Internet Appendix

Appendix A.I. Same advice

Table A.I. summarizes the advice provided in terms of the number of recommendations for commission and flat-flat-fee scheme clients before and after the introduction of the flat-fee scheme in September 2009. Switchers are defined as those clients that used financial advice under the commission-based scheme at least once. We compare switchers to advised commission-based scheme clients who never opted for the flat-fee scheme. In this analysis, we use switchers because their portfolios are more similar than those of newly advised clients whose recommendations might hinge on existing portfolios. Panel A shows that mutual funds represent more than 85% of all recommendations for both groups before the introduction of the flat-fee scheme. As shown in Panel B, the most recommended asset class is equity, accounting for approximately 80% of the purchase recommendations. Regarding the regional focus of the mutual funds (Panel C), we find that most funds have a multinational focus (over 70%), followed by a focus on Europe (approximately 8%). German funds, the recommendation of which could be interpreted as a sign of catering to investors' home bias, play only a minor role. As expected, splitting the sample into a period before and after the flat-fee scheme was introduced shows no signs of a structural break in recommendations made by advisors based on the list provided by the central research unit, which applies to both schemes. The last two columns compare the recommendations made between flat-fee scheme clients and commission-based scheme clients after fee-based advice became available. We find that all observations above remain qualitatively unaltered. However, in the instrument section, we see that the advice tends to include more mutual funds instead of structured financial products (certificates). This result is a reaction to both the bad press and the performance of certificates during the financial crisis and regulation in the European Union, resulting in banks preferring to recommend mutual funds over single stocks to reduce the complexity of documentation. Also after the introduction of the flat fee scheme, ETFs and other index funds are barely recommended for any group of clients. The regional focus of purchase recommendations also changes synchronously for both groups: The share of funds focusing on Europe increases at the expense of multinational funds. The reduction in certificates is even stronger for purchase recommendations to flat-fee scheme advisees, likely because of cost advantages in trading mutual funds. In summary, if numbers change, they change for both flat-fee and commission-based clients in the same direction and by a similar

order of magnitude. Thus, this table provides evidence that the supply of advice focuses on mutual funds and does not vary with the cost scheme chosen by the client. The remaining differences in the recommendations are likely to be due to client tastes and differences on the days when an interaction took place.

Table A.I. Purchase recommendations before and after the switch

This table reports summary statistics on purchase recommendations made by the advisors of the bank between January 2008 and December 2015. The percentage values provided in this table are based on counts of recommendations. Panel A shows a split by instrument, panel B shows one by asset class and panel C shows one by region for all mutual funds and single stocks. All numbers are in percentages. The data stem from security properties provided by the bank and information from Thomson Reuters Eikon. Columns 1 and 2 split the sample before the flat-fee scheme was available (September 2009) into switchers (those who switch at some point in time after September 2009) and those who remain in the commission-based scheme after the introduction of the flat-fee scheme. Columns 3 and 4 split the sample after the flat-fee scheme was available and compare purchase recommendations made to clients switching to the flat-fee scheme with purchase recommendations made to clients receiving financial advice only under the commission-based scheme.

	(1)	(2)	(3)	(4)
	Before flat-fee scheme availability		After flat-fee scheme availability	
	Purchase recommendations (Commission-based)	Purchase recommendations (Switchers)	Purchase recommendations (Commission-based)	Purchase recommendations (Switchers)
PANEL A: Recommendations by instrument (in %)				
Mutual funds	87.21	85.42	89.68	92.63
Certificates	7.86	10.01	3.75	1.57
ETFs and index funds	2.89	2.45	3.24	3.58
Single bonds	2.04	2.12	0.78	0.43
Single stocks	0.00	0.00	2.55	1.79
Total	**100**	**100**	**100**	**100**
PANEL B: Recommendations by asset class (in %)				
Equity	78.98	83.36	82.28	86.14
Real estate	10.74	6.92	4.19	2.52
Fixed income	10.17	9.72	13.29	11.17
Money market	0.11	0.00	0.18	0.14
Commodity	0.00	0.00	0.06	0.04
Total	**100**	**100**	**100**	**100**
PANEL C: Recommendations by region for all funds and equity (in %)				
Multi-national	71.69	70.62	55.94	48.70
Europe	8.48	6.73	17.97	21.58
Asia	5.49	6.82	4.91	6.79
South America	2.86	2.65	1.11	0.65
Germany	1.65	0.66	6.61	6.70
North America	1.61	2.46	3.82	7.05
Africa	0.07	0.00	0.09	0.06
Other	8.14	10.05	9.54	8.46
Total	**100**	**100**	**100**	**100**

We continue by investigating the differences between recommended mutual funds and nonrecommended mutual funds for which clients could in principle trade in table A.III. This table sheds light on the question of the criteria on which the research unit bases its recommendations.

In detail, we generate a list of all mutual funds available to the clients from the list of securities characteristics that we obtained from the bank and then run all the security

identifiers through the Eikon database (formerly the Lipper mutual fund database) to obtain fund characteristics, investment focus, and fund size (Total net assets (TNA)) and performance (Net asset values (NAV)). We then use the list of purchase recommendations to clients and, for each month, collect information on the ISINs of funds that were recommended to clients. Using this monthly recommendation list, we group the recommended funds into peer groups by investment and regional focus. For each peer group, we then select all funds from the list of all available funds to construct the peer group of the recommendations. We then compute the performance, size and other measures for recommended and available other funds. From the resulting database, we are then able to compare funds that were recommended to funds that were not recommended. Due to this procedure, all numbers we report relate to the month in which a fund was recommended.

The average recommended fund is, by construction, nearly identical to the average nonrecommended fund in terms of asset classes and regional focus. In terms of costs, the average recommended fund has a 0.63% higher initial charge and a 0.15% higher annual charge than nonrecommended funds. The higher fees of the recommended funds are likely due to the fund selection strategy of the bank. The research team seems more likely to select larger funds, which average approximately 3.0 billion euros in assets under management, whereas nonrecommended funds have slightly less than 1 billion on average. Larger banks usually prefer larger funds because of the IT capabilities of fund management firms.

Additionally, the research team seems to pursue a performance chasing strategy by selecting funds with high past returns. Recommended funds have a return of 10% over the last twelve months, whereas nonrecommended funds have a return of 3% over the last twelve months. Funds with high past performance are found to charge higher fees (Gruber (1996), Carhart (1997)). High past performance is most salient for funds exerting higher marketing efforts that are associated with higher fees (Sirri and Tufano (1998)). Controlling for peer group fixed effects does not change this view. We do not judge whether performance chasing is a good or bad strategy; however, when using actively managed funds, it seems to be one of the rational explanations why investors still invest in actively managed funds, even if the average actively managed fund underperforms (Gruber (1996)). This finding is reinforced when the trading costs associated with the funds are lower.

Table A.II. Summary statistics of funds recommended and not recommended for purchase

This table reports summary statistics on funds recommended and not recommended for purchase by the bank. We generate a list of all mutual funds available to the clients from the list of security characteristics from the bank and enrich it by adding mutual fund sizes (Total net assets (TNA)) and prices (Net asset values (NAV)) from the Thomson Reuters Eikon database. We then use the list of recommendations to clients for each month by the bank. Using this monthly recommendation list, we group the recommended funds into peer groups by investment (e.g., equity, fixed income, etc.) and regional focus. For each peer group, we then select all funds from the list of all available funds to construct a peer group. For this list of funds (recommended and peer funds) we compute the performance, size and other measures for recommended and nonrecommended funds in the respective peer group and month. Under this procedure, all numbers we report relate to the month in which a fund was recommended. A fund can be recommended in multiple months. Based on this monthly database, we generate the comparison below. As fund characteristics, we report whether a fund is distributing or retaining its profit (retaining) and has its domicile in Luxemburg (1=Luxemburg) or Germany (1=Germany). The omitted groups are all other domiciles, with Switzerland being the largest omitted one. We also include a dummy when the fund currency is euros (Currency (1=euro)) and a variable for the time a fund existed (Fund age). We also report the front-end load and the annual charges that are reported by fund management to Eikon (Initial charge and Annual charge). Based on the data, we also split by asset class and regional focus. We finally report fund size (Total net assets (TNA)) at the last month end before the recommendation month, as well as 6, 12, 24 and 48 months prior to the last month end before the recommendation month and include fund returns 6, 12, and 24 months prior to the last month end before the recommendation month. Differences are computed between nonrecommended and recommended funds, and p-values are based on a simple t-test of means.

