

# The Participation Reversal Puzzle\*

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May 11, 2026

## Abstract

Risky-asset participation rose in the 1990s, then reversed after the mid-2000s despite continuing declines in financial technology costs. We explain this reversal by separating access costs from data costs. Lower access costs expand participation, but cheaper scalable data lets wealthy investors acquire more information, bid up prices, and reduce risk-adjusted returns for marginal, uninformed households. Using SCF and Addepar portfolio data, we document the model's cross-sectional mechanisms: middle-wealth households exited, while informed investors earned higher returns and held riskier portfolios. Quantitatively, technological change accounts for 49% of the post-2007 participation reversal and explains the post-Covid rise.

**Keywords:** Household finance; stock market participation; portfolio choice; financial technology; data economy; information frictions; asset pricing.

**JEL-Codes:** G11, G12, G14, G51, D83.

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\*This paper supersedes “Financial Technology and Inequality.” The authors thank Andreas Fuster, Thomas Philippon, Venky Venkateswaran, and Yucheng Yang for insightful suggestions, as well as participants at numerous conferences and seminars for useful feedback. Roxana Mihet acknowledges generous funding from The Sandoz Family Foundation - Monique de Meuron Programme. All authors declare no conflicts of interest on this project. All errors are, of course, our own.

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