J. Finan. Intermediation 19 (2010) 143–168

Contents lists available at ScienceDirect

J. Finan. Intermediation

journal homepage: www.elsevier.com/locate/jfi

Who incentivizes the mutual fund manager, new or old shareholders? ☆

Woodrow T. Johnson [1]

US Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-9360, United States

ARTICLE INFO

Article history:
Received 27 July 2008
Available online 16 September 2009

Keywords:
Mutual funds
Shareholder flow
Return-flow relationship
Smart money

ABSTRACT

This study tests whether mutual fund shareholders continue to trade in response to fund returns after they make their initial investment in fund shares. It decomposes the relationship between fund returns and shareholder flow in a large, proprietary panel of all shareholder transactions in one midsize no-load mutual fund family. Results show that both new and old shareholders buy shares during periods of good returns; however, shareholder outflow is essentially unrelated to fund returns. This lack of a return-sell relationship is not driven by locked-in pension assets, shareholders' ignorance of ongoing fund returns, or embedded capital gains. However, there is evidence that exchanges between equity funds in the family are related more strongly to returns of the destination fund than to returns of the origination fund. This may indicate that flow between equity mutual funds is driven by shareholders buying new funds rather than selling old funds. Supermarket shareholders are smart insofar as they exchange into funds that subsequently outperform their prior funds during their individual holding periods.

© 2009 Elsevier Inc. All rights reserved.

☆ I thank Diane Del Guercio, Wei Jiang, Wayne Mikkelson, Megan Partch, Jon Reuter, Lenore Robbins, Erik Sirri, Paula Tkac, and seminar participants at the American Finance Association meetings, Arizona State University, Brigham Young University, the Pacific Northwest Finance Conference, the University of Oregon, and the Western Finance Association meetings for helpful comments and the Q Group for financial support. Special thanks go to the anonymous mutual fund family that provided proprietary data for this study (which I received in my capacity as a graduate student prior to joining the Commission staff) and to its employees who helped in its interpretation.

[1] The Securities and Exchange Commission, as a matter of policy, disclaims responsibility for any private publication or statement by any of its employees. The views expressed herein are those of the author and do not necessarily reflect the views of the Commission or of its staff.

E-mail address: JohnsonW@sec.gov

1042-9573/$ - see front matter © 2009 Elsevier Inc. All rights reserved.
doi:10.1016/j.jfi.2009.09.003

Agency problems are pervasive in economics. The literature analyzes a wide range of tools that stakeholders in various organizations deploy to protect their interests from self-serving managers. In the context of open-end mutual funds, Fama and Jensen (1983) suggest that the traditional tools are relatively unimportant because most of the shareholder-manager agency conflicts are resolved through shareholders' transactions. Their argument is based on two key characteristics of mutual funds that differentiate funds from industrial companies and other organizations. First, shareholders directly affect the amount of assets the manager controls through their buys and sells. Second, the manager's compensation is proportional to the fund's total net assets and is, therefore, largely determined by shareholders' individual buys and sells.[2] In other words, Fama and Jensen (1983) argue that the agency problem in mutual funds can be solved if shareholders incentivize the manager to work hard by "rewarding" him with inflow after he posts good returns and "punishing" him with outflow after he posts poor returns.[3]

The mutual fund literature documents a strong link between shareholders' transactions and the manager's incentives: Ippolito (1992), Patel et al. (1994), Gruber (1996), and others show that fund-level net shareholder flow is positively correlated with lagged fund returns. However, more recent research has just started to explore the fund-level relationship between gross shareholder flow and fund returns. Edelen (1999), Bergstresser and Poterba (2002), Goetzmann and Massa (2003), Del Guercio and Tkac (2008), O'Neal (2004), and others suggest that although gross inflow is related to past returns, gross outflow is not. The asymmetric response to lagged returns is puzzling.

This paper builds upon the existing gross-flow studies by decomposing, for the first time, the return-flow relationship *within* the fund using shareholder-level data that links together individual shareholders' transactions through time, trade by trade.[4] The central question of interest is whether shareholders are equally responsive to returns after they make their initial investment in fund shares as they are at account opening. The first contribution of this paper is a comparison of shareholders' account-opening buys with their post-opening buys. The second contribution is a series of tests that drill down to see why shareholders' sells are unrelated to returns.

Studying trading differences between "new" shareholders' account-opening buys and "old" shareholders' subsequent transactions will shed light on the incentives of fund managers. For example, if old shareholders neither buy nor sell in response to ongoing returns, the manager could choose investment policies designed to attract new shareholders—in an attempt to increase fund size and his compensation—even if those policies are costly for old shareholders. Along these lines, Brown et al. (1996) show that managers might alter portfolio risk in a way that harms old shareholders in an effort to increase their own compensation. Barclay et al. (1998) argue that fund managers make excessive distributions at the expense of old shareholders in an attempt to be more attractive to new shareholders. Christofferson and Musto (2002) suggest that the manager can profitably raise the fees that old shareholders pay in an existing fund while simultaneously opening a clone fund with lower fees (and a correspondingly higher expected return) for new shareholders.

Understanding trading differences between new and old shareholders will also shed light on some of the frictions shareholders face when they trade. For example, if it is costly for shareholders to pay attention to ongoing performance after making their initial investment in fund shares, shareholders' account-opening buys would be more sensitive than their subsequent buys and sells to returns. The

[2] More precisely, the fund's expense ratio includes a proportional management fee that compensates the investment advisor for its services. The investment advisor presumably chooses a compensation contract for the fund manager that aligns the advisor's and manager's incentives.

[3] In some principal-agent models, principals acquire private information when they assess the agent. In the case of common stocks, for example, investors would not trade on the basis of public information because the stock price already incorporates that information. In the case of mutual funds, however, it may be possible to gain from trading on public information because funds always trade at NAV. In particular, managerial quality is never incorporated in the price of open-end mutual funds (see Gruber (1996, p. 807) and Berk and Green (2004)).

[4] There are other papers that use shareholder-level mutual fund data in other contexts. Goetzmann and Massa (2002) identify momentum and contrarian shareholders in a few Fidelity index mutual funds. Johnson (2004) measures shareholders' investment horizons in one mutual fund family. Niehaus and Shrider (2006) study how shareholders choose which fund in their portfolio to sell using data from a full-service broker/dealer. Ivković and Weisbenner (2006) explore behavioral issues that influence shareholder redemptions in one brokerage house.

متن کامل مقاله ← دریافت فوری

ISIArticles
مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات