Fall 9-16-2003

Study Finds Mutual Fund Manager Change May Not Halt Underperformance

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Illinois Wesleyan University NEWS RELEASE

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September 16, 2003

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BLOOMINGTON, Ill. — When a mutual fund underperforms, a common response is for the company to change managers. But that strategy does not mean the fund will reverse its poor performance. In fact, a study conducted at Illinois Wesleyan University concludes that continued underperformance is the most likely result after a change in managers.

Results of the study by Todd Marshall, a 2003 Illinois Wesleyan graduate, and J. Tim Query, assistant professor of finance at Illinois Wesleyan, are published in the online publication, *Working Money.*

The study examined 58 mutual funds, comparing three-year periods prior to and after a fund management change. Of the funds in the sample, more than 55 percent showed a worse performance after a change in managers, and some funds had dramatically worse performances.

According to the authors, the tendency of new managers to continue the underperformance compared to the market "could be the result of the team-oriented nature of security selection in most funds. By replacing only the top manager and maintaining the same team of analysts at the fund otherwise, the same critical mistakes in security selection could be repeated."

Marshall is currently with the wealth management department of MB Financial Bank in Chicago. The publication was the outgrowth of Marshall's independent study project that was supervised by Query.