	Non-recommended funds				Recommended funds				Differences	
	N	Mean	Median	SD	N	Mean	Median	SD	Diff.	p-value
Fund characteristics										
Retaining	917,462	0.62			17,873	0.58			-0.04	0.0000
Fund domicile (1 = Luxemburg)	917,462	0.61			17,873	0.60			-0.01	0.0002
Fund domicile (1 = Germany)	917,462	0.14			17,873	0.18			0.05	0.0000
Currency (1 = Euro)	917,462	0.65			17,873	0.73			0.08	0.0000
Fund age (in years)	916,503	14.14			17,837	16.59			2.45	0.0000
Costs and fees (in %)										
Initial charge	914,371	1.31	0.00	1.98	17,800	1.93	0.00	2.32	0.63	0.0000
Annual charge	915,289	0.90	1.00	0.64	17,837	1.06	1.35	0.66	0.15	0.0000
Asset classes (in %)										
Equity	917,462	71.25			17,873	77.82			6.57	0.0000
Fixed income	917,462	25.18			17,873	15.68			-9.50	0.0000
Commodity	917,462	0.84			17,873	1.66			0.82	0.0000
Money market	917,462	0.67			17,873	0.51			-0.15	0.0130
Real estate	917,462	0.24			17,873	1.92			0.40	0.0000
Other	917,462	1.83			17,873	2.41			0.40	0.0000
Regional focus (in %)										
Multi national	917,462	1.28			17,873	4.71			3.43	0.0000
Europe	917,462	6.86			17,873	10.66			3.81	0.0000
Asia	917,462	9.53			17,873	11.12			1.59	0.0000
North America	917,462	0.00			17,873	0.13			0.13	0.0000
Germany	917,462	0.01			17,873	0.06			0.05	0.0000
South America	917,462	0.00			17,873	0.02			0.02	0.0000
Africa	917,462	0.16			17,873	0.41			0.26	0.0000
Other	917,462	82.16			17,873	72.88			-9.28	
Fund size before recommendation month (in mio Euro)										
1 month	774,013	938	36	26,400	15,906	3,030	339	23,000	2,090	0.0000
6 months	761,835	909	36	24,500	15,808	2,910	310	22,600	2,000	0.0000
12 months	743,346	873	36	21,800	15,538	2,790	275	22,400	1,910	0.0000
24 months	698,805	828	36	18,500	14,675	2,330	221	19,300	1,500	0.0000
48 months	644,814	810	36	17,300	13,415	2,030	183	17,700	1,220	0.0000
Fund returns before deletion dates (in %)										
6 months	890,958	0.03	0.04	0.26	17,677	0.08	0.08	0.32	4.65	0.0000
12 months	862,715	0.03	0.04	0.19	17,398	0.10	0.10	0.23	6.07	0.0000
24 months	802,775	0.04	0.04	0.13	16,554	0.10	0.09	0.15	6.08	0.0000

The pooled (by recommendation month) cross-sectional regression on recommended funds (equal to 1) vs. nonrecommended funds in the same peer group (equal to 0) in table IV that controls for year fixed effects and investment fund company fixed effects confirms findings from the descriptive statistics. The table shows that fund size, above-average portfolio performance, and higher initial and annual charges are the most important factors in

explaining fund recommendations. When we split annual and initial charges into terciles, we find that purchase recommendations are more likely for funds with higher charges than they are for the median group. Interestingly, for initial charges, a recommendation for funds with a low initial charge has a higher probability. This situation may cater to clients who are cost sensitive and/or financially savvy (Inderst and Ottaviani (2009)). When the fund size and fund performance are split into quintiles within the peer group, the results show that the bank obviously prefers recommending funds from the two best-performing quintiles and from the largest size quintile.

In columns 7 and 8, we split the regressions with respect to whether the flat-fee scheme was already available (September 2009). This procedure is used to check whether the strategy of selecting and recommending mutual funds has changed. As expected, we find no evidence for a shift in the selection strategy. Before and after the flat-fee scheme was available, fund size, fund performance and higher initial charges and annual charges are the most important factors in explaining recommendations.

Table A.III. Characteristics of recommended funds

This table presents the results from a pooled cross-sectional regression on recommended funds. The dependent variable in columns (1) to (6) is the number of recommended funds, which is set to one if the fund was recommended and zero otherwise. For each month, we use a database of funds recommended by the financial advisor and all available funds in the same peer group, defined by asset class and regional focus. The dependent variable in column (7) focuses on recommended funds before the flat-fee scheme was available, and column (8) shows the recommended funds after the flat-fee scheme was available. As control variables, we include fund characteristics (fund age and domicile), costs and fees (initial and annual charges), fund size (Total net assets (TNA)), and fund returns based on Net asset values (NAV)). In addition to including the continuous variables in specification (1), we also use terciles of initial and annual charges and quintiles for fund size and performance in specifications (2) to (6) to allow for non-linearities in the data. We also use fixed effects for asset classes (equity, fixed income, real estate, commodities and other), regional focus (Multinational, Germany, North America, South America, Asia, Africa and Other), investment company fixed effects and year fixed effects. ***, **, and * indicate that the coefficient estimates are significantly different from zero at the 1%, 5%, and 10% levels, respectively. Standard errors are clustered by the month of the recommendation.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Recommended funds	Recommended funds	Recommended funds	Recommended funds	Recommended funds	Recommended funds	Recommended funds (before fee scheme availability)	Recommended funds (after fee scheme availability)
Fund characteristics								
Fund age (years)	0.008**	0.012***	0.014***	0.014***	0.008**	0.014***	0.027***	0.010**
	(2.434)	(3.432)	(3.792)	(3.981)	(2.479)	(3.491)	(3.479)	(2.442)
Fund domicile (Luxemburg)	0.015***	0.015***	0.015***	0.015***	0.014***	0.005	0.010	-0.012
	(3.206)	(3.005)	(3.122)	(3.079)	(2.970)	(0.112)	(0.129)	(-0.320)
Fund domicile (Germany)	0.016*	0.021**	0.020**	0.020**	0.020**	0.036	0.046	0.017
	(1.720)	(2.253)	(2.220)	(2.284)	(2.304)	(0.888)	(0.639)	(0.552)
Costs and fees (in %)								
Initial charge (front-load)	0.230**							
	(2.207)							
Initial charge (1st tercile - lowest)		0.015***	0.018***	0.018***	0.020***	0.007*	0.004	0.007*
		(2.614)	(3.188)	(3.189)	(3.549)	(1.713)	(0.786)	(1.715)
Initial charge (3rd tercile - highest)		0.022***	0.026***	0.026***	0.027***	0.012***	0.015**	0.010**
		(4.168)	(4.654)	(4.669)	(4.881)	(2.744)	(2.157)	(2.542)
Annual charge (management fee)	0.682**							
	(2.241)							
Annual charge (1st tercile - lowest)		0.002	0.003	0.003	0.002	-0.000	-0.004	0.001
		(0.765)	(0.859)	(0.799)	(0.568)	(-0.081)	(-0.827)	(0.450)
Annual charge (3rd tercile - highest)		0.014***	0.015***	0.014***	0.014***	0.017***	0.021***	0.015***
		(2.730)	(2.880)	(2.776)	(2.719)	(3.080)	(2.611)	(3.079)
Fund returns before deletion dates (in %)								
Return past 12 month absolute	0.037***							
	(8.866)							
Perfomance quintile (1st quintile in peer group - lowest)		-0.000	0.000	-0.000	-0.001	-0.000	-0.001	0.000
		(-0.014)	(0.017)	(-0.062)	(-0.394)	(-0.144)	(-0.595)	(0.052)
Perfomance quintile (2nd quintile)		-0.002**	-0.002**	-0.002**	-0.002**	-0.002**	-0.004***	-0.001
		(-2.434)	(-2.379)	(-2.293)	(-2.438)	(-2.275)	(-2.908)	(-1.143)
Perfomance quintile (4th quintile)		0.006***	0.006***	0.006***	0.006***	0.005***	0.009***	0.003***
		(5.626)	(5.652)	(5.863)	(5.957)	(6.052)	(4.495)	(3.473)
Perfomance quintile (5th quintile in peer group - highest)		0.026***	0.026***	0.026***	0.026***	0.025***	0.048***	0.014***
		(8.178)	(8.223)	(8.362)	(8.344)	(8.704)	(8.725)	(5.928)
Fund size before recommendation month (in mio Euro)								
ln of fund size (in Euro)	0.008***							
	(6.344)							
Fund size quintile (1st quintile - lowest)		-0.006***	-0.006***	-0.006***	-0.007***	-0.011***	-0.018***	-0.008***
		(-4.048)	(-3.951)	(-4.141)	(-4.693)	(-6.152)	(-5.257)	(-4.194)
Fund size quintile (2nd quintile)		-0.006***	-0.006***	-0.006***	-0.006***	-0.008***	-0.013***	-0.006***
		(-5.226)	(-5.339)	(-5.397)	(-5.702)	(-7.588)	(-5.750)	(-5.271)
Fund size quintile (4th quintile)		0.011***	0.011***	0.011***	0.011***	0.013***	0.026***	0.008***
		(5.833)	(5.845)	(5.912)	(6.052)	(6.668)	(5.588)	(4.589)
Fund size quintile (5th quintile - highest)		0.046***	0.046***	0.046***	0.047***	0.051***	0.074***	0.042***
		(5.437)	(5.460)	(5.493)	(5.556)	(6.403)	(5.706)	(6.380)
Asset class fixed effects	NO	NO	YES	YES	YES	YES	YES	YES
Regional focus fixed effects	NO	NO	NO	YES	YES	YES	YES	YES
Year fixed effects	NO	NO	NO	NO	YES	YES	YES	YES
Investment company fixed effects	NO	NO	NO	NO	NO	YES	YES	YES
Constant	-0.169***	-0.057***	-0.020	-0.024	0.008	-0.014	-0.038	-0.023
	(-5.604)	(-4.573)	(-1.031)	(-1.231)	(0.422)	(-0.293)	(-0.473)	(-0.912)
Observations	745,405	746,635	746,635	746,635	746,635	746,635	229,593	517,042
R-squared	0.025	0.029	0.032	0.035	0.039	0.113	0.176	0.090

The evidence in this section indicates that the introduction of the flat-fee scheme has not changed the supply of advice in general or the advice provided to clients. We also show that advice tends to recommend funds that are actively managed, substantially larger, and more costly as well as those that have had better performance in the past. If recommendations do not change, then any change in advised trades is likely coming from changes in client choices and/or differences in the probability of following the received advice.

