

Investors biased against foreign-sounding names

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A fund manager by the name of Mustafa gets 10% less investments than a fund manager by the name of John. Investors tend to buy less stocks from funds managed by people with foreign-sounding names, even though their performance is the same. That is the conclusion of a study by Tilburg University Professor Oliver Spalt and two colleagues from Mannheim and Miami. "Discrimination matters in financial markets", states Spalt.

The researchers obtained the names of all [fund managers](#) who managed an active U.S. equity fund between 1993 and 2011 and asked a random sample of 150 U.S. residents to evaluate which names sounded foreign. The academics then used statistical tools to show that annual fund flows were 10% lower for funds with a manager whose name was perceived as foreign, compared to funds with a manager with typical American names. "We estimate that funds whose managers have foreign names are missing out on over \$ 133,000 in fees annually on average", Oliver Spalt explains.

Terrorist attacks

The researchers also found that large terrorist attacks impact the investment decisions of [investors](#). Following the 9/11 terrorist attacks, fund managers with Middle-Eastern and South-Asian names experienced a drop in fund flows relative to other managers with foreign-sounding names. "We conducted two additional experiments around the Boston marathon bombings in April 2013. Straight after the bombings we found a severe drop in investments in funds with a foreign-named manager. When it became clear that the attack had an Islamic fundamentalist background we ran our experiment again. We found that subjects in our experiment were even less willing to invest in funds whose managers had Middle Eastern sounding names."

Identity

Are investors aware of the identities of their fund managers? Yes, states Spalt. "We conducted an online survey in the U.S. and asked individuals whether they were aware of the fund manager when they pick a mutual fund. About 64% of survey respondents mention that fund manager identity is an important determinant of their fund choices and 57% of respondents report that they knew their fund managers when they made their fund choices."

Place of residence

Another series of test shows that individuals who live in regions with a greater proportion of foreign-born individuals invest more in funds with foreign-named fund managers. "This evidence is consistent with our conjecture that 'in-group bias' affects the investment choices of individual mutual fund investors. "People systematically adopt favorable opinions about members of their own group and might be indifferent or have lower opinions about members who are outside of their group", Professor Spalt explains.

Gut feeling

According to Spalt, the study shows that investors are driven by their gut feeling. "You would think that investors base their decisions only on the performance of the [funds](#), on numbers. This turns out not to be the case: even investment decisions are driven by non-rational motives."

Provided by Tilburg University

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