

PROPOSAL: THE IMPACT OF RETURN CHASING ON THE STRUCTURE OF THE MUTUAL FUND INDUSTRY

Matthew Spiegel, Professor of Finance, School of Management
(matthew.spiegel@yale.edu)

There is considerable evidence that investors chase returns across mutual funds. The hypothesis I plan to explore is that this creates a set of incentives that has led to the current structure of the mutual fund industry: a few very large family complexes and a large number of small ones. Fund families can take advantage of return chasing by starting new funds in “hot” areas. However, they are constrained by the number of funds in any one area they can have and still market them as independent options. A new entrant or small family does not face this constraint. They can simply start a new fund in any area that they are not currently covering. Furthermore, the evidence indicates that when money is flowing into the mutual fund industry small new funds tend to get a disproportionate share of it relative to their size and returns. This potentially leads to a dynamic in which large complexes open funds in new areas to retain their market share. New entrants rapidly enter to take advantage of return chasing and the exit when returns in the area return to normal and their funds flow back out.

Student RAs will work with mutual fund holding databases. Working with this data requires writing computer code to sift through it to find and remove transcription errors. Either an existing knowledge of a computer language capable of handling that is required or a willingness to learn Python. After the data cleaning the data, the next stage will involve its analysis using R. Again, students should be either familiar with R or willing to learn to program in it. I am interested in a candidate who is able to work at the beginning of the summer – May and June.