Table A.IV. Demographics of advised and nonadvised clients

This table presents summary statistics for advised and nonadvised clients. Column (1) shows the statistics for commission-based-scheme clients, and column (2) shows the statistics for commission-based-scheme clients switching to the flat-fee scheme (Switchers). Column (3) refers to clients that switch from self-directed to financial advice under the commission-based scheme (New commission-based), and column (4) refers to self-directed clients switching to financial advice under the flat-fee scheme (New fee). Column (5) shows the statistics for self-directed clients. We report socio-demographic information on the client's age (Age), marital status (Married), gender (Gender), whether they hold a PhD (PhD), length of the relationship with the bank (Length of relationship), whether they currently live in Germany (German resident) and whether they work as employees (Employed), are retired (Retired) or have another job (Other). We also include information on their portfolio and trading behavior. All variables that require a time series to be computed use the previous 12 months. We include the average portfolio value in euros, the turnover from purchases, sales and the entire portfolio as well as the fees paid. We also include information on the asset allocation in September 2009. We show the asset allocation by instrument, asset class and regional focus. The asset class and the regional focus account only for funds and equities. Finally, we provide information on clients' diversification using the unsystematic variance share from a 4-factor model and the Herfindahl-Hirschman Index (HHI), assuming that a mutual fund holds 100 securities. We finally report average factor loadings for the period between January 2003 and September 2009 using the 4-factor model. The 4-factor model uses the German CDAX and its constituents to build daily factors. Data on the investors come from the bank, while data on asset allocations come from the bank and Thomson Reuters Eikon. Other market data are taken from Thomson Reuters Financial Datastream. We include investors who had a portfolio for at least 200 days as of September 2009.

Date: End September 2009	(1)			(2)			(3)			(4)			(5)		
	Inducement-advice			Inducement advice to fee-advice (Switchers)			Self-directed to inducement advice (New inducement)			Self-directed to fee advice (New fee)			Self-directed clients		
	N	Mean	Median	N	Mean	Median	N	Mean	Median	N	Mean	Median	N	Mean	Median
Socio-demographics															
Age (in years)	7,828	55.17	54.00	699	54.50	53.00	1,380	54.30	53.00	335	51.09	51.00	47,024	52.20	51.00
Married (married = 1)	7,828	0.64	1.00	699	0.68	1.00	1,380	0.65	1.00	335	0.61	1.00	47,024	0.57	1.00
Gender (male = 1)	7,828	0.86	1.00	699	0.84	1.00	1,380	0.85	1.00	335	0.83	1.00	47,024	0.85	1.00
Ph. D. (yes = 1)	7,828	0.07	0.00	699	0.09	0.00	1,380	0.08	0.00	335	0.12	0.00	47,024	0.07	0.00
Length of relationship (in years)	7,828	15.04	13.00	699	15.36	13.00	1,380	14.61	13.00	335	14.38	13.00	47,024	14.17	13.00
Risk class (1 = low, 5 = high)	7,828	3.84	4.00	699	3.91	4.00	1,380	3.51	4.00	335	3.36	4.00	47,024	3.54	4.00
German resident (yes = 1)	7,828	0.97	1.00	699	0.96	1.00	1,380	0.98	1.00	335	0.95	1.00	47,024	0.96	1.00
Employed (yes = 1)	7,828	0.46	0.00	699	0.45	0.00	1,380	0.47	0.00	335	0.44	0.00	47,024	0.50	1.00
Retired (yes = 1)	7,828	0.17	0.00	699	0.15	0.00	1,380	0.15	0.00	335	0.11	0.00	47,024	0.11	0.00
Other (yes = 1)	7,828	0.37	0.00	699	0.39	0.00	1,380	0.38	0.00	335	0.45	0.00	47,024	0.38	0.00
Portfolio & Trading (previous 12 months)															
Portfolio value (average past 12 months, in Euro)	7,828	60,307	34,939	699	85,063	51,294	1,380	48,168	27,946	335	37,850	23,158	47,024	43,184	21,250
Turnover from sales (past 12 months, in % per month)	7,828	4.40	0.35	699	2.04	0.11	1,380	3.77	0.08	335	2.73	0.00	47,024	5.72	0.17
Turnover from purchases (past 12 months, in % per month)	7,828	5.80	1.73	699	4.14	1.85	1,380	5.32	1.36	335	4.18	1.02	47,024	7.05	1.59
Turnover total portfolio (past 12 months, in % per month)	7,828	5.10	1.40	699	3.09	1.31	1,380	4.55	1.06	335	3.46	0.74	47,024	6.39	1.30
Trading fees paid (past 12 months, in Euro)	7,828	518.45	105.17	699	615.18	178.07	1,380	364.00	65.06	335	332.06	46.84	47,024	441.88	59.83
Trading fees paid funds (past 12 months, in Euro)	7,828	217.61	19.52	699	471.05	106.63	1,380	159.45	0.75	335	110.42	15.27	47,024	82.08	0.00
Asset allocation (in %)															
by instrument:															
Funds (active)	7,828	49.27	49.81	699	65.52	71.76	1,380	46.56	44.48	335	59.79	70.68	47,024	32.74	13.79
Single stocks	7,828	33.83	21.63	699	16.48	3.54	1,380	40.85	30.94	335	31.53	14.45	47,024	54.42	58.43
Certificates	7,828	7.36	0.00	699	9.68	1.49	1,380	5.14	0.00	335	3.05	0.00	47,024	4.05	0.00
Funds (passive)	7,828	3.88	0.00	699	1.87	0.00	1,380	3.34	0.00	335	1.84	0.00	47,024	3.23	0.00
Single bonds	7,828	2.94	0.00	699	2.10	0.00	1,380	2.88	0.00	335	2.12	0.00	47,024	3.12	0.00
Other instrument	7,828	2.73	0.00	699	4.35	0.00	1,380	1.24	0.00	335	1.68	0.00	47,024	2.43	0.00

Contd.

contd.	(1) Inducement-advice			(2) Inducement advice to fee-advice (Switchers)			(3) Self-directed to inducement advice (New inducement)			(4) Self-directed to fee advice (New fee)			(5) Self-directed clients		
by asset class (for funds):															
Equity	7,828	74.30	83.65	699	69.66	73.83	1,380	79.27	92.00	335	82.02	94.24	47,024	80.69	95.83
Fixed income	7,828	6.97	0.00	699	8.17	3.05	1,380	7.01	0.00	335	6.73	0.00	47,024	5.86	0.00
Real estate	7,828	4.07	0.00	699	4.68	0.00	1,380	2.57	0.00	335	3.98	0.00	47,024	1.36	0.00
Commodities	7,828	2.74	0.00	699	0.91	0.00	1,380	2.95	0.00	335	1.78	0.00	47,024	4.44	0.00
Money market	7,828	0.51	0.00	699	0.37	0.00	1,380	0.79	0.00	335	0.21	0.00	47,024	0.57	0.00
Other asset class	7,828	11.40	0.00	699	16.22	9.57	1,380	7.41	0.00	335	5.27	0.00	47,024	7.09	0.00
by region (for equity & funds with equity):															
Germany	7,828	30.45	16.84	699	17.86	5.56	1,380	35.69	22.73	335	30.81	15.02	47,024	42.73	30.59
Multinational	7,828	26.73	18.67	699	40.91	38.16	1,380	21.97	9.53	335	29.77	21.78	47,024	15.98	0.00
Europe	7,828	16.89	10.14	699	16.65	11.48	1,380	18.66	9.17	335	19.13	11.90	47,024	16.25	4.76
Asia	7,828	10.04	0.00	699	9.36	2.16	1,380	8.54	0.00	335	9.43	0.00	47,024	7.72	0.00
North America	7,828	6.86	0.00	699	3.91	0.00	1,380	8.46	0.00	335	5.60	0.00	47,024	11.05	0.00
South America	7,828	2.33	0.00	699	3.67	0.00	1,380	1.77	0.00	335	1.74	0.00	47,024	1.16	0.00
Africa	7,828	0.09	0.00	699	0.07	0.00	1,380	0.05	0.00	335	0.06	0.00	47,024	0.07	0.00
Other region	7,828	6.65	0.00	699	8.16	1.47	1,380	4.72	0.00	335	4.72	0.00	47,024	5.18	0.00
Diversification (in %)															
Unsystematic variance share (4 factor, 01/2003-09/2009)	7,828	34.13	36.74	699	32.09	35.81	1,380	35.75	37.67	335	37.60	39.53	47,021	34.10	36.01
HHI 100	7,828	11.78	4.28	699	6.57	2.19	1,380	14.05	5.00	335	12.40	2.52	47,024	21.44	10.35
Number of positions	7,828	13.92	11.00	699	14.50	12.00	1,380	12.25	9.00	335	10.49	9.00	47,024	11.16	8.00
Performance & Factor loadings (annualized from daily data from 01/2003 - 09/2009, in %)															
Alpha (4 factor)	7,828	-3.21	-0.90	699	-3.18	-0.63	1,380	-5.71	-1.32	335	-4.32	-0.56	47,021	-8.46	-1.68
Beta	7,828	74.13	74.59	699	65.08	66.52	1,380	74.70	74.19	335	70.18	72.30	47,021	80.98	79.38
SMB	7,828	35.27	35.66	699	36.58	38.13	1,380	29.11	30.56	335	29.82	34.02	47,021	30.39	29.14
HML	7,828	-4.02	-2.01	699	-2.91	-0.14	1,380	-6.61	-3.63	335	-6.77	-2.93	47,021	-7.12	-4.57
MOM	7,828	-12.57	-12.46	699	-11.05	-9.26	1,380	-17.57	-15.65	335	-15.85	-13.68	47,021	-16.80	-15.45

Table A.V. Comparison of the used data sets to the literature

This table compares the means of investor characteristics of the two data sets used in this study to other data sets used in the literature. Column (1) displays the summary statistics for clients who remain under inducement advice, whereas column (2) displays the same for clients who switch to flat-fee advice. Column (3) shows summary statistics for all advised clients of the brick-and-mortar bank used for a robustness test within this study. Columns (4) to (9) show the summary statistics from studies investigating alternative advisory data to the extent they are reported. These studies are Bhattacharya et al. (2012) (column (4)), Hackethal, Haliassos, and Jappelli (2012) (column (5)), Hoechle et al. (2018) (column (6)), Foerster et al. (2017) (column (7)), Bucher-Koenen et al. (2021) (column (8)), and Stolper and Walter (2019) (column (9)). Note that the employed dummy variable contains investors which are employed. All other job categories (workers, civil servants, executive employees, apprentices, soldiers) are included in the variable "others" as well as investors which are unemployed or students. If we instead construct the employed variable in a way that it equals one if the investor is having any of the job categories, we have a share of 78% employed investors among inducement-advice clients and a share of 83% employed investors among switchers.

