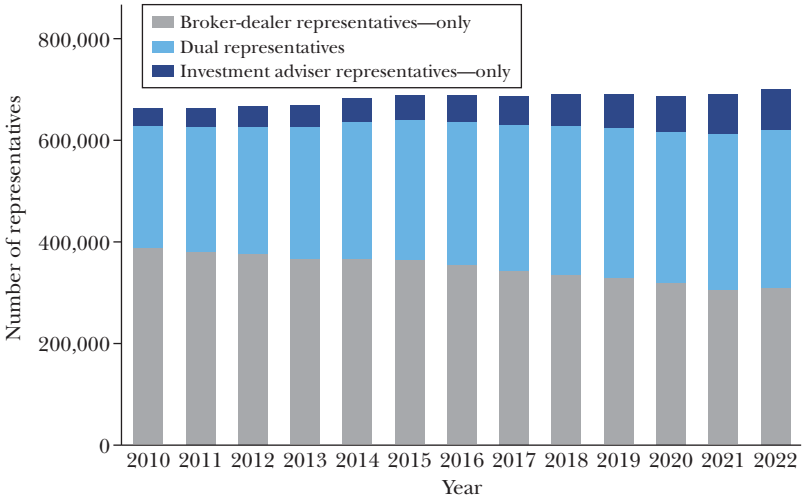
Figure 2 shows the number of brokers, Investment Adviser Representatives, and dual-registered advisers over the past 13 years. The total number of financial advisers, including both brokers and Investment Adviser Representatives, has remained steady at around 700,000. A large majority (89 percent) of financial advisers are registered as brokers, with roughly half of them also dual-registered as Investment Adviser Representatives. The remaining 11 percent are exclusively registered as Investment Adviser Representatives.

To work as a broker or an Investment Adviser Representative, individuals must pass specific licensing exams, which are legally required for operating in these roles. Brokers are required to hold a Series 7 License (General Securities Representative License), regulated by the Financial Industry Regulatory Authority, which permits them to buy and sell securities. They also typically need a Series 63 License (Uniform Securities Agent State Law Exam), a state-level exam governed by the North American Securities Administrators Association (NASAA). Investment Adviser Representatives must usually hold either a Series 65 License (Uniform Investment Adviser Law Exam) or a Series 66 License (Uniform Combined State Law Exam), both regulated by NASAA.[2]

[1] For the full FINRA rules on "Suitability," see https://www.finra.org/rules-guidance/key-topics/suitability.

[2] The Series 66 Licenses essentially combines the Series 65 and Series 63 licenses in one exam.

Figure 2
Financial Advisers in the United States over Time by Registration Type



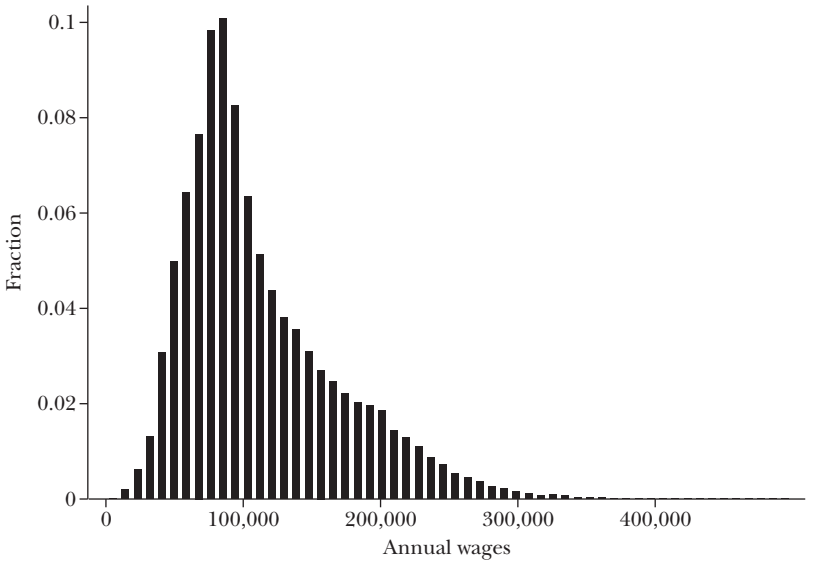
Source: FINRA (2021).
Note: Figure 2 displays the number of registered representatives/brokers, investment adviser representatives, and dual registered advisers over time.

