

## Insideview

# Education – The Key to Investor’s Success

INTERVIEW WITH ANDREAS HACKETHAL

**Prof. Hackethal, you recently launched the blog “Deutschland lernt sparen”. What was your motivation for the blog and the video clips?**

It was actually our own empirical work that triggered the blog. Our data on thousands of retail investors told us the same stories over and over again: Due to poor investment decisions, people leave a lot of money on the table. The performance gap is more than four percentage points per year for the average investor. Unfortunately, professional financial advice is no panacea. We find that many clients do not adhere to the advice, even if the advice is of high quality and adherence would be fully in the clients’ interest. Fresh ideas are needed to overcome the widespread cognitive and behavioral gaps in the population. Our initiative is a modest attempt to identify new ways to close the cognitive gap.

**What other measures could be helpful in closing this gap?**

I see at least two additional measures that might work as complements to financial education. One is to use technology to equip households with better information on their

current financial situation. For example, the citizens of Denmark and Sweden have real-time access to comprehensive information on their individual pension claims from public, occupational, and private schemes. They can read their pension gap off their mobile phones. People in Germany would also greatly benefit from this transparency and advisors would gain a solid basis for their recommendations. The second measure is a sound reporting standard for retail brokerage accounts. Today, it is virtually impossible for retail investors to learn from past investment mistakes such as low diversification, bad market timing, and excessive cost. If they obtained concise information on their portfolio risk and return and how they fared as compared to other investors, this information would give solid guidance for future investment decisions and the choice of an advisor.

**What about additional regulation for financial institutions? Would this improve investor decision-making?**

I believe that bank regulation on investor pro-



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tection is not a sufficient measure. Additional product documentation and mandatory transcripts of advisory meetings have limited potential to change client behavior when clients are not prepared to comprehend the information. Further regulation is therefore no substitute for better investor education but rather a complement.

**Are there already some lessons learned from your financial education initiative?**

Our video clips on basic investment rules sparked off many questions from the viewers. Some questions indicate that videos are indeed a promising tool to reach a wider audience and to convey basic concepts. However, many other questions indicate that viewers are not fully prepared to implement the basic concepts on their own. The current content on Deutschland-lernt-sparen.de might help narrow the cognitive gap, but it is definitely not sufficient to close the behavioral gap.

We will therefore produce a second series of videos. The new videos will demonstrate how

to apply the basic concepts in practice. We can certainly also polish the format of the videos and produce different versions that cater to people from different backgrounds. It would also be exciting to use the content as part of other edutainment formats.

**How does this initiative relate to your research at E-Finance Lab?**

Our layer “Customers in E-Finance” investigates how new technologies enable financial institutions to add more client value. This requires a thorough understanding of investor decision-making and of how institutions can improve decision quality. Technology will certainly allow financial advisors to add more value, but it will also lead to the emergence of new businesses that cater to self-directed investors. The initiative allows to challenge some of our own assumptions on value propositions to retail investors.

**Thank you for this interesting interview.**