'Trustworthy' hedge fund execs generate more business but weaker returns

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First impressions are the most important, and that's as true in the business sector as well as anywhere else. But does a good first impression lead to investment success—and for whom?

According to a new study by Dr. Roy Zuckerman of Tel Aviv University's Faculty of Management, hedge-fund managers who appear "trustworthy" in photographs attract more clients than their more "undependable"-looking counterparts. But their clients also saw lower returns on their investments—rendering them less successful than their less "trustworthy" colleagues.

The research was conducted in collaboration with Dr. Ankur Pareek of Rutgers University and published in *Social Science Research Network*.

Trust me?

"There is no evidence to suggest that perceived trustworthiness predicts actual managerial skill," said Dr. Zuckerman. "On the contrary, we found that the 'trustworthy' managers tended to make less money for investors and more money for themselves by leveraging the way they looked and how they presented themselves. 'Untrustworthy' execs were found to charge lower fees and generate more income for investors and less for themselves."

According to Dr. Zuckerman, personal appearance plays a dominant role in establishing the perceived trustworthiness of a hedge-fund manager. While facial appearance is an important determinant of trustworthiness for all individuals, institutions and high net-worth individuals use face-to-face meetings with hedge fund managers as an important criterion for making investment decisions.

The research used dozens of publically available photographs of hedge-fund managers found on Google. The pictures were rated for personal characteristics, such as age and attractiveness, by a group of 25-30 subjects in an online survey platform. As part of the survey, respondents were also asked to rate the trustworthiness of the managers on a scale of 1 to 10 based only on their photographs.

"Using this measure of trustworthiness, we attempted to answer two questions: whether perceived manager trustworthiness had an effect on investors' behavior, and whether this effect was rational, i.e., was supported by results," said Dr. Zuckerman.

Investors, look deeper

The study found that the managers characterized as "less trustworthy" by the survey in fact performed much better than their "upright" colleagues. "When hedge funds begin to perform poorly, people are less likely to pull out their investments if their managers appear trustworthy," said Dr. Zuckerman. "But this just should not be the case. All evidence points to the fact that appearance should not matter in hedge fund decisions by investors. Unfortunately, in this study we found that it does."

According to Dr. Zuckerman, investors should avoid the simple mistake of buying into the physical appearance of hedge-fund managers. "Hedge fund investors are usually considered to be highly sophisticated, whether they are large institutions or high net worth individuals, and even they make the simple mistake of relying on the looks of hedge fund managers," said Dr. Zuckerman. "My advice would be to ignore the way a person looks when researching investment opportunities. Ignore your intuition. Focus only on the numbers, look at accounting reports. The idea is to focus on the hard data, and ignore the soft data."

Dr. Zuckerman is currently researching repeat insider-trading offenders.

Provided by Tel Aviv University

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