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"From Wall Street to Main Street: The Future of How America Invests"

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Dear Chairman Hill, Ranking Member Waters, and Distinguished Members of the Subcommittee:

Thank you for inviting me to testify today on this important topic. My name is Matthew Ringgenberg. I am the Emma Eccles Jones Professor of Finance at the David Eccles School of Business at the University of Utah. I hold a Master's Degree in Economics and a PhD in Finance from the University of North Carolina at Chapel Hill. I serve as an Associate Editor for several of the leading academic finance journals, including the *Review of Financial Studies*, *Management Science*, and the *Journal of Financial and Quantitative Analysis*. I am a co-founder and past President of the Four Corners Center for Research on Index Investments, and I have served as an expert witness on matters related to my research. I have published numerous peer-reviewed academic articles examining how active and passive institutional investors affect real economic activity and the formation of asset prices. This testimony reflects my own views and does not necessarily reflect the views of my employer, the University of Utah.

My testimony today has three main components:

1. First, the financial system of the United States serves several crucial functions, including allocating capital to its most productive uses, aggregating information through price discovery, and enabling households to accumulate wealth.
2. Second, the last three decades have seen dramatic and fundamental changes to the financial system, including the rise of passive investing, the concurrent growth of exchange-traded funds (ETFs), and the recent surge in retail trading enabled by zero-commission brokerage platforms.
3. Third, active investors, passive investors, and retail investors each play a crucial role in our financial system, but they have different incentives and thus play different roles. This fact has important implications for market efficiency, corporate governance, and household wealth.

I. The Crucial Functions of U.S. Capital Markets

The United States has the most sophisticated and liquid capital markets in the world. These markets perform several essential functions that benefit both individual Americans and the broader economy.

The first function is capital allocation. Capital markets channel savings into investment by connecting those who have capital (e.g., households, pension funds, insurance companies) with businesses and governments that need capital. When markets allocate capital efficiently, resources flow to their highest-valued uses: innovative firms can raise the funds they need to grow, hire workers, and develop new technologies. The United States has historically excelled at this function. Our public equity and debt markets have financed everything from the transcontinental railroads of the nineteenth century to the semiconductor and biotechnology revolutions of the modern era.

The second function is price discovery. Market prices aggregate the dispersed beliefs, expectations, and information of millions of investors and economic actors. A stock price is not merely a number; it is a signal that tells entrepreneurs where investment is valued, tells managers whether their strategies are succeeding, and tells the broader public which firms are thriving and which are not. When prices accurately reflect all available information, they guide resources to their best uses. This is the economic mechanism that ultimately underlies the wealth-generating power of markets.

The third function is wealth accumulation for ordinary Americans. Capital markets allow households to participate in the returns of productive enterprise, earn returns on their savings, and build the retirement portfolio that a modern economy demands. This function has taken on particular importance as defined-benefit pension plans have given way to defined-contribution plans such as 401(k)s. Today, the financial security of millions of American workers and retirees depends directly on the performance and integrity of capital markets.

All three functions reinforce each other when markets are competitive, transparent, and well-regulated. But they can be impaired when markets become distorted, concentrated, or poorly structured. The dramatic structural changes of the past three decades have created both new opportunities and new challenges for each of these functions.

II. The Transformation of American Investing

The American investment landscape has been transformed by several interrelated developments: the rise of passive investing, the growth of exchange-traded funds, and the recent surge in retail trading.

The Rise of Passive Investing

Beginning in the 1970s with the creation of the first index mutual funds, and accelerating dramatically since the 1990s, passive investing has grown from a niche academic curiosity to the dominant force in American equity markets. Index funds today are the largest shareholders of many of the largest U.S. corporations (Bebchuk and Hirst, 2019a). The "Big Three" index fund managers (Vanguard, BlackRock, and State Street Global Advisors) collectively hold meaningful stakes across virtually the entire universe of publicly traded U.S. equities.

The growth of passive investing has been a remarkable success story for ordinary investors. Index funds offer diversification, low costs, and tax efficiency that active funds, on average, have historically failed to match. By simply owning a slice of the entire market, investors capture the market's overall growth without paying the fees and incurring the trading costs that can erode returns. The shift to passive investing has transferred hundreds of billions of dollars from Wall Street fees to Main Street investors' accounts.

The Rise of Exchange-Traded Funds

Running alongside the growth of passive index mutual funds has been the explosive growth of exchange-traded funds (ETFs). ETFs are investment vehicles that, like index mutual funds, typically track a broad market index, but trade on stock exchanges throughout the day like individual equities. Since their introduction in 1993, ETFs have grown to hold trillions of dollars in assets.