In addition to licensing requirements, financial advisers may choose to pursue certifications. While not mandatory, these certifications are intended to demonstrate a higher level of competence and adherence to ethical standards, though they do not replace licensing requirements. Advisers can hold over 250 different certifications, with the most common being the Certified Financial Planner (CFP) and Chartered Financial Analyst (CFA). As of 2023, there were 98,875 CFPs in the United States. Although these designations are meant to signal adviser quality, evidence from Egan, Matvos, and Seru (2024) suggests that many certifications are actually associated with higher rates of misconduct and may contribute to confusion in the marketplace.

Financial advisers as a group command high wages—the average financial planner earns an annual income of $137,000 as of 2023, according to the Bureau of Labor Statistics' Occupational Employment and Wage Statistics. Figure 3 shows the wage distribution for US financial advisers as of 2024. To construct the figure, we compiled salary data for 247,961 financial advisers by merging adviser-level regulatory employment data from FINRA's BrokerCheck with individual-level salary data from Revelio Labs.[3] Consistent with Bureau of Labor Statistics data, the median wage for financial advisers is $95,000. However, there is significant variation, with

[3] The BrokerCheck data are collected as of January 2024. See Egan, Matvos, and Seru (2019) for further details on the data. We match the adviser-level BrokerCheck data with the Revelio labs data based on the adviser's first and last name and employer.

Figure 3
Distribution of Annual Wages for Financial Advisers (2024)



Source: Employment data are from FINRA's BrokerCheck website and wage data are from Revelio Labs. We truncate the distribution at $500,000.
Note: Figure 3 displays the distribution of annual wages for financial advisers as of 2024. We truncate the distribution at $500,000.

a standard deviation of $60,000. Advisers in the top decile of the wage distribution earn nearly four times as much as those in the bottom decile ($196,000 vs. $54,000).

Financial Adviser Misconduct

Previous research has documented significant misconduct in the financial advisory industry (Dimmock, Gerken, and Graham 2018; Egan, Matvos, and Seru 2019). In this section, we provide new and updated evidence on the prevalence and distribution of misconduct across firms and regions. Building on the work of Egan, Matvos, and Seru (2019), we gathered data from the Financial Industry Regulatory Authority's BrokerCheck as of January 2024. BrokerCheck includes information on all representatives for financial advisers registered with FINRA over the past ten years.

We track each adviser's complete employment, qualification, and disclosure history. According to FINRA, all individuals registered to sell securities or provide investment advice must disclose customer complaints, arbitrations, regulatory actions, employment terminations, bankruptcy filings, and criminal or judicial proceedings. FINRA classifies these disclosures into 23 categories. Following Egan, Matvos,

Table 1
Share of Advisers with One or More Misconduct Disclosure as of 2024

Disclosure	Share
Customer Dispute—Settled	3.41%
Criminal—Final Disposition	1.86%
Employment Separation After Allegations	0.97%
Regulatory—Final	0.93%
Customer Dispute—Award/Judgment	0.37%
Civil—Final	0.02%
Any Misconduct Related Disclosure	**6.56%**

Source: FINRA (2024).
Note: Table 1 displays the share of advisers with one or more misconduct disclosure as of 2024. The total number of observations is 632,271.

and Seru (2019) and subsequent studies, we define misconduct using six categories: Customer Dispute—Settled, Regulatory—Final, Employment Separation After Allegations, Customer Dispute—Award/Judgment, Criminal—Final Disposition, and Civil—Final. In essence, we define misconduct as any criminal or regulatory offenses, customer disputes resulting in a settlement, or employment separations following allegations. Our measure of misconduct likely underestimates the true extent of misconduct, as (1) some misconduct may go undetected or unreported, and (2) cases resolved in favor of the adviser, though not classified as misconduct, may still reflect underlying misconduct.

