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Mutual Fund Manager risk, fees and flows

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Abstract:

This article investigates the effects of a multiple fund management structure on the risk volatility of the funds simultaneously managed and the management fees and asset flows. Using a sample of 434 aggressive growth mutual funds managed by 67 fund managers, we find that the risk volatility of at least one fund managed is significantly different then its' objective and risk-adjusted peers. At the same time, the other funds simultaneously managed display no significant difference in risk volatility. This effect is more pronounced for fund managers with inferior fund performance. However, this study shows that the multiple management structure benefits from economies of scale and these benefits are transferred to investors in the form of lower expense ratios. Since mutual fund managers are recognized and rewarded for a "star" performing fund, these results suggest that fund managers increase their risk exposure for at least one fund managed in an attempt to increase the returns of that fund at the expense of fund investors.