

## Can Financial Advice Serve as a Substitute for Financial Literacy in Equity Investing?

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Financial literacy has been proven to have important consequences for investors' financial well-being. However, the majority of investors exhibit low financial knowledge (Lusardi & Mitchell, 2011). For investors with inadequate financial literacy and have difficulties with financial decision-making, financial advice has the potential to serve as a substitute for financial knowledge and sophistication.

Using the 2016 Survey of Consumer Finances, we employ Heckman's (1977) method to analyze whether financial advice can substitute for individual's financial literacy when they make equity investment decisions. Results show that individuals with higher financial literacy are more likely to pay for financial advice and invest in equities. More importantly, after alleviating the endogeneity introduced by the self-selection bias, financial advice is not a sufficient substitute for financial literacy.

### References

- Heckman, J. J. (1977). Sample selection bias as a specification error (with an application to the estimation of labor supply functions). National Bureau of Economic Research Cambridge, Mass., USA.
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