Socio-demographic variables	Data sets used in this study			Data sets from the literature for comparison					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Inducement-advice German brokerage (2008 - 2015)	Switchers German brokerage (2008 - 2015)	Advised clients Brick-and-mortar bank (2012 - 2014)	Bhattacharya et al. (2012) German brokerage (2005 - 2010)	Hackethal et al. (2012) German brokerage (2001 - 2006)	Hoechle et al. (2018) Swiss retail bank (2002 - 2005)	Foerster et al. (2017) Three Canadian mutual fund dealers (1999 - 2012)	Bucher-Koenen et al. (2021) German branch-bank (2010 - 2017)	Stolper & Walter (2019) German savings bank (2013 - 2016)
Age (in years)	55.17	54.50	63.62	52.90	18 to 30: 4.15% / 30 to 40: 11.80% / 40 to 50: 26.80% / 50 to 60: 22.87% / older than 60: 34.37%	58.88	51.20	younger than 50: 17% / 50 to 65: 31% / older than 65: 52%	57.09
Married (married = 1)	0.64	0.68	0.61	--	0.46	--	--	0.55	0.53
Gender (male = 1)	0.86	0.84	0.64	0.91	0.67	0.57	0.49	0.54	0.48
Ph.D. (yes =1)	0.07	0.09	--	--	--	--	--	0.05	--
Length of relationship (in years)	15.04	15.36	4.59	9.10	--	6.62	3.60	18.47	9.41
Risk class (1 = low, 5 = high)	3.84	3.91	5.15 (on a scale from 1-6)	--	--	1.859 (on a scale from 1-3)	4.14** (on a scale from 1-6)	2.54** (on a scale from 1-4)	2.64
Resident of bank's country of origin (yes =1)	0.97	0.96	--	--	--	0.72	--	0.93	0.99
Employed (yes =1)	0.46	0.45	0.31	--	0.83	0.62	--	****	--
Retired (yes =1)	0.17	0.15	0.44	--	--	0.32	--	--	--
Other (yes =1)	0.37	0.39	0.25	--	--	--	--	--	--
Portfolio value (in Euro)	60,307	85,063	104,956	70,800	--	152,513*	54,996***	108,515	70,461

* Hoechle et al. (2018) report an average portfolio value of CHF 234,321 over a period from January 2002 to June 2005. We are displaying this value in Euro using the exchange rate of June 2005 (1 CHF = 0.65087 EUR; https://www.oanda.com/currency-converter/de/?from=CHF&to=EUR&amount=1).

** Calculated based on summary statistics provided per risk class in the paper.

*** Foerster et al. (2017) report an average portfolio value of USD 68,100 as of June 2012. We are displaying this value in Euro using the exchange rate of June 2012 (1 USD = 0.80758 EUR; https://www.oanda.com/currency-converter/de/?from=USD&to=EUR&amount=1).

**** Bucher-Koenen et al. (2021) report the variables "employed", "academic", and "manager". However, it is unclear whether the employed variable captures all individuals having a job or all individuals working as white-collar employees.

Table A.VI. Demographics of switchers and new fee clients

This table presents the results from the probit regressions on switchers and new fee clients. The dependent variable in columns (1) and (2) is a dummy variable equal to one when an investor switches from financial advice under the commission-based scheme to financial advice under the flat-fee scheme (Switchers) and zero if the client continues to receive commission-based-scheme advice. The dependent variable in columns (3) and (4) is a dummy variable equal to one when an investor switches from self-directed to the flat-fee scheme (New fee) and zero if the client switches to commission-based-scheme advice (New commission-based). As explanatory variables, we use socio-demographic information on the client's age (Age), marital status (Married), gender (Gender), whether they hold a PhD (PhD), length of the relationship with the bank (Length of relationship), whether they currently live in Germany (German resident) and whether they work as employees (Employed), are retired (Retired) or have another job (Other). We also include information on their portfolio and trading behavior. All variables that require a time series to be computed use the previous 12 months. We include the average portfolio value in euros, the turnover from purchases, sales and the entire portfolio as well as the fees paid and a variable showing whether the flat-fee scheme would have been beneficial in terms of costs using the previous 12 months. We also include information on the asset allocation in September 2009. We show the allocation by instrument, asset class and regional focus. The asset class and the regional focus account only for funds and single stocks, not the total portfolio. Finally, we provide information on clients' diversification using the unsystematic variance share from a 4-factor model and the Herfindahl-Hirschman Index (HHI), assuming that a mutual fund holds 100 securities. We finally report average factor loadings for the previous 12 months using the 4-factor model. The 4-factor model uses the German CDAX and its constituents to build daily factors. Data on the investors come from the bank, while data on asset allocations come from the bank and Thomson Reuters Eikon. Other market data are taken from Thomson Reuters Financial Datastream. ***, **, and * indicate that the coefficient estimates are significantly different from zero at the 1%, 5%, and 10% levels, respectively. We use heteroscedasticity-robust standard errors.

	(1)	(2)	(3)	(4)
	Inducement advice to fee advice (Switchers)	Inducement advice to fee advice (Switchers)	New Fee to new inducement	New Fee to new inducement
Socio-demographics				
Age (in years)	-0.0041*	-0.0030	-0.0107***	-0.0086**
	(0.0024)	(0.0025)	(0.0036)	(0.0037)
Married (1 = married)	0.1133**	0.0957**	-0.0027	-0.0253
	(0.0452)	(0.0462)	(0.0777)	(0.0791)
Gender (male = 1)	-0.0460	-0.0238	-0.0347	0.0034
	(0.0564)	(0.0573)	(0.0975)	(0.0998)
Ph. D. (yes = 1)	0.0149	0.0066	0.3301***	0.3011**
	(0.0753)	(0.0768)	(0.1198)	(0.1196)
Length of relationship (in years)	0.0077	0.0011	-0.0133	-0.0142
	(0.0064)	(0.0066)	(0.0128)	(0.0133)
Risk class (1 = low, 5 = high)	0.0382**	0.0497***	-0.0071	0.0069
	(0.0170)	(0.0181)	(0.0249)	(0.0266)
German resident (yes = 1)	-0.2293**	-0.2446**	-0.3951**	-0.4365**
	(0.1082)	(0.1108)	(0.1898)	(0.1939)
Employee (yes = 1)	-0.0487	-0.0734	-0.1554**	-0.1547**
	(0.0448)	(0.0459)	(0.0764)	(0.0773)
Retired (yes = 1)	0.0271	0.0196	0.0447	0.0695
	(0.0749)	(0.0767)	(0.1368)	(0.1387)
Portfolio & Trading (previous 12 months)				
Portfolio value (past 12 months, in Euro)	0.0000***	0.0000***	-0.0000**	-0.0000*
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Turnover total portfolio (past 12 months, in % per month)	-0.6289*	-0.4377	-0.7764	-0.3436
	(0.3280)	(0.3333)	(0.5434)	(0.5419)
Trading Fees paid (past 12 months, in Euro)	-0.0001***	-0.0001**	0.0000	0.0000
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Advantage if fee-based scheme (past 12 months, in Euro)	0.0002***	0.0001***	0.0000	-0.0001
	(0.0000)	(0.0000)	(0.0001)	(0.0001)
Asset Allocation (in %)				
by instrument:				
Single stocks		-0.0259		-2.0721**
		(0.4680)		(1.0094)
Single bonds		-0.0607		-1.5873
		(0.5116)		(1.0707)
Funds (active)		0.5049		-1.3121
		(0.4522)		(0.9902)
Funds (passive)		-1.0391**		-2.3773**
		(0.4954)		(1.0363)
Certificates		0.5106*		-0.8446
		(0.2715)		(0.5171)

