

Mutual fund managers invest similarly because of competitive pressures, might miss good investments

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In a new study, a University of Missouri researcher has found that institutional mutual fund investors tend to invest in companies that have an independent board of directors because it is perceived as a "safer" option, even though no evidence exists that demonstrates these companies perform better in the stock market.

"Institutional mutual fund investors often invest in these firms out of fear," said Karen Schnatterly, the Emma S. Hibbs Distinguished Professor of Management at MU's Trulaske College of Business. "The belief is that firms with independent boards are typically safer than those with less independent boards because they do a better job monitoring the CEO. Because of this belief, [institutional investors](#) often avoid investing money in firms with less independent boards out of fear of making a bad choice and getting fired."

An independent board of directors is defined as a board whose members are not related to, nor do they have any affiliation with, the CEO of the [company](#).

Schnatterly says that mutual fund investors tend to invest in companies that their competitors also are investing in—in this case, firms with more independent boards—because this is easily justifiable. While this allows these mutual fund investors to stay "safe" with regard to their investments, it can cost the mutual fund by ignoring other investment

options.

"Investors might be missing out on potentially winning companies by primarily investing in companies with independent boards," she said.

Schnatterly suggests that investors follow these guidelines to ensure that they receive the best return possible on their investments:

- Invest for the long-term.
- Know personal risk preferences and look for those mutual funds that have similar preferences.
- When investing in [mutual funds](#) in a particular sector, such as health or retail, shop around to see which fund has the lowest fees to ensure top returns on investments.
- Remember that no mutual fund will have positive returns every year.

Schnatterly's research will be published in the *Strategic Management Journal*.

Provided by University of Missouri-Columbia

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