Table 1 shows the percentage of financial advisers with one or more misconduct-related disclosures on their records as of 2024. Approximately 6.6 percent of currently registered advisers in the United States have a history of misconduct. The most common type of misconduct disclosure involves customer disputes that resulted in settlements. The frequency of new misconduct disclosures has fluctuated over time. In the years leading up to the 2007–2009 Great Recession, about 0.5 percent of advisers received a misconduct disclosure annually. During the recession, this rate spiked to around 0.9 percent for a couple of years. Over the past 15 years, the annual rate has steadily declined, reaching approximately 0.3 percent in recent years.

Previous research shows that misconduct varies significantly across regions and even within counties (Gurun, Stoffman, and Yonker 2018; Parsons, Sulaeman, and Titman 2018; Egan, Matvos, and Seru 2019; Dimmock, Gerken, and Van Alfen 2021; Clifford, Ellis, and Gerken 2023). Table 2 provides an illustration of this variation. In Washington, Vermont, one in 33 financial advisers has a misconduct record, whereas in Guaynabo, Puerto Rico, the rate is much higher, with one in three advisers having a record of misconduct. Egan, Matvos, and Seru (2019) find that misconduct tends to be more prevalent in areas with wealthier, less educated, and older populations. This trend aligns with the examples in Table 2, where roughly one in six advisers in Lee, Florida, and Palm Beach, Florida, has a history of misconduct.

Table 2
Counties with the Lowest and Highest Rates of Misconduct as of 2024

Rank	County	Misc. Rate	# Advisers	Rank	County	Misc. Rate	# Advisers
1	Desoto, MS	2.00%	100	1	Guaynabo Municipio, PR	29.12%	182
2	Rock Island, IL	2.19%	137	2	San Juan Municipio, PR	28.11%	491
3	Kenton, KY	2.21%	3,625	3	Pope, AR	20.54%	112
4	Clinton, MI	2.51%	239	4	Richmond, NY	17.81%	393
5	New York, NY	2.65%	86,903	5	Lee, FL	15.89%	925
6	Elkhart, IN	2.67%	150	6	Napa, CA	15.82%	177
7	Hudson, NJ	2.80%	4,813	7	Suffolk, NY	15.78%	3,928
8	Providence, RI	2.89%	3,186	8	Palm Beach, FL	15.77%	5,820
9	Washington, VT	3.05%	131	9	Martin, FL	15.45%	369
10	St. Louis City, MO	3.06%	2,094	10	Summit, UT	15.33%	137

Source: FINRA (2024).
Note: Table 2 displays the ten counties with the highest and lowest shares of advisers with misconduct records as of 2024 among those counties with at least 100 financial advisers.

The prior literature also shows that misconduct is concentrated within certain firms (Dimmock et al. 2018; Egan, Matvos, and Seru 2019). In the early 2024 data, there are approximately 450 firms with at least 100 financial advisers. Ranking these firms by the percentage of advisers with misconduct records reveals significant variation. At 25 percent of firms, less than 2 percent of advisers have a misconduct record. In contrast, among the top 10 percent of firms, 18 percent of advisers have misconduct records, and at the top 1 percent, this figure rises to 36 percent. Table 3 lists the ten firms with the highest misconduct rates among those employing at least 1,000 advisers. For example, at Oppenheimer and Co., 17 percent of advisers have a misconduct record. This concentration of misconduct appears to result from firm-adviser sorting or firms and advisers "matching on misconduct" (Egan, Matvos, and Seru 2019).

Regulatory Responses

The challenge in addressing financial adviser misconduct stems from the inherent information asymmetry between households and advisers, as well as the misalignment of their incentives. As a result, effective policy responses would likely focus on either improving the incentives of financial intermediaries or reducing these information asymmetries.

A common proposal to improve financial advisers' incentives is to impose a higher fiduciary standard. While evidence suggests this could help mitigate conflicts of interest, it is unlikely to significantly reduce adviser misconduct more broadly. The fact that many advisers already violate existing standards of care indicates that merely raising the bar may not fully address the underlying problems.