	(1)	(2)	(3)	(4)
contd.	Inducement advice to fee advice (Switchers)	Inducement advice to fee advice (Switchers)	New Fee to new inducement	New Fee to new inducement
by asset class (for funds):				
Equity		-2.1317***		1.2682
		(0.5463)		(0.9710)
Fixed income		-0.2255		1.2861
		(0.3773)		(0.9539)
Money Market		-1.0678		-0.4050
		(0.7096)		(1.3923)
Commodities		-1.3303*		1.4632
		(0.7247)		(1.0546)
Real estate		-0.8599**		1.6717*
		(0.3650)		(0.9671)
by region (for equity & funds with equity):				
Germany		1.7941***		0.5795
		(0.4491)		(0.5818)
Europe		1.5412***		0.1648
		(0.4379)		(0.5584)
North America		1.8443***		0.1325
		(0.5059)		(0.6289)
Africa		0.9303		4.2637
		(1.1184)		(6.6651)
South America		2.6391***		0.2596
		(0.4954)		(0.7596)
Asia		1.2418***		0.5617
		(0.4558)		(0.6037)
Multinational		1.9810***		0.5168
		(0.4099)		(0.5502)
Other region		2.0408***		0.6738
		(0.4642)		(0.6517)
Diversification				
Unsystematic variance share (4 factor)	0.2159*	0.1496	-0.3749*	-0.4872**
	(0.1251)	(0.1374)	(0.2156)	(0.2336)
HHI 100 (in %)	-0.6331***	-0.7723***	-0.0477	0.5497**
	(0.1597)	(0.2491)	(0.1993)	(0.2427)
Performance & Factor loadings (previous 12 months)				
Alpha (4 factor) (in %)	0.2395**	0.2710**	-0.1946	-0.2125
	(0.1098)	(0.1302)	(0.1556)	(0.1673)
Beta (in %)	-0.3588***	-0.0473	-0.3715***	-0.3138*
	(0.0968)	(0.1186)	(0.1440)	(0.1668)
SMB (in %)	0.1659	-0.1538	0.2299	0.0454
	(0.1071)	(0.1251)	(0.1489)	(0.1636)
HML (in %)	-0.0967	-0.0435	-0.1621	-0.2883*
	(0.1079)	(0.1220)	(0.1653)	(0.1744)
MOM (in %)	0.0652	-0.0545	0.1126	0.2532
	(0.1216)	(0.1449)	(0.1660)	(0.1885)
Constant	-1.1281***	-1.2188***	0.9314***	0.7882
	(0.2181)	(0.3735)	(0.3538)	(0.6071)
Observations	8,527	8,527	1,715	1,715
R-squared (pseudo)	0.0493	0.0881	0.0320	0.0605

Table A.VII. Matching evaluation

This table compares descriptive statistics of switchers and nonswitchers to the flat-fee scheme by the end of August 2009. It compares the relevant descriptive statistics before and after the propensity-score matching described in the paper. The column 'treated' contains information on switchers to the flat-fee scheme, and the column 'control' contains information on nonswitchers. The rows 'before' and 'after' show statistics before and after the match has been performed. P-value reports significance levels from a t-test on differences between treated and control investors. For the treated group, averages are different from before to after because matching requires treated and control investors to be from the area of common support. Hence, the sample size of treated investors is smaller. We report alphas and unsystematic variance shares using a 4-factor model. The 4-factor model uses the German CDAX and its constituents to build daily factors. We provide information on clients' diversification using the Herfindahl-Hirschman Index (HHI), assuming that a mutual fund holds 100 securities, and the active fund share. Total talks measures the number of counseling sessions a client had with an advisor. We include the average portfolio value in euros, the turnover from the entire portfolio, and whether the flat-fee scheme would have been beneficial in terms of costs in euros. Finally, we provide measures for the share of German assets and the length of the relationship with the bank. All variables that require a time series to be computed use the previous 12 months.

Variable	Matched	Treated	Control	p-value
Alpha (4 factor)	Before	0.1064	0.0804	0.00
	After	0.1080	0.1097	0.86
Unsystematic variance share (4 factor, over previous 12 months)	Before	0.6103	0.5576	0.00
	After	0.6069	0.6050	0.88
HHI 100	Before	0.0680	0.1192	0.00
	After	0.0668	0.0704	0.63
Funds (active)	Before	0.6533	0.4935	0.00
	After	0.6481	0.6570	0.59
Total talks (past 12 months)	Before	1.1980	0.8729	0.00
	After	1.1882	1.2256	0.79
Portfolio value (average past 12 months, in Euro)	Before	91,382	60,254	0.00
	After	85,293	91,920	0.64
Turnover total portfolio (past 12 months, in % per month)	Before	0.0304	0.0502	0.00
	After	0.0308	0.0301	0.82
Share of German assets	Before	0.1281	0.2271	0.00
	After	0.1281	0.1276	0.97
Length of relationship (in years)	Before	15.35	15.02	0.01
	After	15.42	15.34	0.67
Advantage of fee based scheme (past 12 months, in Euro)	Before	357.16	-2.58	0.00
	After	315.82	320.14	0.96

Table A.VIII. Placebo test

This table presents a difference-in-difference analysis in event time for clients switching to the flat-fee scheme relative to a matched control group. We set the event date to 12 months before the real introduction of the flat-fee scheme (September 2009) and analyze the 12 months before and after this date. Event Time is set to 1 after the switch (12 months earlier for the placebo test) to the flat-fee scheme and zero otherwise. Fee is 1 for all clients switching to the flat-fee scheme. Fee x Event Time is the interaction effect of the two. Panel A includes the regressions on advice usage and portfolio allocation. We report the number of talks per month; the Herfindahl-Hirschman Index (HHI), assuming that a mutual fund holds 100 securities; the unsystematic variance share from a 4-factor model; and the share of active funds. Panel B includes measures of trading activity and portfolio performance. We show the portfolio value in euros, the portfolio turnover, the fees paid and the portfolio performance (4-factor alpha). Panels A and B report the results for the period from 12 months before and 12 months after the switch in event time. We use investor fixed effects. Standard errors are double-clustered on portfolio ID and month-by-year. ***, **, and * indicate that the coefficient estimates are significantly different from zero at the 1%, 5%, and 10% levels, respectively.

Panel A: Portfolio allocation & Advice usage	(1)	(2)	(3)	(4)
	HHI	Unsys. variance share	Share of active funds	Talks per month
Event time (dummy)	0.00558	-0.0138*	-0.00189	-0.0146
	(0.00344)	(0.00762)	(0.00498)	(0.0771)
Fee (dummy) x Event time (dummy)	-0.0145***	0.00715	0.0249***	-0.104
	(0.00431)	(0.00894)	(0.00627)	(0.0854)
Investor fixed effects	YES	YES	YES	YES
Observations	31,617	31,672	31,617	18,804
R-squared	0.835	0.797	0.925	0.765
Panel B: Portfolio performance & Trading activity				
	(1)	(2)	(3)	
	Portfolio performance	Portfolio turnover	Portfolio value	
Event time (dummy)	0.0292**	-0.00210	3,812**	
	(0.0126)	(0.00222)	(1,626)	
Fee (dummy) x Event time (dummy)	0.0191	-0.00122	4,652*	
	(0.0153)	(0.00249)	(2,344)	
Investor fixed effects	YES	YES	YES	
Observations	31,672	31,654	31,654	
R-squared	0.442	0.852	0.976	

Table A.IX. No matching test

This table presents a difference-in-difference analysis in event time for clients switching to the flat-fee scheme relative to all commission-based-scheme clients. Event Time is set to 1 after the switch to the flat-fee scheme and zero otherwise. For commission-based-scheme clients, we assume a switch date equal to the median switching date of switchers to the flat-fee scheme. Fee is 1 for all clients switching to the flat-fee scheme. Fee x Event Time is the interaction effect of the two. Panel A includes the regressions on advice usage and portfolio allocation. We report the number of talks per month; the Herfindahl-Hirschman Index (HHI), assuming that a mutual fund holds 100 securities; the unsystematic variance share from a 4-factor model; and the share of active funds. Panel B includes measures of trading activity and portfolio performance. We show the portfolio value in euros, the portfolio turnover, the fees paid and the portfolio performance (4-factor alpha). Panels A and B report the results for the period from 12 months before and 12 months after the switch in event time. Panels C and D report the results of the same analyses as panels A and B but applied to 36 months before and after the switch. We use investor fixed effects. Standard errors are double-clustered on portfolio ID and month-by-year. ***, **, and * indicate that the coefficient estimates are significantly different from zero at the 1%, 5%, and 10% levels, respectively.

Panel A: Portfolio allocation & Advice usage (12 months before and after the switch)

	(1)	(2)	(3)	(4)
	HHI	Unsys. variance share	Share of active funds	Talks per month
Event time (dummy)	0.0113***	0.113***	-0.00576***	0.119***
	(0.00206)	(0.0106)	(0.00195)	(0.0341)
Fee (dummy) x Event time (dummy)	-0.0437***	-0.0895***	0.110***	1.718***
	(0.00428)	(0.0129)	(0.00784)	(0.117)
Investor fixed effects	YES	YES	YES	YES
Observations	236,079	236,074	236,079	47,447
R-squared	0.865	0.855	0.930	0.670

Panel B: Portfolio performance & Trading activity (12 months before and after the switch)

	(1)	(2)	(3)
	Portfolio performance	Portfolio turnover	Portfolio value
Event time (dummy)	-0.0232**	-0.00482***	2,171*
	(0.0113)	(0.00109)	(1,204)
Fee (dummy) x Event time (dummy)	0.0543***	0.0303***	25,853***
	(0.0140)	(0.00225)	(4,565)
Investor fixed effects	YES	YES	YES
Observations	452,781	452,728	452,728
R-squared	0.326	0.779	0.955

Panel C: Portfolio allocation & Advice usage (36 months before and after the switch)

	(1)	(2)	(3)	(4)
	HHI	Unsys. variance share	Share of active funds	Talks per month
Event time (dummy)	0.0345***	0.0867***	-0.0319***	0.176***
	(0.00380)	(0.00867)	(0.00358)	(0.0364)
Fee (dummy) x Event time (dummy)	-0.0734***	-0.0708***	0.173***	1.936***
	(0.00540)	(0.0110)	(0.00910)	(0.104)
Investor fixed effects	YES	YES	YES	YES
Observations	671,353	671,328	671,353	127,969
R-squared	0.712	0.685	0.837	0.597

Panel D: Portfolio performance & Trading activity (36 months before and after the switch)