ETFs differ from traditional mutual funds in important ways that matter for investors' tax outcomes. Because of differences in how the two vehicles are structured and taxed, not all investors who choose index-based strategies receive the same financial benefit. ETF investors, due to the in-kind redemption mechanism, typically enjoy greater tax efficiency than holders of equivalent index mutual funds. My recent research with Elena Patel (Patel and Ringgenberg, 2026) documents that these structural tax differences lead to meaningful differences in after-tax wealth accumulation over time. Regulatory reforms that better harmonize the tax treatment of economically similar vehicles could improve outcomes for ordinary investors and enhance the fairness of the system.

The Rise of Retail Trading

The third major transformation has been the proliferation of retail investing enabled by zero-commission trading platforms. The elimination of brokerage commissions, beginning around 2019, combined with the spread of user-friendly mobile trading applications, sparked a surge in individual investor participation in equity markets. This democratization of market access is, in many ways, a positive development; more Americans than ever can participate directly in capital markets, and increased trading activity contributes to market liquidity.

However, the same tools that empower retail investors also expose them to risks. Research has documented that retail investors, on average, trade more frequently than is optimal (Odean, 1999), are susceptible to sentiment-driven herd behavior and may underestimate the risks of concentrated positions in individual securities or highly speculative instruments (Barber and Odean, 2000, Barber, Huang, Odean, and Schwarz, 2022). The policy environment should continue to support access while ensuring that retail investors have the information they need to make sound long-term financial decisions.

III. Different Investors, Different Roles

Active investors, passive investors, and retail investors each play distinct roles in our financial system. Understanding these differences is essential for sound regulatory policy.

A. Implications for Market Efficiency and Capital Allocation

Financial economists have long understood that market prices efficiently incorporate information because investors have strong incentives to gather that information and trade on it. When an active manager researches a company, forms a view that its stock is underpriced, and buys it, that trading activity pushes the price closer to the company's true value. In this way, the private effort of active investors generates a social benefit: more accurate prices help guide capital to its highest-valued uses.

Passive investors, by design, do not engage in this information-gathering activity. They track an index which means they buy and sell securities as the index composition changes, not because they have formed views about underlying value. Several papers argue that the rise of index investing may distort prices and impact price efficiency and information production, including Wurgler (2011), Bond and Garcia (2022), and Haddad, Huebner, and Loualiche (2025). My research with Jeffrey Coles and Davidson Heath (Coles, Heath, and Ringgenberg, 2022) examines the consequences of the rise of passive ownership for stock price efficiency. We document that greater passive ownership is associated with a reduction in information production, however, we show that overall price efficiency has not significantly changed in recent years because active investors continue to gather information whenever it is profitable.

Importantly, none of this means that passive investing is harmful to society in net. The benefits of low-cost, diversified investment vehicles for ordinary Americans are large and well-documented. But it does underscore that active investors provide a public service by keeping prices informative and that regulatory and market structures that support competitive active management benefit the entire market ecosystem, including passive investors who free-ride on the price discovery that active managers provide.

B. Implications for Corporate Governance

Perhaps the most consequential and contested question raised by the rise of passive investing concerns corporate governance: do passive investors effectively monitor the corporations whose shares they own?

The traditional mechanism through which shareholders discipline management is the "exit" option: if a manager performs poorly, an investor can sell the stock, depressing its price and imposing a market penalty (Edmans, 2014). But, by definition, passive index funds that must track an index cannot use this mechanism. Because they must hold all stocks in their benchmark index, they cannot exit a company simply because they disapprove of its management. This distinction, first emphasized by Bebchuk, Cohen, and Hirst (2017), has important implications: passive funds are structurally limited to "voice". That is, they must either engage with management or vote to express their beliefs.

The academic evidence on how well passive funds exercise this voice is mixed. My research with Davidson Heath, Daniele Macciocchi, and Roni Michaely (Heath, Macciocchi, Michaely, and Ringgenberg, 2022, *Review of Financial Studies*) provides systematic evidence. We find that greater passive ownership is associated with *reduced* monitoring activity: passive funds are less likely to vote against management and less likely to engage in shareholder activism. This evidence suggests that the passive ownership revolution, while beneficial for individual investors, may have weakened aggregate shareholder monitoring of corporate managers.

One important reason for this is resource constraints. At the time of their study, Bebchuk and Hirst (2019b) showed that the three largest index fund families employed, on average, only approximately 21 investment stewardship professionals to oversee roughly 18,000 portfolio companies. In other words, the economic structure of index funds makes detailed, company-specific engagement difficult at scale. Because of their lower fees (which benefit investors), index fund managers face weaker incentives to invest in governance activities.

C. The Complexity of Institutional Voting: Decentralization Within Fund Families

A critical and underappreciated dimension of institutional governance is the internal structure of shareholder voting within large fund families. The prevailing assumption in both the academic literature and the policy debate has long been that fund families, such as Vanguard, BlackRock, or Fidelity, vote as unified blocs. That is, they cast a single coordinated vote on behalf of all their funds. New research challenges this assumption in important and policy-relevant ways.