Table 3
Firms with the Highest Share of Advisers with Misconduct Records

Rank	Firm	Misc. Rate	# Advisers
1	Oppenheimer & Co. Inc.	17.02%	1,851
2	Cetera Advisors	12.96%	2,145
3	Wells Fargo Advisors Financial Network	12.92%	3,111
4	Stifel, Nicolaus & Company	12.41%	5,054
5	UBS Financial Services	11.94%	11,211
6	Securities America	11.86%	3,161
7	Purshe Kaplan Sterling Investments	11.73%	1,620
8	Janney Montgomery Scott	11.52%	1,728
9	Cetera Advisor Networks	11.44%	4,824
10	Osaic Wealth	11.35%	5,376

Note: Table 3 displays the ten firms with the highest share of adviser with a past record of misconduct as of 2024 among those firms employing at least 1,000 financial advisers.

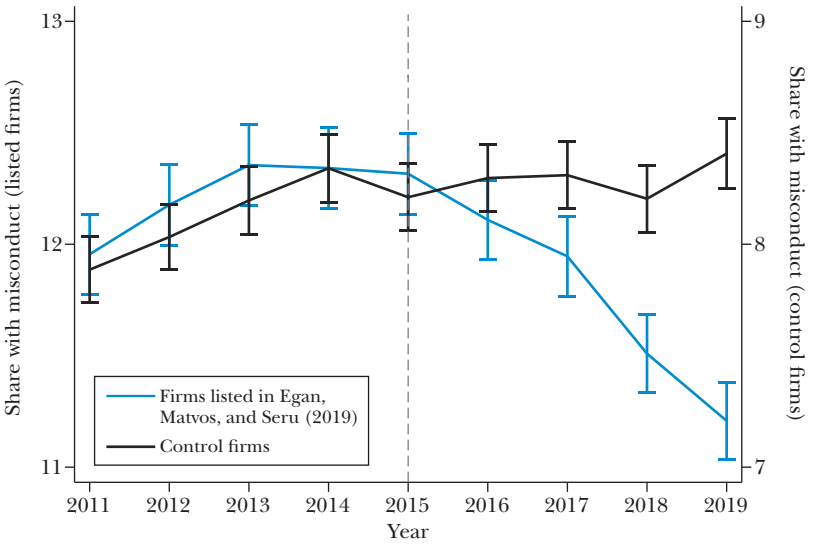
Our findings suggest that the primary friction in this market is the lack of consumer sophistication, making increased disclosure a natural policy response. As mentioned earlier, we were involved in a prior disclosure effort when Egan, Matvos, and Seru published a list of the 20 firms with the highest misconduct rates in early 2016 (the academic paper followed in 2019). The list garnered substantial attention, being featured in major outlets such as the *Wall Street Journal*, *New York Times*, CNBC, Bloomberg, and *Financial Times*. In the months following its release, several firms on the list publicly committed to addressing misconduct. For example, Oppenheimer announced that they had "made significant investments to proactively tackle risk and compliance issues in our private client division. We've made changes in senior leadership, branch managers, and significant changes in our adviser ranks" (InvestmentNews 2016).

Using our financial adviser data, we can now assess whether the firms identified on the misconduct list altered their behavior. To analyze the effects, we employ a difference-in-differences research design. The treatment group consists of the 20 firms with the highest misconduct rates that were publicly named in 2016.[4] The control group includes firms ranked 21–40, which also had elevated misconduct rates in 2016, but were not included on the published list.

For each firm in our treatment and control groups, we calculate the share of advisers with misconduct records at the year-by-firm level using updated BrokerCheck data. We then analyze how the misconduct rate changed for both treatment and control firms from 2011 to 2019, covering four years before and after the intervention.

[4] Egan, Matvos, and Seru posted a paper listing the ten firms with the highest rates of misconduct in February 2016. The paper was subsequently updated in March 2017 to include the 20 firms with the highest rates of misconduct. Consequently, we consider the firms in the top 20 as the treated group and define the firms ranked 21–40, whose names were never published, as the control group.