	(1)	(2)	(3)
	Portfolio performance	Portfolio turnover	Portfolio value
Event time (dummy)	-0.0132	-0.00114	7,330***
	(0.0121)	(0.00116)	(1,657)
Fee (dummy) x Event time (dummy)	0.0469***	0.0188***	36,929***
	(0.0121)	(0.00214)	(5,723)
Investor fixed effects	YES	YES	YES
Observations	671,353	671,300	671,300
R-squared	0.270	0.734	0.926

Table A.X. Event time fixed effects

This table presents a difference-in-difference analysis in event time for clients switching to the flat-fee scheme relative to a matched control group. We set the event date to 12 months before the real introduction of the flat-fee scheme (September 2009) and analyze the 12 months before and after this date. Event Time is set to 1 after the switch (12 months earlier for the placebo test) to the flat-fee scheme and zero otherwise. Fee is 1 for all clients switching to the flat-fee scheme. Fee x Event Time is the interaction effect of the two. Panel A includes the regressions on advice usage and portfolio allocation. We report the number of talks per month; the Herfindahl-Hirschman Index (HHI), assuming that a mutual fund holds 100 securities; the unsystematic variance share from a 4-factor model; and the share of active funds. Panel B includes measures of trading activity and portfolio performance. We show the portfolio value in euros, the portfolio turnover, the fees paid and the portfolio performance (4-factor alpha). Panels A and B report the results for the period from 12 months before and 12 months after the switch in event time. Panels C and D report the results of the same analyses as panels A and B but applied to 36 months before and after the switch. We use investor fixed effects and event-time fixed effects. Standard errors are double-clustered on portfolio ID and month-by-year. ***, **, and * indicate that the coefficient estimates are significantly different from zero at the 1%, 5%, and 10% levels, respectively.

Panel A: Portfolio allocation & Advice usage (12 months before and after the switch)

	(1)	(2)	(3)	(4)
	HHI	Unsys. variance share	Share of active funds	Talks per month
Fee (dummy) x Event time (dummy)	-0.0439***	-0.0203**	0.129***	1.925***
	(0.00560)	(0.00889)	(0.00955)	(0.136)
Investor fixed effects	YES	YES	YES	YES
Event-time fixed effects	YES	YES	YES	YES
Observations	32,827	32,881	32,827	19,765
R-squared	0.777	0.781	0.872	0.663

Panel B: Portfolio performance & Trading activity (12 months before and after the switch)

	(1)	(2)	(3)
	Portfolio performance	Portfolio turnover	Portfolio value
Fee (dummy) x Event time (dummy)	0.0376***	0.0267***	14,574***
	(0.0137)	(0.00286)	(2,489)
Investor fixed effects	YES	YES	YES
Event-time fixed effects	YES	YES	YES
Observations	32,881	32,879	32,879
R-squared	0.453	0.850	0.976

Panel C: Portfolio allocation & Advice usage (36 months before and after the switch)

	(1)	(2)	(3)	(4)
	HHI	Unsys. variance share	Share of active funds	Talks per month
Fee (dummy) x Event time (dummy)	-0.0578***	0.00679	0.177***	2.158***
	(0.00697)	(0.0113)	(0.0124)	(0.137)
Investor fixed effects	YES	YES	YES	YES
Event-time fixed effects	YES	YES	YES	YES
Observations	86,549	86,694	86,549	49,794
R-squared	0.633	0.589	0.778	0.571

Panel D: Portfolio performance & Trading activity (36 months before and after the switch)

	(1)	(2)	(3)
	Portfolio performance	Portfolio turnover	Portfolio value
Fee (dummy) x Event time (dummy)	0.0406***	0.0167***	30,667***
	(0.0104)	(0.00297)	(4,592)
Investor fixed effects	YES	YES	YES
Event-time fixed effects	YES	YES	YES
Observations	86,694	86,648	86,648
R-squared	0.215	0.669	0.906

Table A.XI. Month fixed effects

This table presents a difference-in-difference analysis in event time for clients switching to the flat-fee scheme relative to a matched control group. We set the event date to 12 months before the real introduction of the flat-fee scheme (September 2009) and analyze the 12 months before and after this date. Event time is set to 1 after the switch (12 months earlier for the placebo test) to the flat-fee scheme and zero otherwise. Fee is 1 for all clients switching to the flat-fee scheme. Fee x Event Time is the interaction effect of the two. Panel A includes the regressions on advice usage and portfolio allocation. We report the number of talks per month; the Herfindahl-Hirschman Index (HHI), assuming that a mutual fund holds 100 securities; the unsystematic variance share from a 4-factor model; and the share of active funds. Panel B includes measures of trading activity and portfolio performance. We show the portfolio value in euros, the portfolio turnover, the fees paid and the portfolio performance (4-factor alpha). Panels A and B report the results for the period from 12 months before and 12 months after the switch in event time. Panels C and D report the results of the same analyses as panels A and B but applied to 36 months before and after the switch. We use investor fixed effects and month fixed effects. Standard errors are double-clustered on portfolio ID and month-by-year. ***, **, and * indicate that the coefficient estimates are significantly different from zero at the 1%, 5%, and 10% levels, respectively.

Panel A: Portfolio allocation & Advice usage (12 months before and after the switch)

	(1)	(2)	(3)	(4)
	HHI	Unsys. variance share	Share of active funds	Talks per month
Event time (dummy)	0.0110***	-0.000790	-0.0319***	-0.833***
	(0.00289)	(0.00552)	(0.00447)	(0.124)
Fee (dummy) x Event time (dummy)	-0.0440***	-0.0200**	0.128***	1.668***
	(0.00557)	(0.00866)	(0.00948)	(0.142)
Investor fixed effects	YES	YES	YES	YES
Month fixed effects	YES	YES	YES	YES
Observations	32,827	32,881	32,827	19,765
R-squared	0.780	0.804	0.873	0.701

Panel B: Portfolio performance & Trading activity (12 months before and after the switch)

	(1)	(2)	(3)
	Portfolio performance	Portfolio turnover	Portfolio value
Event time (dummy)	-0.0134	-0.00403***	-8,762***
	(0.00825)	(0.00150)	(1,333)
Fee (dummy) x Event time (dummy)	0.0375***	0.0267***	14,664***
	(0.0131)	(0.00285)	(2,431)
Investor fixed effects	YES	YES	YES
Month fixed effects	YES	YES	YES
Observations	32,881	32,879	32,879
R-squared	0.495	0.851	0.977

Panel C: Portfolio allocation & Advice usage (36 months before and after the switch)

	(1)	(2)	(3)	(4)
	HHI	Unsys. variance share	Share of active funds	Talks per month
Event time (dummy)	0.0161***	-0.0245***	-0.0459***	-0.303***
	(0.00457)	(0.00764)	(0.00707)	(0.115)
Fee (dummy) x Event time (dummy)	-0.0577***	0.00686	0.177***	1.959***
	(0.00696)	(0.0113)	(0.0123)	(0.135)
Investor fixed effects	YES	YES	YES	YES
Month fixed effects	YES	YES	YES	YES
Observations	86,549	86,694	86,549	49,794
R-squared	0.636	0.622	0.778	0.594

Panel D: Portfolio performance & Trading activity (36 months before and after the switch)

	(1)	(2)	(3)
	Portfolio performance	Portfolio turnover	Portfolio value
Event time (dummy)	-0.00245	0.00609***	-13,993***
	(0.00853)	(0.00210)	(2,676)
Fee (dummy) x Event time (dummy)	0.0407***	0.0166***	30,700***
	(0.0104)	(0.00294)	(4,587)
Investor fixed effects	YES	YES	YES
Month fixed effects	YES	YES	YES
Observations	86,694	86,648	86,648
R-squared	0.288	0.674	0.909

Table A.XII. Advisor fixed effects

This table presents a difference-in-difference analysis in event time for clients switching to the flat-fee scheme relative to a propensity-score-matched control group controlling for advisor fixed effects. Event time is set to 1 after the switch to the flat-fee scheme and zero otherwise. Fee is 1 for all clients switching to the flat-fee scheme. Fee x Event Time is the interaction effect of the two. Panel A includes the regressions on portfolio allocation and advice usage. We report the Herfindahl-Hirschman Index (HHI), assuming that a mutual fund holds 100 securities; the unsystematic variance share from a 4-factor model; the share of active fund, and the number of talks per month. Panel B includes measures of portfolio performance and trading activity. We show the portfolio performance (4-factor alpha), the monthly portfolio turnover, and the monthly portfolio value in euros. Panels A and B report the results for the period from 12 months before and 12 months after the switch in event time. Panels C and D report the results of the same analyses as panels A and B but applied to 36 months before and after the switch. Advisor fixed effects are based on the advisor with whom a client most often speaks. Standard errors are double-clustered on advisor ID and month-by-year. ***, **, and * indicate that the coefficient estimates are significantly different from zero at the 1%, 5%, and 10% levels, respectively.

