AI and the Market for Expert Services: Evidence from Financial Advisors

Federico Mainardi, Columbia Business School
Dongwoo Noh, HKUST
Sangmin S. Oh, Columbia Business School
Sean Seunghun Shin, KAIST

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The artificial intelligence (AI) industry warns that systems capable of expert reasoning at negligible cost will displace much of white-collar work within years, not decades.[1] Similar predictions extend naturally to the market for financial advice, where registered investment advisers (RIAs) manage trillions of dollars on behalf of households. Generative AI can already construct portfolios and produce personalized recommendations, and by this logic it should commoditize advice, compress fees, and ultimately replace human advisors. In this paper, we argue that this prediction overlooks both the economics of the product that financial advisors sell and the nature of the technology and its diffusion.

Two features of the advisory market are central to our analysis. First, financial advice is a credence good: as clients only observe realized performance which is noisy, households cannot immediately evaluate the performance that their advisors generate. Second, advice is a bundle. advisors sell *technical guidance*—security selection, asset allocation, monitoring—together with the *relationship-specific trust* that makes households willing to act on it. The distinction matters because AI reaches the two components asymmetrically: the technology can check and produce technical guidance, but it cannot produce trust.

These features determine how we model the technology. A generic supply-side shock, such as the advent of robo-advising, lowers the cost of producing advice but leaves the household's information problem intact. In constrast, AI instead enters both sides of the market. It lowers the advisor's cost of producing technical advice and, at the same time, the household's cost of verifying that advice and of producing an alternative (outside option). On the other hand, the cost of building trust is relatively unchanged. The consequences for the market therefore depend on the interaction of these forces, not on producer-side automation alone.

We first establish each of these channels empirically and subsequently derive their equilibrium consequences. First, on the demand side, we show that generative AI can serve households both as a monitor of the advice they receive and as a credible outside option to the advisory relationship. To establish this, we use customer disputes from BrokerCheck and Investment Adviser Public Disclosure (IAPD), the public registries in which FINRA and the SEC record formal complaints filed by customers against financial professionals. These are the episodes in which an outside check on advice would have been most valuable, since the stakes

[1] For example, Geoffrey Hinton famously declared in 2016 that "people should stop training radiologists," and GPT-4's passing of the bar examination has revived similar predictions for lawyers.

were high enough for households to seek formal recourse. We first find that the disputed advice is overwhelmingly technical, while the relational services at the core of delegation account for one percent of cases. We then conduct a blinded evaluation: each dispute is decomposed into the client's ex-ante situation and the advisor's recommendation, with all outcome information masked. Given only what the client could observe, we find that AI identifies the disputed advice as poor. Furthermore, given only the client's situation, it produces alternative advice that blinded scoring rates far higher. AI can thus successfully detect poor advice from ex-ante information alone, relaxing the credence problem at the heart of the market.

Second, on the supply side, we show that advisors respond to the arrival of generative AI on the same technical margin. We measure product market adoption from Form ADV brochures, the narrative documents in which advisors describe the services they sell. Disclosed use of AI accelerates sharply after 2023, yet only three percent of household-serving advisors have ever disclosed use. Importantly, the adoption that does occur sits on the technical margin: advisors deploy AI in the investment process and in research, and they absorb it as an input rather than selling it as a priced product. Finally, adoption varies systematically across firms, falling monotonically in the household share of the advisor's client assets. Together, these facts suggest that AI enters the supply side as a cheaper input into the production of technical advice, reaching first the advisors whose business is built on that margin.

Third, motivated by these empirical findings, we develop a model in which AI cheapens the technical component of advice but not the relational one. Similar to the framework of financial advisors as "money doctors" (Gennaioli, Shleifer, and Vishny, 2015), advice bundles an expected-return claim with the trust that makes households act on it. Advent of AI is a fall in the price of machine intelligence, which lowers the advisor's cost of producing returns and the household's cost of checking and producing them internally. The model delivers three results. First, the fee response is ambiguous. In equilibrium the fee decomposes into a *return rent*, the advisor's technical edge over the household's AI-assisted outside option, and a *trust premium* attached to the relationship. Cheaper production and the advisor's trust advantage over the machine push fees up, while a stronger outside option pushes them down. Fees thus fall, as the AI industry predicts, only if the outside option dominates these other forces. Second, fees and sector size are locked together, because the technology that disciplines the price of advice also raises the demand for it; as a result, the sector can shrink only if fees rise. The popular scenario in which AI both lowers fees and hollows out the advisory industry is therefore internally inconsistent. Third, as AI compresses only the technical part of the bundle, advisors who produce trust cheaply are insulated from the arrival of AI. The predicted displacement therefore concentrates in those who sell technical advice without a relationship behind them.

Together, the findings suggest that generative AI does not simply automate expert services, but rather splits the expert's bundle and reprices its parts. The value of advice shifts away from technical claims that households can now check and produce, and toward the relationship-specific trust that sustains delegation. The same logic plausibly extends to other expert services, such as law and medicine, in which AI makes some technical claims contestable while leaving delegation valuable.