

Date of the event:

On Wednesday 20th October 2010
From 01:00 PM to 2:00 PM

Location:

Luxembourg School of Finance
University of Luxembourg
4 Rue Albert Borschette
2nd Floor
Modigliani Miller Auditorium (E02-003)
L-1246 Luxembourg

Registrations:

- Free seminar (with lunch included)
- Registrations by email before October 18th, 2010
- At the following address : lsf-events@uni.lu

Information:

Ms Caroline Herfroy
Tel : +352 46 66 44 6335

<http://www.lsf.lu/eng/Research/Seminars-and-Workshops>



The LSF is pleased to invite you to the following
lunch seminar:

The Expertise of Mutual Fund Managers

*By Prof. Werner De Bondt
DePaul University
Chicago, USA*



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The Expertise of Mutual Fund Managers

By Werner De Bondt

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LSF Seminar

Section 5b of the Investment Company Act of 1940 says that U.S. mutual funds must present themselves as either “diversified” or “non-diversified.” Most funds are diversified funds. The managers of these funds are not allowed to allot more than five percent of fund assets to one stock. This ceiling bars concentrated bets. Managers of non-diversified funds do not face the same restriction, however. They see it as a natural part of their mandate to make aggressive bets. Hence, the distinction between the two types of funds is an opportunity to investigate the stock selection expertise of mutual fund managers.

We study the period 1984-2009. A value-weighted return index of non-diversified funds produces an alpha of approximately 2 percent per year, net of fees. The managers of non-diversified funds place large bets on stocks that do well over the next twelve months. The large bets are often associated with positive earnings news.

Our study sheds light on the puzzle that many fund managers appear to possess valuable information, yet most actively managed mutual funds underperform their benchmarks. The study is also of interest to investors. Choosing an undiversified mutual fund may be a good way to profit from fund managers’ expertise at stock selection.

