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Choosing two business degrees versus choosing one: What does it tell about mutual fund managers' investment behavior?

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We analyze what a second business degree reveals about the investment behavior of mutual fund managers. Specifically, we compare the investment risk and style of managers with both a CFA designation and an MBA degree to managers with only one of these qualifications. We document that managers with both degrees take fewer risks, follow less extreme investment styles, and achieve less extreme performance outcomes. Our results are consistent with the explanation that managers with a certain personal attitude that makes them take fewer risks and invest more conventionally choose to gain both qualifications. We rule out several alternative explanations: our results are not driven by the respective contents of the MBA and the CFA program, by the manager's skill, or by the fund family's investment policy.

1. Introduction

"An age-old question among those headed into the finance world is whether they need to obtain a CFA, an MBA, or both. Do you think there is a benefit to doing both?"[1] Among mutual fund managers, MBA and CFA are the most common degrees, with approximately 74% of managers having at least one of them.[2] Several academic studies have analyzed the distinct impact of each degree on mutual fund performance and risk (see, e.g., Shukla & Singh, 1994; Golec, 1996; Chevalier & Ellison, 1999a; Gottesman & Morey, 2006). In this paper, we examine whether the investment behavior of mutual fund managers who decide to earn both degrees, i.e., a CFA designation in addition to an MBA degree and vice versa, differ from those who earn only one degree.

Gottesman and Morey (2006) document that among managers with at least an MBA or a CFA, 45% obtained both degrees.[3] Given the additional effort in terms of time and money to attain a second degree, this raises the question of what it reveals about the managers if they decide to earn the second degree. We hypothesize that managers choose two degrees because they have a different personal attitude than managers who choose only one degree. This personal attitude might also influence their investment behavior.

The education literature offers several reasons why people choose a specific educational path. However, it usually concentrates on education decisions before people start their working life (see, e.g., Hvide, 2003; Skatova & Ferguson, 2014). The literature on education among professionals often focuses on the outcome, i.e., showing that education is related to higher wages or less frequent and shorter periods of unemployment (see, e.g., Nickell, 1979; Mincer, 1991; Cohen, Arnaud, & Saint-Paul, 1997; Riddell & Song, 2011; OECD, 2014). In contrast, some papers directly analyze professionals' motivations for education and show, for example, that they use education to signal to the market that they have high ability (see, e.g., Spence, 1973; Weiss, 1983; Hvide, 2003). Kinman and Kinman (2001) summarize that managerial learning is mostly driven by extrinsic motivation; i.e., managers are "concerned with competition, evaluation, money, or other advancement". Thus, the main motivation for managers to gain additional qualifications is related to their career. Hence, we conjecture that managers who invest time and money into a second business degree are more concerned about their career than their single-qualification peers.

Several papers suggest that career concerns influence the risk taking and the investment style of managers. According to Chevalier and Ellison (1999b), managers with a stronger desire to avoid termination have lower risk levels and follow more conventional investment styles

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[1] This question is taken from an interview between Bloomberg Businessweek's journalist Alison Damast and the CFA Institute Managing Director Thomas Robinson. See Damast (2011).

[2] See Gottesman and Morey (2006). In our sample, 83% of the managers have at least an MBA or a CFA.

[3] These numbers are calculated from conditional probabilities based on the descriptive statistics given in their article. These numbers are consistent with our sample.

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because failing with high risk and unconventional styles is more detrimental to them than failing with low risk and conventional styles. This is also consistent with Scharfstein and Stein (1990), who motivate their analysis with the words of Keynes (1936): "Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally." Other papers relating career concerns to risk taking and investment style include Holmstrom (1999) and Chen (2015). Holmstrom (1999) argues that managers "dislike investments, which will reveal accurately whether he is a talented manager or not, since these investments make his income most risky". Hence, career-concerned managers avoid risky and/or unconventional investments. According to the above papers, differences in career concerns should be reflected in managers' risk taking and investment style.

Hence, in this paper, we compare the risk and investment style of managers with two business degrees and managers with only one degree. We find that double-degree managers have significantly lower levels of risk, irrespective of the risk measure we use: return volatility, market beta, unsystematic risk, or tracking error. Furthermore, double-degree managers follow more conventional investment styles than managers with only one degree. We measure the conventionality of their investment style through the extremity of their exposure to the non-market factors of the Carhart (1997) four-factor model, i.e., how much does the exposure to these factors deviate from the average exposure of other funds with the same stated investment objective. Our results show that double-degree managers make smaller bets on specific styles; i.e., their exposures to the above factors are less extreme than those of single-degree managers. In an additional analysis, we test whether the differences in investment behavior are also reflected in the managers' performance. We find that double-degree managers achieve less extreme performance outcomes, which is consistent with their lower levels of risk and their less extreme investment styles. However, their average performance does not significantly differ from their single-degree peers.

