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STRATEGIES  
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## The Testosterone Factor in Mutual Funds

**M**EN and women may be from different planets, but do the differences show up in how they manage mutual funds? A new study says they do, though you may not know it from a quick comparison of the returns of the funds they manage.

The study, "Sex Matters: Gender and Mutual Funds," was conducted by Stefan Ruenzi, an assistant finance professor at the University of Cologne in Germany, and one of his Ph.D. students, Alexandra Niessen. A version is at <http://www.cfr-cologne.de/downloads/workingpaper/cfr-06-01.pdf>.

Before their study, very little research attention had been paid to gender's role in mutual funds. That is surprising, because behavioral differences between men and women have been studied extensively in other parts of the financial services industry. Psychologists have found, for example, that among individual traders, men tend to make riskier bets than women. For the new

study, the researchers looked at all actively managed domestic equity mutual funds in the United States over the 10 years through 2003. They eliminated from their database any funds that were managed by teams. Instead, they focused exclusively on funds managed by one man or one woman; about 11 percent of those were run by women.

Just as the previous research had shown for individual traders, the study found that male fund managers took more aggressive bets. The men, for example, were more likely to invest in stocks that had little in common with the other stocks they already owned. And they were more likely over time to change the dominant investment style of their funds, a phenomenon called style drift.

In other words, a man tends to be less predictable as a fund manager. As a result, the researchers say, "investors preferring moderate and stable investment styles should invest in female-managed funds, while more daring investors interested in funds that take more active bets should choose male-managed funds."

Another gender-based difference has to do with

portfolio turnover rates. Previous studies found that, among individual traders, men were more likely than women to be overconfident in their abilities and thus trade too much. The researchers found a similar result among fund managers: the average fund managed by a man had a turnover rate that was 10 percent higher than that of the average fund managed by a woman.

Given those differences, the researchers expected to find that the average female-managed fund had better overall performance. After all, previous research has generally shown that style consistency and lower turnover rates lead to better returns.

But that is not what the researchers found. In fact, the raw returns of funds managed by women were slightly lower than those of funds managed by men, on average, evidently because women tended to manage their funds more conservatively. On a risk-adjusted basis, the two groups' performances were about equal. The researchers do not know the reason for this, but they do note that the behavioral differences between

male and female fund managers are less pronounced than they are among individual traders.

Although the researchers found no significant differences in returns — once an allowance has been made for risk — they say they believe that funds managed by women can lead to improved performance for investors who are constructing diversified portfolios. Often in such cases, an investor chooses a certain fund because it represents a specific investment style or asset class. If the fund is managed by a man, the researchers argue there is a greater chance that he will not stay true to that style or class.

That, in turn, will cause the investor's portfolio of funds to make bigger-than-intended bets on certain asset classes and styles and smaller-than-expected bets on others. And that is very likely to cause portfolios of male-managed funds to have lower average risk-adjusted returns.

In short, the researchers found no justification for investors to prefer mutual funds managed by men. In fact, when building portfolios, investors may find that funds managed by women are better.