Figure 4
Share of Advisers with Misconduct—Treatment versus Control



Notes: Figure 4 displays the firm misconduct rate (share of advisers with a record of misconduct) for firms that were listed by Egan, Matvos, and Seru (2019) (that is, treatment) versus firms with similar rates of misconduct that were not listed (that is, control). The bars correspond to 95 percent confidence intervals.

Figure 4 below shows the share of advisers with misconduct records at treated versus control firms around the time we released the list of firms with the highest misconduct rates (that is, treatment). The dashed line marks the start of the treatment in early 2016. The black line represents the control group, where the share of advisers with misconduct records remained relatively steady at 8 to 8.5 percent throughout the sample period. The blue line represents the treatment group, where the share ranged from 11 to 12 percent. Prior to treatment, misconduct rates at both groups followed similar trends. However, after the treatment, the share of advisers with misconduct records at treated firms declines significantly, while the share at control firms remains constant.

Comparing the evolution of misconduct rates at treated firms relative to control firms after the intervention reveals the effect of the treatment. The results show that the share of advisers with misconduct records fell by 1.30 percentage points at treated firms. Given that the average misconduct rate at these firms was 12 percent, this represents a 10 percent reduction. Overall, the "naming and shaming" disclosure policy appears to have made the product and labor markets function more efficiently.

Aligned with these findings, both state and federal regulators have recently implemented policies targeting financial advisory firms with persistently high misconduct rates. For instance, the Massachusetts Securities Division launched the

"Sweep of Select Broker-Dealers that Hire Bad Agents" several years ago, focusing on firms with above-average misconduct rates in the state (Galvin 2016). The investigation examined the hiring and vetting practices of 241 broker-dealer firms in Massachusetts, where more than 15 percent of advisers had a disclosure on record. Similarly, in 2021, the Financial Industry Regulatory Authority introduced Rule 4111 to address firms with a significant history of misconduct. This rule allows FINRA to impose restrictions on firms with elevated disclosure levels and designate them as "Restricted Firms," effectively enabling FINRA to impose capital requirements on these firms.

There have been additional efforts to enhance transparency in the financial advisory industry. The Financial Industry Regulatory Authority's BrokerCheck database is a valuable tool for households and has gained popularity over the past 20 years, as FINRA has continuously improved the accessibility of its website and data. Moreover, FINRA now requires financial advisory firms to include a link to BrokerCheck on their websites, making it easier for investors to research their financial advisers and firms.

Professional certifications and designations, such as the Certified Financial Planner and Chartered Financial Analyst, are also intended to improve transparency in the financial industry and serve as private market alternatives to occupational licensing. However, evidence from Egan et al. (2024) suggests that the proliferation of certifications may actually be counterproductive. With over 250 different certifications available, many households find it difficult to distinguish between them, which in turn leads to a decline in certification standards. As a result, some certifications are linked to higher rates of misconduct and lower-quality advice. Rather than reducing informational asymmetries as intended, certifications may, in practice, worsen them. This issue is not unique to the financial industry—similar problems emerged in the organic food sector, where the abundance of certifications caused consumer confusion. In response, the US Department of Agriculture (USDA) established the National Organic Program to set uniform standards under the "USDA Organic" label.

Finally, another approach to addressing the information challenges households face is through financial education. While raising the overall financial sophistication of households is inherently difficult, recent research suggests that educating advisers could be more effective. Kowaleski, Sutherland, and Vetter (2020) found that a regulatory change reducing the emphasis on ethics in exams for financial advisers led to higher rates of misconduct. The ethics component not only heightened advisers' awareness of the rules but also influenced their perceptions of misconduct. This is significant, as misconduct appears to be at least partially a learned behavior, concentrated in certain firms, and contagious among coworkers (Dimmock, Gerken, and Graham 2018).

Financial advisers play a pivotal and privileged role in the economy, guiding the savings and investment decisions of households. Given their unique position, research and policy efforts should continue to focus on improving transparency, accountability, and the overall effectiveness of the financial advisory industry.

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