



Asset Complexity and the Return Gap

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Review of Finance, 2024

Abstract

Existing research finds that investors' returns vary with their wealth and level of sophistication. We bring a new perspective from the supply side by showing that return heterogeneity can be magnified as assets offered by the market become more complex. Using detailed account-level data, we examine the trading of B funds-complex, structured products in the Chinese market. During a 3-year market cycle, the return gap between the naive and sophisticated is an order-of-magnitude greater when trading B funds than when trading simple, non-structured funds. In an event study, we confirm that this disparity is driven by differences in investors' understanding of product complexity.