My recent research with Roni Michaely, Silvina Rubio, and Irene Yi (Michaely, Ringgenberg, Rubio, and Yi, 2026) provides the first large-sample systematic examination of voting decentralization within mutual fund families, drawing on comprehensive shareholder voting data from 2006 through 2023. We find that decentralized voting (i.e., where individual funds within a family vote differently from each other on the same proposal) is far more widespread than previously recognized. Across our sample period, between 40% and 60% of fund families exhibit evidence of decentralized voting, dating back as far as 2006. This is not a recent phenomenon driven by new pass-through voting initiatives; it is a long-standing and persistent feature of the industry. Consistent with this, Brav, Li, Lund, and Pan (2025) show that many funds delegate voting authority such that total institutional ownership does not necessarily correspond to total voting authority.

While voting disagreement is rare in the unconditional data (occurring in only about 4.2% of institution-proposal observations) this low overall figure is heavily skewed by the large volume of routine proposals that receive near-unanimous approval across all investors. Michaely, Ringgenberg, Rubio, and Yi (2026) show that the true extent of decentralization becomes apparent for contentious proposals: when proposals approach the 50% vote support threshold, within-family disagreement rises to 15–20%. For shareholder proposals on environmental and social (E&S) issues, the disagreement rate reaches 18%.

Decentralized voting has meaningful consequences for governance effectiveness. We show that director turnover following shareholder dissent is significantly *lower* when the voting family is internally divided: a fragmented vote sends a weaker signal to corporate boards than a unified one. Using Vanguard's 2019 adoption of decentralized voting as a quasi-natural experiment, we find that after the policy change, Vanguard's dissenting votes became significantly less likely to be followed by director departures. The signal was diluted precisely because it was fragmented.

Our research also examines what drives decentralization and who bears its costs. Funds that deviate from the family voting stance tend to charge higher fees but do not deliver better risk-adjusted returns, either before or after expenses. The evidence suggests that deviation functions primarily as a product differentiation strategy, allowing fund families to cater to the heterogeneous governance preferences of different client segments, rather than as an expression of superior investment insight. Institutional investors appear to value and reward this differentiation with higher fund inflows, but retail investors do not seem to notice or benefit from it.

This research has important policy implications. Recent legislative and regulatory proposals have focused on whether large index fund managers should be restricted in their exercise of voting rights, or whether pass-through voting programs—which delegate voting choices directly to fund clients—should be encouraged or required. Our evidence suggests that, while such initiatives respond to legitimate concerns about concentrated institutional power, they risk further fragmenting shareholder votes and thereby weakening the monitoring effectiveness of institutional investors. A dissenting vote from a unified fund family carries more weight than the same mathematical total of votes spread across internally divided funds. Policymakers should weigh this governance cost alongside the democratic and competitive benefits of greater voting decentralization.

D. Implications for Investor Wealth Accumulation

Passive investing has been among the greatest financial innovations for ordinary Americans in the past half century. By dramatically reducing the fees, transaction costs, and tax drag associated with active management, index funds have allowed millions of households to accumulate substantially more wealth over their investment lifetimes. Research consistently shows that, over long horizons, low-cost index funds outperform the majority of actively managed funds on a net-of-fee basis.

However, not all index investors capture these benefits equally. As my research with Elena Patel (Patel and Ringgenberg, 2026) documents, the structural differences between index mutual funds and index ETFs can produce meaningfully different after-tax outcomes for investors holding these products in taxable accounts. The in-kind creation and redemption mechanism that ETFs use to add and remove shares from circulation allows them to delay recognizing and distributing capital gains that mutual fund investors must pay taxes on. Importantly, both ETF and mutual fund investors ultimately pay the same proportion of their profits in taxes. In other words, ETF investors *do not avoid taxes, they defer them* until they choose to exit their position. However, over long investment horizons, this tax differential can compound into substantial differences in after-tax wealth. Policymakers who are concerned about equitable access to the wealth-building potential of index investing should consider whether reforms to the tax treatment of mutual funds could close this gap.

Conclusion

The United States has the deepest, most liquid, and most innovative capital markets in the world, and this has been a fundamental source of American economic strength. But capital markets are an ecosystem. Their health depends on the coordinated, competitive functioning of many different types of participants: active investors who discover prices, passive investors who provide low-cost access to market returns, institutional investors who monitor corporate managers, and retail investors who provide liquidity and participate in economic growth.

The structural changes of the past three decades have conferred enormous benefits on ordinary American investors by reducing costs and expanding access. At the same time, they have created new challenges for market efficiency and corporate governance that deserve careful, evidence-based policy attention. The regulatory environment must work to maintain the conditions that allow each type of investor to play its proper role: ensuring that markets remain competitive and transparent, that stewardship resources are adequate to the governance tasks that institutional investors perform, and that all investors, regardless of whether they hold index mutual funds or ETFs, regardless of whether they are retail or institutional clients, have equitable access to the wealth-building potential of American capital markets.

Thank you for the opportunity to contribute to the Committee's deliberations on these vital questions and I look forward to your questions.

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