Overall, the above results are consistent with the explanation that managers with a certain personal attitude, presumably stronger career concerns, choose to gain two degrees instead of only one. To verify this conjecture, we rule out several alternative explanations. First, we show that our results are not driven by what the managers learn in a CFA or an MBA program. Double-degree managers invest more cautiously compared to both managers with only an MBA and managers with only a CFA. This confirms that our results are not specific to any degree and therefore cannot be driven by the contents of a specific program. Furthermore, we document that managers do not change their behavior after they earned their second degree.

Second, we test whether differences in skill between double and single-degree managers drive our results. It is possible that especially less skilled managers choose to earn a second degree, e.g., to compensate for a poor undergraduate degree or an MBA degree from a less prestigious school. We show that skill, measured by managers' SAT and GMAT scores, does not influence our results.

Third, we examine the possibility that our results are the consequence of some unobservable fund family policy. In particular, it is possible that some families only employ managers with two degrees or that they advise their managers to obtain the second degree. If these families also restrict their funds' risk level and investment style, we would spuriously attribute this family policy to the managers' investment behavior. Therefore, we control for an unobservable family policy using family fixed effects. Alternatively, we add the family's size as a control variable to our regressions. Our results regarding risk and style remain the same.

Our paper adds to a growing literature on the relation between manager characteristics, particularly business education, and investment behavior. As stated above, several studies have analyzed the distinct impact of an MBA or a CFA on fund performance (Chevalier & Ellison, 1999a; Dincer, Gregory-Allen, & Shawky, 2010; Golec, 1996; Gottesman & Morey, 2006; Shukla & Singh, 1994). The results of these studies are mixed. Whereas the first two studies find a positive impact of a CFA or an MBA on performance, the last three studies generally do not find an impact. Further studies analyze the relation between investment behavior and other manager characteristics, such as IQ (Grinblatt, Keloharju, & Linnainmaa, 2012), age (Chevalier & Ellison, 1999b), experience (Avery & Chevalier, 1999; Ding & Wermers, 2012), or gender (Niessen-Ruenzi & Ruenzi, 2015). Our paper contributes to this literature by explicitly addressing the case that managers have both an MBA and a CFA degree. Given that approximately 40% of all mutual fund managers have both degrees, the behavior of this group is of severe relevance for fund investors as well as fund companies. Our results suggest that a certain type of managers decides to obtain both degrees, which results in a different investment behavior for double-degree managers. This finding underlines that it is not enough to only analyze which impact a specific education has on investment behavior but also to consider that managers reveal their personal attitudes by the educational path they choose.

To our knowledge, so far, only Dincer et al. (2010) explicitly controlled for having both an MBA and a CFA at the same time while analyzing the distinct impact of each single degree on performance. However, they do not analyze the incremental impact from having two compared to having one business degree and do not investigate differences in the extremity of those managers' investment behavior. Furthermore, they study only a short period of three years from 2005 to 2007.

The remainder of this paper is organized as follows. In Section 2, we describe the data and give an overview of the differences of fund and manager characteristics between managers with one and two business degrees. In Section 3, we analyze risk, style, and performance differences between both groups. Section 4 rules out alternative explanations, and Section 5 concludes the paper.

2. Data

This study mainly relies on two data sources: First, we gather information on fund returns, total net assets, investment objectives, and other fund characteristics from the CRSP Survivor Bias Free Mutual Fund database.[4] Second, to collect information on fund managers' characteristics, we use a set of Morningstar Principia CDs, which provide information on the managers' name, the date on which a manager assumed responsibility for the fund, their educational degrees, the schools a manager attended, and the job history of the manager. Because the Morningstar information on manager characteristics is available from 1996 on, our sample starts in 1996 and ends in 2009.

We use the Strategic Insight objective codes and the Lipper objective codes provided in the CRSP database to determine a fund's stated investment objective.[5] We focus on actively managed, domestic equity funds and exclude bond, money market, and index funds. Specifically, we analyze the following six domestic equity fund investment objectives: Aggressive Growth (AG), Balanced (BL), Growth and Income (GI), Income (IN), Long-term Growth (LG), and Sector Funds (SE).

Many funds offer multiple share classes that are listed as separate entries in the CRSP database. They usually differ only with respect to their fee structure or minimum purchase requirements, having the same portfolio manager and the same portfolio. Thus, to avoid multiple counting, we aggregate all share classes of the same fund.

To gather information on the managers' characteristics, we match all funds from the CRSP database to the funds in the Morningstar database

[4] Source: CRSP, Center for Research in Security Prices. Graduate School of Business, The University of Chicago. Used with permission. All rights reserved.

[5] The Strategic Insight (SI) classification is only available until 1998. Thus, we use the Lipper objective codes to classify funds after 1998. To obtain consistent investment objective classifications over our entire sample period, we match each Lipper objective code to a SI objective code based on the frequency with which funds of a specific Lipper objective code belong to one of the SI objective codes in those consecutive years in which the availability of the SI codes ends and the availability of Lipper begins. Both codes are based on the language that the fund uses in its prospectus to describe how it intends to invest.