

## **PROPOSAL: DO BETTER FUND MANAGERS JUMP FROM MUTUAL FUNDS TO HEDGE FUNDS?**

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The 1980's saw a tremendous boom in the number of actively managed mutual funds. The 1990's saw the same but this time the boom revolved around the creation of hedge funds. Unlike mutual funds, hedge funds are lightly regulated entities. This means that their manager/owners can negotiate whatever fee structure their clients will agree to. Not so with mutual funds. As a result, many hedge fund managers have become phenomenally wealthy. If hedge fund managers can earn far more than their mutual fund counterparts does that mean the better mutual fund managers jump go off to manage hedge funds? The goal of this research agenda is to determine if those that make the switch are indeed better, or simply endowed with the ability to convince others to hand them money to manage.

TASS is a database that collects both hedge fund returns and tracks their managers. CRSP has a database that does the same for mutual funds. Currently we have managers tracked across the two databases through 2000. The first step of the research project will be to finish tracking managerial careers through 2006. Once that is done we will then examine the returns to mutual funds and hedge funds prior to and after a manager's move. Among the questions we wish to ask are: Do mutual fund managers with particularly high "raw returns" have a higher propensity to move to hedge funds? Do managers with particularly high "risk adjusted returns" have a higher propensity to move to hedge funds? If a hedge fund does poorly is its manager likely to return to managing a mutual fund? If so is the fund that hires the manager smaller, larger, or about the same size as the one the manager left?

In order to answer the questions posed above it will be necessary to run simple statistical tests using a package such as Stata, or Matlab. The current database is stored in Access but it is easy to pick up the tools needed to use it.