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Fund management and the testerone effect (chapter 637)

31/01/2006 by: Ian Orton

A new study called, *Sex Matters: Gender and Mutual Funds*, produced by Stefan Ruenzi, an assistant finance professor at the University of Cologne and Alexandra Niessen , one of his Ph.D. students, provides another perspective on the ongoing debate about the various merits of male and female investment managers.

The researchers looked at all actively managed domestic equity mutual funds in the United States over the 10 years through 2003 managed exclusively by a man or women, eliminating from their database any funds managed by teams.

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.'

Previous studies have found that men are 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.

But this did not translate into better performance. The raw returns of funds managed by women were slightly lower than those of funds managed by men, on average, possibly 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. Women are much less prone to style drift than men.

Alexandra Niessen and Stefan Ruenzi: “Sex Matters: Gender and Mutual Funds”, CFR-Working Paper 2006-01 (http://www.cfr-cologne.de/downloads/workingpaper/cfr-06-01.pdf)