

# Financial experts may not always be so expert new Notre Dame study reveals

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When in doubt, an expert always knows better. Except in the case of mutual-fund managers. There may be some room for doubt in their case a new study by Andriy Bodnaruk, an assistant finance professor at the University of Notre Dame, and colleague Andrei Simonov from Michigan State University, suggests.

Bodnaruk and Simonov studied 84 mutual-fund managers in Sweden to determine how well they manage their own finances.

"We asked the question whether financial experts make better investment decisions than ordinary investors," Bodnaruk said. "We identified a group of investors who have an extensive knowledge of finance attained through prior training and day-to-day experience with financial markets, namely mutual fund managers, and compared private [investment decisions](#) by these financial experts to those made by individual investors who are similar to them along a number of socio-economic characteristics, but presumably lack financial expertise."

Bodnaruk noted that he and Simonov did not investigate the performance of the mutual funds managed by these managers, but instead looked at the manager's own personal portfolios.

"We found that financial experts are no different from peer investors: they do not have ability to pick outperforming stocks, they do not manage risk of their portfolios in better ways, and they trade as often as other investors," Bodmaruk said. "The only time experts do better than

non-experts is when they have access to better information stemming from their workplace."

The study implies that for an average investor, particularly for wealthy, educated investors, paying for financial advice or investing in actively managed [mutual funds](#) is not worth it.

"Most experts will not help you improve your performance beyond what could be achieved by investing in passive indexes," Bodnaruk said.

However, don't be too hard on professed mutual-fund [managers](#). The researchers point out that theirs is not an easy task.

"Outperforming the stock market is very difficult and the overwhelming majority of investors, including experts, do not have the skill to do it," Bodnaruk said. "Markets by and large are efficient to the degree that very few investors can consistently perform better than a fair reward for the risk assumed. Given this, [investors](#) should not chase expert talent, but instead focus on passive strategies which help minimize trading costs."

The study appears in the *Journal of Financial Intermediation*.

Provided by University of Notre Dame

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