Panel A: Advice usage & Portfolio allocation (12 months before and after the switch)

	(1)	(2)	(3)	(4)
	HHI	Unsys. variance share	Share of active funds	Talks per month
Event time (dummy)	-0.00564	-0.0124	0.00197	-0.0893
	(0.00545)	(0.0124)	(0.0100)	(0.0974)
Fee (dummy)	0.00529	-0.0126	-0.0399	-0.0308
	(0.0114)	(0.0236)	(0.0278)	(0.167)
Fee (dummy) x Event time (dummy)	-0.0261***	-0.0187	0.108***	1.985***
	(0.00738)	(0.0147)	(0.0107)	(0.170)
Advisor fixed effects	YES	YES	YES	YES
Observations	19,100	19,126	19,100	18,401
R-squared	0.060	0.067	0.098	0.290

Panel B: Trading activity & Portfolio performance (12 months before and after the switch)

	(1)	(2)	(3)
	Portfolio performance	Portfolio turnover	Portfolio value
Event time (dummy)	-0.0240	0.00440	2,192
	(0.0194)	(0.00419)	(2,916)
Fee (dummy)	-0.0244*	-0.000685	-59,971**
	(0.0138)	(0.00659)	(26,738)
Fee (dummy) x Event time (dummy)	0.0408*	0.0251***	16,227***
	(0.0220)	(0.00480)	(1,423)
Advisor fixed effects	YES	YES	YES
Observations	19,126	19,126	19,126
R-squared	0.030	0.104	0.086

Panel C: Portfolio allocation & Advice usage (36 months before and after the switch)

	(1)	(2)	(3)	(4)
	HHI	Unsys. variance share	Share of active funds	Talks per month
Event time (dummy)	-0.0119	-0.00742	0.0180	-0.0920
	(0.00871)	(0.0167)	(0.0156)	19,100
Fee (dummy)	0.00774	0.00188	-0.0507*	0.0168
	(0.0108)	(0.0208)	(0.0260)	(0.132)
Fee (dummy) x Event time (dummy)	-0.0266**	-0.0213	0.130***	2.307***
	(0.0100)	(0.0190)	(0.0184)	(0.198)
Advisor fixed effects	YES	YES	YES	YES
Observations	50,584	50,646	50,584	46,609
R-squared	0.056	0.050	0.111	0.326

Panel D: Portfolio performance & Trading activity (36 months before and after the switch)

	(1)	(2)	(3)
	Portfolio performance	Portfolio turnover	Portfolio value
Event time (dummy)	0.00176	-0.000314	8,039
	(0.0212)	(0.00481)	(9,745)
Fee (dummy)	-0.00829	0.00138	-60,517**
	(0.0120)	(0.00666)	(26,381)
Fee (dummy) x Event time (dummy)	0.0345*	0.0189***	33,250***
	(0.0205)	(0.00510)	(10,145)
Advisor fixed effects	YES	YES	YES
Observations	50,646	50,622	50,622
R-squared	0.018	0.068	0.085

Table A.XIII. Clients with main banking relationship (main accounts)

This table presents a difference-in-difference analysis in event time for clients switching to the flat-fee scheme relative to a propensity-score-matched control group. The analysis is restricted to clients using their account as their main account. Main account users are defined as clients who received at least three salary payments between the start of the observation period in January 2008 and the introduction of the flat-fee scheme in September 2009. Event time is set to 1 after the switch to the flat-fee scheme and zero otherwise. Fee is 1 for all clients switching to the flat-fee scheme. Fee x Event Time is the interaction effect of the two. Panel A includes the regressions on portfolio allocation and advice usage. We report the Herfindahl-Hirschman Index (HHI), assuming that a mutual holds 100 securities; the unsystematic variance share from a 4-factor model; the share of active funds; and the number of talks per month. Panel B includes measures of portfolio performance and trading activity. We show the portfolio performance (4-factor alpha), the monthly portfolio turnover, and the monthly portfolio value in euros. Panels A and B report the results for the period from 12 months before and 12 months after the switch in event time. Panels C and D report the results of the same analyses as panels A and B but for 36 months before and after the switch. We use investor fixed effects. Standard errors are double-clustered on portfolio ID and month-by-year. ***, **, and * indicate that the coefficient estimates are significantly different from zero at the 1%, 5%, and 10% levels, respectively.

Panel A: Advice usage & Portfolio allocation (12 months before and after the switch)

	(1)	(2)	(3)	(4)
	HHI	Unsys. variance share	Share of active funds	Talks per month
Event time (dummy)	0.00459	-0.00756	-0.0187	0.0171
	(0.00715)	(0.0126)	(0.0125)	(0.200)
Fee-advice (dummy) x Event time (dummy)	-0.0436***	0.0634***	0.143***	1.829***
	(0.0109)	(0.0185)	(0.0222)	(0.266)
Investor fixed effects	YES	YES	YES	YES
Observations	6,277	6,277	6,277	3,921
R-squared	0.748	0.752	0.856	0.613

Panel B: Trading activity & Portfolio performance (12 months before and after the switch)

	(1)	(2)	(3)
	Portfolio performance	Portfolio turnover	Portfolio value
Event time (dummy)	-0.0233	0.00591**	7,500***
	(0.0222)	(0.00246)	(2,296)
Fee-advice (dummy) x Event time (dummy)	0.0282	0.0203***	14,468***
	(0.0326)	(0.00597)	(5,457)
Investor fixed effects	YES	YES	YES
Observations	6,277	6,277	6,277
R-squared	0.439	0.835	0.958

Panel C: Portfolio allocation & Advice usage (36 months before and after the switch)

	(1)	(2)	(3)	(4)
	HHI	Unsys. variance share	Share of active funds	Talks per month
Event time (dummy)	0.0168	0.0224	-0.0270	0.163
	(0.0110)	(0.0148)	(0.0210)	(0.250)
Fee-advice (dummy) x Event time (dummy)	-0.0635***	0.0230	0.179***	1.953***
	(0.0134)	(0.0205)	(0.0285)	(0.324)
Investor fixed effects	YES	YES	YES	YES
Observations	16,597	16,597	16,597	9,815
R-squared	0.605	0.568	0.755	0.525

Panel D: Portfolio performance & Trading activity (36 months before and after the switch)

	(1)	(2)	(3)
	Portfolio performance	Portfolio turnover	Portfolio value
Event time (dummy)	-0.0152	0.00149	12,306***
	(0.0196)	(0.00519)	(4,647)
Fee-advice (dummy) x Event time (dummy)	0.0136	0.0123*	36,096***
	(0.0245)	(0.00688)	(11,082)
Investor fixed effects	YES	YES	YES
Observations	16,597	16,595	16,595
R-squared	0.187	0.689	0.843

Table A.XIV. Demographics of switchers

This table presents the results from the probit regressions on switchers. The dependent variable in columns (1) and (2) is a dummy variable equal to one when an investor switches from financial advice under the commission-based scheme to financial advice under the flat-fee scheme (Switchers) and zero if the client continues to receive commission-based scheme advice. As explanatory variables, we use socio-demographic information on the client's age (Age), marital status (Married), gender (Gender), whether they hold a PhD (PhD), length of the relationship with the bank (Length of relationship), whether they currently live in Germany (German resident) and whether they work as employees (Employed), are retired (Retired) or have another job (Other). We also include information on their portfolio and trading behavior. All variables that require a time-series to be computed use the previous 12 months. We include the average portfolio value in euros, a dummy variable equal to one if a client had a below median performance in 2008 (Financial crisis), the turnover from purchases, sales and the entire portfolio in deciles as well as the fees paid and a variable showing whether the flat-fee scheme would have been beneficial in terms of costs using the previous 12 months. We also include information on the asset allocation in September 2009. We show the allocation by instrument, asset class and regional focus. The asset class and the regional focus account only for funds and single stocks, not the total portfolio. Finally, we provide information on clients' diversification using the unsystematic variance share from a 4-factor model as well as the Herfindahl-Hirschman Index (HHI) assuming that a mutual fund holds 100 securities. We finally report average factor loadings for the previous 12 months using the 4-factor model. The 4-factor model uses the German CDAX and its constituents to build daily factors. Data on the investors come from the bank, while data on asset allocations come from the bank and Thomson Reuters Eikon. Other market data are taken from Thomson Reuters Financial Datastream. ***, **, and * indicate that the coefficient estimates are significantly different from zero at the 1%, 5%, and 10% levels, respectively. We use heteroscedasticity-robust standard errors.

	(1)	(2)
	Inducement advice to fee advice (Switchers)	Inducement advice to fee advice (Switchers)
Socio-demographics		
Age (in years)	-0.0040*	-0.0028
	(0.0024)	(0.0025)
Married (1 = married)	0.1140**	0.0982**
	(0.0452)	(0.0463)
Gender (male = 1)	-0.0471	-0.0268
	(0.0566)	(0.0573)
Ph. D. (yes = 1)	0.0217	0.0154
	(0.0751)	(0.0768)
Length of relationship (in years)	0.0067	-0.0003
	(0.0063)	(0.0066)
Risk class (1 = low, 5 = high)	0.0372**	0.0473**
	(0.0174)	(0.0184)
German resident (yes = 1)	-0.2352**	-0.2520**
	(0.1087)	(0.1110)
Employee (yes = 1)	-0.0428	-0.0684
	(0.0448)	(0.0458)
Retired (yes = 1)	0.0315	0.0251
	(0.0751)	(0.0770)
Portfolio & Trading (previous 12 months)		
Portfolio value (past 12 months, in Euro)	0.0000***	0.0000***
	(0.0000)	(0.0000)
Financial crisis (dummy)	0.0060	-0.0212
	(0.0430)	(0.0449)
Turnover total portfolio, 1st decile (past 12 months, in % per month)	-0.0458	-0.0551
	(0.0706)	(0.0718)
Turnover total portfolio, 2nd decile (past 12 months, in % per month)	0.0665	0.0939
	(0.0789)	(0.0805)
Turnover total portfolio, 3rd decile (past 12 months, in % per month)	0.0142	0.0537
	(0.0895)	(0.0914)
Turnover total portfolio, 4th decile (past 12 months, in % per month)	-0.0384	0.0175
	(0.0997)	(0.1014)
Turnover total portfolio, 5th decile (past 12 months, in % per month)	-0.0245	0.0193
	(0.1125)	(0.1171)
Turnover total portfolio, 6th decile (past 12 months, in % per month)	0.0751	0.1090
	(0.1128)	(0.1173)
Turnover total portfolio, 7th decile (past 12 months, in % per month)	0.1707	0.2512**
	(0.1204)	(0.1240)
Turnover total portfolio, 8th decile (past 12 months, in % per month)	0.0098	0.0905
	(0.1537)	(0.1578)
Turnover total portfolio, 9th decile (past 12 months, in % per month)	0.3112**	0.4184***
	(0.1430)	(0.1476)
Turnover total portfolio, 10th decile (past 12 months, in % per month)	-0.1633*	-0.0975
	(0.0933)	(0.0969)
Trading Fees paid (past 12 months, in Euro)	-0.0001***	-0.0001**
	(0.0000)	(0.0000)
Advantage if fee-based scheme (past 12 months, in Euro)	0.0002***	0.0001***
	(0.0000)	(0.0000)

