

## US Retail Investment Under Attack from Bunk ‘Common Ownership’ Theory

### Advancing new red tape based on discredited idea would only harm investors and our capital markets.

By Eric J. Pan

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Ambitious policymakers from both big US political parties are looking to make hay of the failed idea that retail investment funds hold too much stock in our largest companies. They are hoping to advance headline-grabbing policy agendas that would ultimately harm everyday American investors.

As retail investment funds have grown, they hold larger—though still minority—stakes in a range of companies. This has inspired the so-called “common ownership” [theory](#) behind a series of abysmal policy proposals. The theory claims that competitors in the same industry—airlines, for example—compete less vigorously with one another when a fund holds significant minority stakes in the largest companies.

The theory is bunk and the policies it inspires risk harming tens of millions of American investors. For example, the Federal Energy Regulatory Commission, egged on by the Federal Trade Commission, is considering limiting retail investment funds’ holdings of utilities. At the Federal Deposit Insurance Corporation, some directors [have been trying](#) to apply the same thinking to retail investment funds’ investments in banks. And the FTC, using this theory, floated a wide-ranging proposal that could see funds having to wait long periods and file reams of new paperwork before they could acquire more than a given percentage of a company’s stock. If any of these policies advance, they would force funds to dramatically change how they do business, reducing returns for their investors.

Numerous studies have found zero evidence that companies in the real world compete less vigorously because of common ownership by retail investment funds. Purported evidence for the theory has been shown to be based on faulty economic assumptions and flawed data.

For example, one study on airlines in 2014 that has been influential in the debate [suggested](#) funds’ holdings in multiple airlines caused an increase in ticket prices. However, other studies cast doubt on that conclusion, questioning the hypothesis. A 2017 [study](#), for example, found that common ownership had no effect on ticket prices. This is to say nothing of the fact that diversified funds own holdings such as hotels, which would be harmed by an increase in airline ticket prices.

Those who can’t bear to let a good fairy tale go to waste are desperate to keep the story alive by trying to stretch their claims to retail banking. But such claims of anti-competitive effects again fell apart. [Research](#) by Federal Reserve economists using comprehensive data found that retail banks do not compete less aggressively in markets where they share significant common owners with their rivals, meaning this had no effect on bank depositors.

It is remarkable that despite this absence of evidentiary record, Lina Khan’s FTC (supported by the Biden Justice Department) is pressing the FERC to spend valuable resources exploring how common ownership may result in competitive harm in public utility markets. They dismiss the data showing that as retail investment fund assets have grown over time, the price of electricity remained flat—hardly the supposed anti-competitive risk we have been warned about.

Unfortunately, Khan’s argument has been echoed by the FTC commissioner Andrew Ferguson, a Republican who has publicly [suggested](#) that common ownership may be a reason why petrol prices are high. Ferguson’s view indicates that even in a Republican administration, this idea won’t go away easily.

It’s unclear why regulators would spend any time pursuing this disproved theory. The growth of the retail investment fund industry has

been a remarkable boon to Americans who depend on these funds for retirement, education and other life goals. Fund fees have fallen steadily for the past two decades because of competition and economies of scale. Everyday investors can choose from thousands of funds with low, or even zero, transaction fees. Where size and ownership matter, retail investment funds have proven to be a bonanza for working people saving consistently over time.

Somehow the democratisation of investing, which has led to the growth of retail investment funds and the success of US capital markets, is now what energy, bank and antitrust regulators consider a juicy target to deride. Policymakers should be thankful we have a thriving asset management system that puts investors first—this truly makes the US the envy of the world. Advancing new red tape based on a discredited theory would only harm investors and our capital markets.

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