

Discussion of

**“WSJ Category Kings – Impact of Media Attention on
Consumer Mutual Fund Investment Decisions”**

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What Does This Paper Do?

Research Question:

“Information disseminated by media informs consumer decision making. Our question, however, is whether appearance in the media impacts financial decision making, *independently* of the information conveyed.”

Empirical Strategy:

Use WSJ Category Kings for 52 quarters between 2000Q1 and 2012Q4 to test whether net flows into **(published) fund 10** are discontinuously higher than net flows into **(unpublished) fund 11**

Findings:

Fund 10's quarterly flows are 2.2% larger, on average, than fund 11's
Larger flows into smaller and younger funds
Evidence of positive spillovers to other funds within same family
Evidence of strategic risk-taking by managers *with nothing to lose*

“Quarterly Mutual Funds Review – Category Kings in 19 Realms”

WSJ Oct. 4, 2004: Top-performing funds in each category, ranked by one-year total returns (changes in net asset values and reinvested distributions) as of Sept. 30. Assets are as of Aug. 31

LARGE-CAP VALUE

	ASSETS (\$ millions)	TOTAL RETURN				
		3RD QTR	YR-TO- DATE	1 YR	3 YR*	5 YR*
PIMCO:PEA Value;A	\$946.1	-2.91%	+6.79%	+24.48%	+10.27%	+11.41%
ICAP:Select Equity	194.4	-0.82	+6.05	+23.30	+7.77	+7.11
Am Ind:Stock;In Sv	81.6	+1.28	+7.09	+22.96	+7.17	+6.89
ING Corp Leaders	268.0	+4.70	+7.62	+22.46	+9.54	+3.46
VanguardWindsorII;Inv	25,105.4	+0.53	+7.45	+22.32	+7.01	+5.18
JP Morgan:Intrpd Val;Sel	12.6	+2.63	+6.59	+22.29	N.A.	N.A.
Goldman:Lg Cap Val;A	291.7	+0.84	+8.02	+22.03	+8.40	N.A.
Aquinas:Value	39.5	+1.04	+5.45	+21.12	+4.78	-0.12
JP Morgan:Val Oppty;A	39.1	+1.97	+5.96	+20.93	N.A.	N.A.
HGK Equity Value	11.3	+0.30	+6.04	+20.40	+6.44	+2.67
Category Average:	292,962.1	-0.45	+2.80	+16.41	+4.64	+2.52
Number of Funds:	--	431	420	412	315	220

Empirical strategy: Compare flows into “HGK Equity Value” with flows into the unnamed fund with 11th highest 12 month return.

Main assumption: “Local Randomization” around cutoff for top 10.

My Assessment?

RD is state of the art. Analysis in text and appendix has largely convinced me that there is “local randomization.”

Mechanism is not entirely clear.

Reduction in search costs vs. change in investor perception of fund quality vs. cue-theory of investing?

I plan to highlight:

1. Additional links to the related literature.
2. Potential complications with use of quarterly rankings.
3. Potential heterogeneity in discontinuity of flows that may (or may not) shed more light on the mechanism.
4. Minor questions and comments related to estimation.

1. Related Literature

Existing evidence that the financial media matters:

- Reuter and Zitzewitz (2006) and work by Kaniel and Starks show media recommendations increase flows.
- Engelberg and Parsons (2011) use “pre-internet” data to show that local news paper articles drive local trading... unless bad weather impairs delivery of the paper.
- Reuter and Zitzewitz (2013) show that funds just above threshold for Morningstar rating receive discontinuously higher flows than funds just below.
 - Magnitudes are somewhat smaller than in this paper, but vary across categories
 - *Neither paper finds evidence of scale diseconomies.*

1. Related Literature (cont.)

Regarding evidence on spillovers and risk taking:

- [Nanda, Wang, and Zheng \(2004\)](#) document spillovers from star funds and argue that this creates incentives for idiosyncratic risk.

Regarding evidence on strategic risk taking to reach top 10 by those funds about to drop highest return quarter:

- [Phillips, Pukthuanthong, and Rau \(2013\)](#) argue that investors respond to predictable increases in holding period returns due to **dropping of low stale returns**
- Argue families time advertising to exploit predictable increases and that funds benefiting from predictable increases reduce or eliminate fee waivers.

2. Complications

The authors' empirical strategy based on "Category King" rankings in WSJ's Quarterly Mutual Funds Review.

Category King rankings based on Lipper sample of funds whereas authors are limited to CRSP sample of funds
→ Potentially difficult for researchers to identify fund that investors believe to be fund 11.

WSJ has discretion over number of categories to include
→ Authors focus on 12 categories always included in their sample (large-cap growth, ..., small-cap value)

This is reasonable. But, how do the authors pick the categories for falsification tests based on unpublished categories? Unreported categories may have lower investor demand because of lower category returns.

2. Complications (cont.)

Authors' focus on differences in quarterly flows assumes that fund rankings are published quarterly.

- WSJ publishes “**Monthly Mutual Funds Reviews**” during some or all of the authors' sample period → **Some investors likely respond to monthly rankings.**

I'll show you the monthly reports for large-cap value published immediately before and after the quarterly report for 2004Q3.

- WSJ publishes daily “**Score Cards**” that list the top 15 and bottom 10 funds within a single category → **I was able to find 1,822 score cards published between Jan. 1994 and Dec. 2002. Category order originally fixed.**

“Monthly Mutual Funds Review – Category Kings in 14 Realms”

WSJ Sept. 3, 2004: Top-performing funds in each category, ranked by year-to-date total returns (changes in net asset values and reinvested distributions) as of Aug. 31. Assets are as of July 31.

