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

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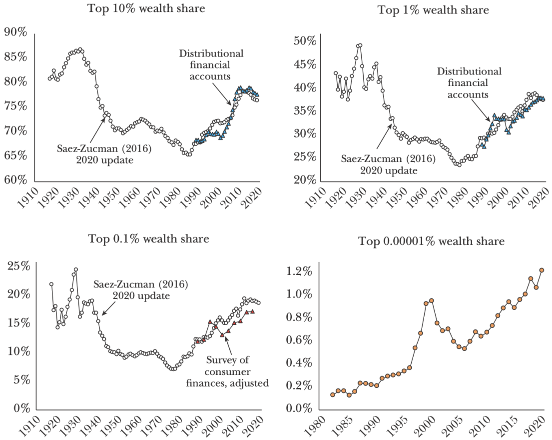
Top Wealth Shares in the United States

- 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 $\uparrow$
    - wealthy households disproportionately invest in the stock market
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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

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- 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%

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 (?)

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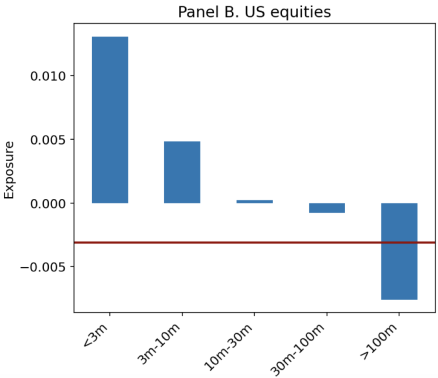
- But there is significant heterogeneity along that same dimension in the sample

	U.S. Stocks (USD millions)		All Equity (USD millions)		
Wealth group	Mean	Median	Mean	Median	N
<3 m	0.4	0.2	0.6	0.4	43,119
3-10m	1.6	1.1	3.1	2.8	13,704
10-30m	4.2	2.9	8.2	7.6	6,869
30-100m	11.1	6.7	21.8	18.5	3,783
>100 m	65.2	24.2	130.4	67.2	2,115
Total	4.5	0.5	6.9	0.9	69,590

Comment 1: Significant Heterogeneity

$$\text{flow}_{gt} = \alpha_g + \beta_g r_t^{\mathrm{US}} + \epsilon_{gt}$$



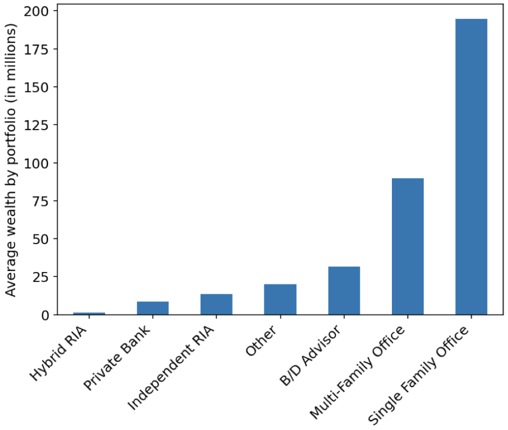
- less wealthy households: sell during market downturns
- wealthier households: the opposite
  - Source: Gabaix, Koijen, Mainardi, Oh, and Yogo (2023)

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)



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  - HNW individuals are different among many dimensions from retail investors **and from one another**
  - But also rely on very different agents/wealth managers

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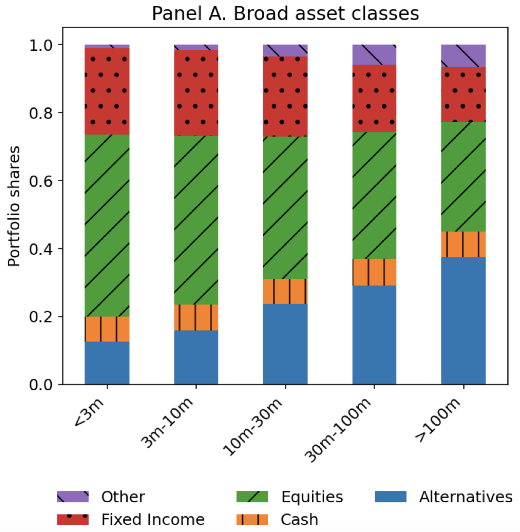
- Fundamental identification problem
  - HNW individuals are different among many dimensions from retail investors **and from one another**
  - But also rely on very different agents/wealth managers
  - also face different tax incentives!

- 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 $\rightarrow$ 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

Summary

- Very interesting piece of work based on an amazing data set $\rightarrow$ 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

- 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.