Battle-hardened fund managers produce higher returns during times of recession
5 August 2021, by Hamish Armstrong

A new study co-authored by the Business School (formerly Cass) shows that the economic conditions under which fund managers start their careers has a long-term impact on their career outcomes and decision-making.

"Recession managers and mutual fund performance," by Professor Meziane Lasfer, Professor of Finance and co-authors from Leeds University, University of Southampton and Shanghai University, looked specifically at the relationship between mutual fund characteristics in the United States and fund manager profiles, to determine why discrepancies in behaviors and performance levels exist across the industry.

Key findings from the research include:

- Fund managers who began their careers in a recession produce higher returns overall than those who started in better economic times.
- Funds run by so-called 'recession managers' are also larger in size, have higher flows and are more industry concentrated than those of 'non-recession managers.'
- These same funds tend to have a smaller family size, and lower fund expenses and turnover.
- Recession managers are good market timers during economic turbulence by way of higher cash holdings and more defensive industry investments.
- During economic booms, however, recession managers are no better at picking stocks than non-recession managers.

Professor Lasfer explained that the results show the profound impact of early career environment and could be applied to other professions alongside fund management.

"Individuals are more open to environmental stimuli upon embarking on their career because of the steep learning curve and eagerness to impress superiors and adapt to a way of doing things," Professor Lasfer said.

"The start of an individual's career constitutes a critical and sensitive period of imprinting which may lead to them to subsequent behaviors to bear the stamp of the environment. This imprinting effect develops characteristics that reflect prominent structures of the environment, and these features continue to persist in subsequent periods despite significant changes in the environment.

"The performance of fund managers, as measured in our study, is likely to be affected by many characteristics. These include the funds they manage, in addition to various economic conditions such as their gender, educational background, professional credentials, age, the number of funds they run and experience both inside and outside of the financial industry.

"Fund managers who start their careers in difficult macro-economic conditions, such as recessionary
periods, appear to beat the market by significant margins, by specifically exhibiting better market timing than their counterparts that started their careers in relatively certain economic conditions and economic booms. They tilt their investments towards defensive, rather than cyclical, industries during and before difficult macro-economic shocks.

"Overall, I hope the research offers hope for those beginning their careers today—financial services or otherwise—amidst effects of the pandemic. The hardships being experienced now will equip the next generation of decision-makers with both the resilience and skills to negotiate future shocks."

Fund performance data was extracted from the Centre for Research in Security Prices (CRSP) which measures fund characteristics such as size, net assets, age, expense ratio and turnover. Fund manager data was used from profiles of more than 960 professionals across a 26-year period and collected from the Morningstar Direct's database, taking career start-point as the same year a fund manager graduated from university or college.

"Recession managers and mutual fund performance," by Professor Meziane Lasfer, the Business School (formerly Cass), Jie Chen, Leeds University Business School, Wei Song, Southampton University Business School and Si Zhou, Shanghai University, is published in the Journal of Corporate Finance.


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