LARGE-CAP VALUE

	ASSETS (\$ MILLIONS)	----- TOTAL RETURN -----			
		AUGUST	YR-TO-DATE	12 MOS	3 YRS*
PIMCO:PEA Value;A	\$888.6	+1.08%	+7.56%	+23.63%	+7.83%
Goldman:Lg Cap Val;A	281.9	+1.81	+6.31	+20.71	+5.74
Vanguard Windsor II;Inv	24,712.4	+0.98	+5.73	+20.17	+4.03
Am Ind:Stock;In Sv	81.0	+1.30	+5.41	+21.60	+3.77
Franklin Val:LC Val;A	116.2	+1.62	+5.41	+17.29	+4.54
T Rowe Price I LgCp Val	47.7	+1.02	+4.96	+17.54	+5.67
HGK Equity Value	11.1	+0.86	+4.85	+18.48	+2.87
ICAP:Select Equity	187.2	+0.75	+4.70	+22.54	+4.60
Van Kampen Comstock;A	8,400.1	+0.98	+4.49	+16.81	+2.25
ING Corp Leaders	263.3	+1.91	+4.48	+17.69	+5.41
Category Average:	--	+0.77%	+1.52%	+13.61%	+1.35%
Number of Funds:	--	439	428	419	318

Aside #1: *There is enormous dispersion in fund size across the ten funds in this table, ranging from \$11.1 million to \$24.7 billion. I'll come back to this observation in a few slides.*

“Monthly Mutual Funds Review – Category Kings in 14 Realms”

WSJ Nov. 1, 2004: Top-performing funds in each category, ranked by year-to-date total returns (changes in net asset values and reinvested distributions) as of Nov. 30. Assets are as of Nov. 29.

LARGE-CAP VALUE

	ASSETS (\$ MILLIONS)	OCTOBER	YTD	12 MOS	3 YRS*
Goldman:Lg Cap Val;A	\$307.3	+1.42%	+9.55%	+17.93%	+9.05%
Vanguard Windsor II;Inv	25,743.2	+0.71	+8.21	+17.73	+7.54
Van Kampen Comstock;A	9,043.4	+0.65	+8.14	+16.67	+6.26
ING Corp Leaders	277.5	+0.36	+8.01	+16.94	+8.74
PIMCO:PEA Value;A	997.5	+1.08	+7.95	+18.34	+10.47
MassMutual Inst:Cre VE;S	742.6	+2.15	+7.74	+15.05	+7.47
DLB Grp:Value	66.4	+2.32	+7.56	+14.57	+8.72
Tamarack:Value;S	379.6	+2.35	+7.48	+14.64	+6.92
Am Ind:Stock;In Sv	82.9	+0.24	+7.35	+18.51	+7.88
JP Morgan:Val Oppty;A	39.7	+1.31	+7.34	+15.81	N.A.
Category Average:	--	+0.85%	+3.61%	+11.24%	+4.78%
Number of Funds:	--	429	415	407	311

Aside #2: Authors focus on 12 month ranking. Within the top 10, do investors respond to any of this additional return data? For example, fund 8 had the highest monthly return in October.

WSJ Rankings Across Months

Table reports rankings for Large-Cap Value funds from Sept 3., Oct. 4, and Nov. 1 issues of WSJ. Fund 10 in Oct. is ranked > 10 in Nov. **and** several funds that might have been fund 11 in Oct. are ranked in top 10 in Nov. → Cleaner to estimate discontinuity with monthly flows? To expand sample to include monthly rankings?

Fund	Rank over past 12 mos		
	Sept.	Oct.	Nov.
PIMCO:PEA Value;A	1	1	5
ICAP:Select Equity	8	2	>10
Am Ind:Stock;In Sv	4	3	9
ING Corp Leaders	10	4	4
VanguardWindsorII;Inv	3	5	2
JP Morgan:Intrpd Val;Sel	> 10	6	>10
Goldman:Lg Cap Val;A	2	7	1
Aquinas:Value	> 10	8	>10
JP Morgan:Val Oppty;A	> 10	9	10
HGK Equity Value	7	10	>10
Franklin Val:LC Val;A	5	> 10	>10
T Rowe Price I LgCp Val	6	> 10	>10
Van Kampen Comstock;A	9	> 10	3
MassMutual Inst:Cre VE;S	> 10	> 10	6
DLB Grp:Value	> 10	> 10	7
Tamarack:Value;S	> 10	> 10	8

3. Cross-sectional Differences?

Authors estimate average effect of 2.2% across 54 quarters and 12 investment categories

- Do effects vary across categories and over time?
 - Might expect stronger effects in categories with fewer funds
 - Might expect weaker effects over time, as alternative sources such as Morningstar become popular
- Are effects stronger for funds that are available in more 401(k) menus because they are more readily available to investors?
- Are effects stronger or weaker for broker-sold funds?
 - Sun (2013) describes how to identify broker-sold funds within CRSP.

4. Minor Comments

- If the authors are not already doing so, regressions should include category-by-quarter fixed effects.
- Given cross-sectional dispersion in fund size, alternative measure might be market share of flows in category j in quarter t that are going to fund i .
 - More appropriate if you think that funds are competing for the same pool of new investor dollars
- Explicitly test whether discontinuity at 10-11 is different from discontinuities at 9-10 and 11-12 (as opposed to separately testing if discontinuities are non-zero).
- Explicitly test for difference in discontinuities at 10-11 for reported versus unreported categories.

Conclusion

- Nice application of RD to an interesting question.
- Unusually thorough analysis for a first draft.
- Shows us that some investors rely on WSJ for information about mutual fund performance...
- ... which creates incentives for funds to make the top 10 list...
- ... and which funds internalize.
- Presence of multiple ranking during some or all of the sample period may ultimately allow for richer analysis.