



FACTOR / STYLE INVESTING

Style Investing: Evidence From Mutual Fund Flows

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The number of mutual funds in the United States has sharply increased over the past decade. Nowadays, it is so large that individual investors wanting to invest their money are unlikely to analyze each fund in existence. Then how do investors choose from such a multitude of funds?

It has been documented that past performance affects these choices (e.g., Chevalier and Ellison, 1997); other important factors are related to advertising (Sirri and Tufano, 1998, Jain and Wu, 2000). Anecdotal evidence indicates that in an effort to differentiate themselves, funds often specify their investment objectives or styles. Such styles are sometimes referred to in mutual fund prospectuses and advertisements.

For instance, T.Rowe Price compares the performance of its funds to the average returns on funds in the same Lipper style classification (Money, May 2004). Natural questions arise: Do investors care? Which style definitions do investors focus on? What is the impact of style-level information?

The goal of this paper is to answer such questions by measuring investor reactions to fund-level and style-level variables.

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