“Limited Attention and Horizon Effects in Mutual Funds”

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From
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Abstract

Mutual funds report performance in the form of a holding period return (HPR) over standardized horizons. Changes in HPRs are equally influenced by new and previously reported stale returns which enter and exit the horizon. Investors appear unable to differentiate between the joint determinants, reacting with equal strength to both signals. Stale performance chasing is less pronounced for funds likely held by more sophisticated investors and is amplified for funds which promote performance via advertising. Fund managers exploit this behavior by preferentially timing fee increases to align with periods of heightened investor demand that coincide with stale performance chasing.

Prof. Rau will also discuss follow-on papers that arise directly from this matter.