contd.	(1)	(2)
	Inducement advice to fee advice (Switchers)	Inducement advice to fee advice (Switchers)
Asset Allocation (in %)		
by instrument:		
Single stocks		-0.0542
		(0.4759)
Single bonds		-0.0594
		(0.5191)
Funds (active)		0.5143
		(0.4609)
Funds (passive)		-1.1765**
		(0.5089)
Certificates		0.5926**
		(0.2624)
by asset class (for funds):		
Equity		-2.1139***
		(0.5605)
Fixed income		-0.2055
		(0.3867)
Money Market		-1.0746
		(0.7261)
Commodities		-1.2438*
		(0.7356)
Real estate		-0.8287**
		(0.3734)
by region (for equity & funds with equity):		
Germany		1.8702***
		(0.4496)
Europe		1.6311***
		(0.4383)
North America		1.9182***
		(0.5073)
Africa		0.8300
		(1.1231)
South America		2.8259***
		(0.4917)
Asia		1.3776***
		(0.4489)
Multinational		2.0195***
		(0.4093)
Other region		2.1421***
		(0.4670)
Diversification		
Unsystematic variance share (4 factor)	0.2332*	0.1359
	(0.1233)	(0.1363)
HHI 100 (in %)	-0.6460***	-0.7360***
	(0.1577)	(0.2448)
Performance & Factor loadings (previous 12 months)		
Beta (in %)	-0.3138***	-0.0216
	(0.0938)	(0.1154)
SMB (in %)	0.1748*	-0.1445
	(0.1046)	(0.1238)
HML (in %)	-0.1319	-0.0965
	(0.1037)	(0.1180)
MOM (in %)	0.1074	0.0154
	(0.1159)	(0.1393)
Constant	-1.1396***	-1.2682***
	(0.2221)	(0.3754)
Observations	8,527	8,527
R-squared (pseudo)	0.0512	0.0912

Figure A.I. Timeline and quarter of switching

This figure shows the percentage of advised commission-based-scheme clients switching to the flat-fee scheme in each quarter. The x-axis illustrates quarters between the third quarter of 2009, when the flat-fee scheme first became available, and the third quarter of 2015. The y-axis illustrates the percentage of clients switching to the flat-fee scheme in each quarter. Being enrolled in the flat-fee scheme is reported at the beginning of the quarter in which clients sign up for it.
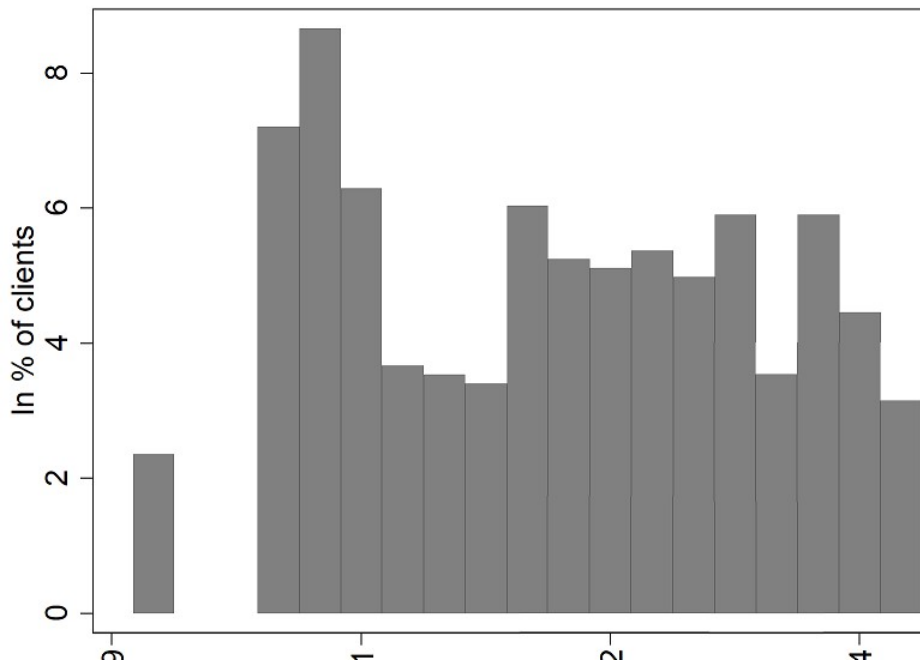
Figure A.II. Cost–benefit analysis of the flat-fee scheme

This figure presents the advantage of the flat-fee scheme (in euros) for the median advised client in the sample. The flat-fee advantage is calculated as described by the formula below. A negative flat-fee advantage corresponds to higher costs under the flat-fee scheme for the median client, while a positive flat-fee advantage signals a cost advantage from the flat-fee scheme for the median client. For the calculation, all clients (switchers and matches) are sorted into bins according to their average fund share and average turnover in the month before the availability of the flat-fee scheme. The bars below show the flat-fee advantage of the median clients in each bin. The x-axes describe the fund share in % in bins, the y-axes show the costs and benefits of the flat-fee scheme in euros, and the z-axes illustrate the monthly portfolio turnover in mutual funds in % in bins. The costs and benefits of the flat-fee scheme are calculated by the costs under the commission-based scheme minus the costs under the flat-fee scheme. In detail, it is calculated as follows:

Flat-fee advantage = ((Fund share*Portfolio value*Yearly turnover*Initial charge) + (Fund share*Portfolio value*Management fee))
- ((Portfolio value*Flat-fee) + (Fund share*Portfolio value*(Management fee - Kickbacks)))
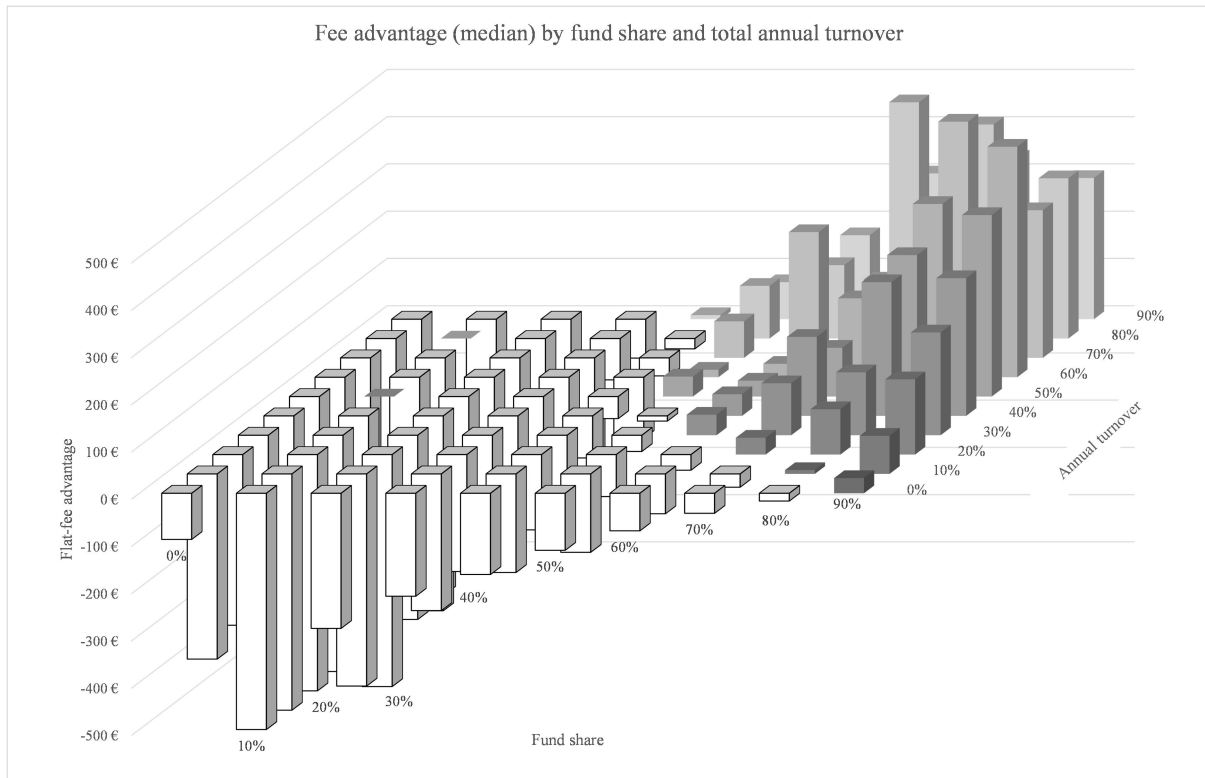
Figure A.III. Common support for switchers and commission-based clients

This figure shows the distribution of propensity score across Treatment (Switchers) and comparison group (Commission-based) before (left panel) and after matching (right panel).